

FITCH AFFIRMS COFACE'S IFS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-London-29 September 2016: Fitch Ratings has affirmed Compagnie française d'assurance pour le commerce extérieur's, Coface North America Insurance Company and Coface Re SA's (together Coface) Insurer Financial Strength (IFS) ratings at 'AA-'. The issuers are major insurance entities in the Coface group.

Fitch has also affirmed Compagnie française d'assurance pour le commerce extérieur's Long-Term Issuer Default Rating (IDR) at 'A+' and COFACE SA's Long-Term IDR at 'A+' and Short-term IDR at 'F1'. The Outlooks on the Long-Term ratings are Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

The affirmations reflect Coface's strong business profile and geographical diversification in credit insurance and its solid capital position. Offsetting these strengths is Coface's limited size and diversification by product for a 'AA-' rated insurer and the lower run rate of profitability amid challenging operating conditions.

On 22 September 2016, Coface unveiled its three-year plan 'Fit to Win', aimed at achieving an average combined ratio of 83% across the cycle, cost savings of EUR30m and a Solvency II ratio between 140%-160%. Fitch considers this plan as neutral to Coface's ratings.

Coface is the third-largest credit insurer worldwide. The group holds an estimated 20% market share and operates in 67 countries. At end-2015, Coface reported gross written premiums of EUR1.3bn, compared with an industry total of around EUR6bn.

Coface's risk profile is adequate despite the close correlation of the group's activities with the economy. The group benefits from its flexibility to adjust the terms and conditions of its policies and largely focuses on the short-tail business. In addition, Coface continues to manage underwriting limits to certain countries that are exposed to high frequency claims.

Coface's capitalisation is supportive of the ratings. At June 2016, Coface's Solvency II ratio was 155% (end-2015: 147%), within the company's target of 140%-160%. Operating leverage (net premium written to equity) also was strong at 0.3x at June-2016.

Coface's total financing and commitments ratio, a measure of debt and debt-like obligations, was fairly high at 1.6x at June-2016, but in line with year-end 2015. Debt was used mostly to fund the group's factoring operations. Coface's financial leverage ratio (FLR), which excludes factoring assets, was stable at 18% at June-2016 (end-2015: 18%). The ratio is in line with the 'AA' IFS median and Fitch does not expect Coface to raise additional financial debt in the near future.

Coface's net combined ratio deteriorated to 92% at June-2016 (June-2015: 82%), following higher losses related to risks underwritten in emerging countries, as well as soft markets in mature countries. As a consequence, Coface's net income decreased to EUR26m at June 2016 (June 2015: EUR66m), resulting in a Fitch-calculated return on equity of 1.5% (June 2015: 3.8%).

Fitch expects Coface to maintain a good underwriting performance over the cycle, resulting from the group's stricter underwriting guidelines and focus on profitability versus growth, although the combined ratio in 2016 is likely to be above 93%.

Coface's financial flexibility is adequate, with access to external financing, such as operating debt, commitments received from banks and the EUR100m Contingent Equity Line. Fitch views Coface's reinsurance programme as effective in reducing earnings volatility during financial turbulence.

Coface maintains a prudent investment strategy, holding a large portion of its assets in cash to meet short-term obligations and to limit investment risk. Coface's bond portfolio is diversified by geography, as a result of their business mix.

RATING SENSITIVITIES

The ratings could be downgraded if Coface's net premiums written-to-equity ratio increases to 1.1x, the FLR increases to 25% or the combined ratio increases to above 100%, over a sustained period.

An upgrade is unlikely in the medium term, given Coface's limited size and product range compared with larger, higher rated insurers.

FULL LIST OF RATING ACTIONS

Compagnie Francaise d'Assurance pour le Commerce Exterieur:

IFS affirmed at 'AA-'; Outlook Stable

Long-Term IDR affirmed at 'A+'; Outlook Stable

Short-Term IFS affirmed at 'F1+'

COFACE SA:

Long-Term IDR affirmed at 'A+'; Outlook Stable

Short-Term IDR affirmed at 'F1'

Commercial paper affirmed at 'F1'

Subordinated debt affirmed at A-

Coface North America Insurance Company:

IFS affirmed at 'AA-'; Outlook Stable

Coface Finanz GmbH:

Long-Term IDR affirmed at 'A+'; Outlook Stable

Coface Re SA:

IFS affirmed at 'AA-'; Outlook Stable

Contact:

Primary Analyst

Federico Faccio

Senior Director

+44 20 3530 1394

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Willem Loots

Director

+44 20 3530 1808

Committee Chairperson

David Prowse
Senior Director
+44 20 3530 1250

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email:
athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Methodology (pub. 15 Sep 2016)

<https://www.fitchratings.com/site/re/887191>

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