

**CREDIT OPINION**

7 August 2024

Update



**RATINGS**

**Compagnie Francaise d'Assurance pour le Comm.**

Domicile	PARIS, France
Long Term Rating	A1
Type	Insurance Financial Strength
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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# Compagnie Francaise d'Assurance pour le Comm.

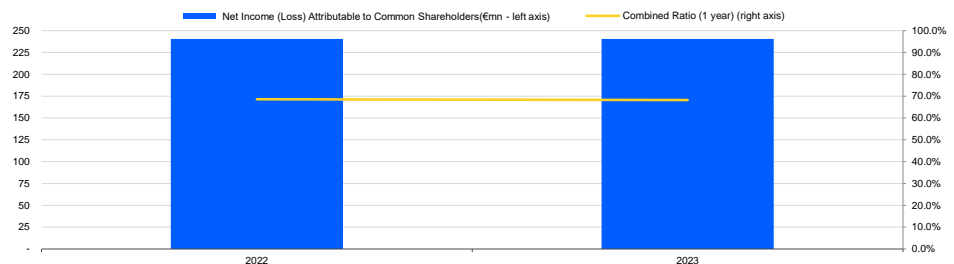
## Annual Update

### Summary

The credit profile of Coface SA (A3 issuer rating) and of its lead insurance entity, Compagnie Francaise d'Assurance pour le Commerce Exterieur, rated A1 for insurance financial strength (IFSR), is supported by the group's strong position in the global credit insurance industry, good economic capitalisation, underpinned by Coface's dynamic management of insured exposure and effective underwriting risk monitoring tools, and good underwriting profitability through the cycle. These strengths are partially offset by inherent volatility in credit insurance, a cyclical and competitive industry.

Through consistent and disciplined execution, Coface has made significant progress in improving its risk management and underwriting profitability in recent years. The group has strengthened its capitalisation through de-risking actions, even if it returned a significant portion of profits to shareholders.

Exhibit 1  
**Coface's net income and combined ratio**



Sources: Company reports and Moody's Ratings

### Credit Strengths

- » Third largest global credit insurer with very broad geographic presence
- » Dynamic management of exposure and effective underwriting risk monitoring tools
- » Good economic capitalisation that is resilient in a range of stress scenarios
- » Good profitability through-the-cycle

### Credit Challenges

- » Further improving diversification beyond credit insurance
- » Pursuing growth in revenues whilst maintaining a strong underwriting discipline in a deteriorating global macro environment

## Rating Outlook

The outlook is stable, reflecting our expectation that Coface will maintain a Solvency II ratio above 180%, a leverage ratio below 30% and that the group will not increase meaningfully its underwriting or asset risk appetite.

## Factors that Could Lead to an Upgrade

While unlikely in the next 12-18 months, Coface's ratings could be upgraded if:

- » the group's capital increased sustainably leading to Solvency II ratio above 220% and a financial leverage at 20% or below,
- » the group's profitability improves with a combined ratio below 75% through the cycle, with moderate volatility and limited spikes during credit crisis, and
- » the group's business diversification further improves with fee-based services representing more than 30% of its revenues.

## Factors that Could Lead to a Downgrade

Conversely, the following factors could exert downward pressure on the ratings:

- » a volatile underwriting profitability, with for example a spike in the combined ratio materially above 100%,
- » a decline in capital, as evidenced for example by a Solvency II capital coverage below 180%,
- » a financial leverage consistently exceeding 30% or a significant increase in the group's operational debt,
- » a significant erosion of the group's market position and franchise or
- » a meaningful change in asset or underwriting risk appetite.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key Indicators

Exhibit 2

### KeyIndicators\_FY2023

Compagnie Francaise d'Assurance pour le Comm. [1][2]

Compagnie Francaise d'Assurance pour le Comm. [1][2]	2023	2022
<b>As Reported (Euro Millions)</b>		
Gross Premiums Written	1,559	1,516
Net Premiums Written	1,135	1,107
Net Income (Loss) Attributable to Common Shareholders	241	240
Total Shareholders' Equity	2,053	2,021
<b>Moody's Adjusted Ratios</b>		
High Risk Assets % Shareholders' Equity	20.8%	23.2%
Reinsurance Recoverables (or Reinsurance Contract Assets) /Shareholders' Equity	18.8%	17.6%
Goodwill & Intangibles % Shareholders' Equity	11.7%	11.8%
Net Total Exposure % Shareholders' Equity	248.4x	247.0x
Net Underwriting Leverage (Credit Insurers)	110.5%	110.7%
Combined Ratio (1 yr.)	68.2%	68.6%
Sharpe Ratio of ROC (5 yr.)	NA	NA
Financial Leverage	31.6%	24.5%
Total Leverage	31.6%	24.5%
Earnings Coverage	9.9x	11.1x

[1]Information based on IFRS 17 financial statements as of the fiscal year ended 31 December. [2]Certain items may have been relabeled and/or reclassified for global consistency.

Source: Company filings and Moody's Ratings

## Profile

[Compagnie Francaise d'Assurance pour le Comm](#) is the main operating entity of the holding company [Coface SA](#). Established in 1946, specialising in export credit insurance. Coface is a publicly listed company, traded in the Euronext exchange in Paris, with 70.1% being considered as free float. The remaining shares are owned by [Arch Capital Group Ltd](#) (rated Baa1 for senior debt rating, positive outlook and whose main subsidiaries are rated A2 for IFSR).

Coface offers credit insurance, factoring, surety bonds and other services such as credit information and receivables management to clients in over 200 countries.

## Detailed Credit Considerations

Moody's rates Coface A1 for IFSR, which is in line with the adjusted score indicated by Moody's insurance financial strength rating scorecard.

## Insurance Financial Strength Ratings

### Market Position and Distribution: Strong franchise as top tier insurer in the global credit insurance market - A

As the third largest global trade credit insurer by premiums, Coface has a strong position in the global credit insurance market, with an extensive global footprint, albeit orientated towards Europe. We expect Coface to continue growing its market position, including in its factoring business, in a measured and focused manner.

Coface's distribution network is significantly reliant on brokers, in line with the commercial nature of the credit insurance industry, which to an extent limits the company's ability to control pricing. Nevertheless, direct sales are somewhat above peers (representing around a third of premiums). In addition, Coface maintains strong and flexible market access, as evidenced by the various partnerships concluded with smaller credit insurers in many parts of the globe, banks and multi-line insurers.

Notwithstanding Coface's strong position in the credit insurance market, an industry that we view as highly competitive and exposed to economic cycles, we believe the group's overall franchise strength is somewhat constrained by its limited diversification beyond credit insurance. However, Coface's information business is increasingly demonstrating traction and continues to grow at higher rates than trade credit insurance, albeit from a still relatively small base.

### **Product Risk and Diversification: Strong sector and country diversification together with a growing amount of service and fee income - A**

Consistent with its peers, Coface is primarily focused on credit insurance, with around 90% of its 2023 revenue being sourced from trade credit insurance. Coface is also active in factoring, bonding and other services. Although the group is not benefitting anymore from the fee income related to the French Government's export guarantee business, Coface's level of services business compares well against peers, as credit insurance revenues include around 9.2% of services (policy management costs). Overall, around 16.5% of revenues are sourced from fee-based activities (including factoring) and this percentage will likely increase as Coface is growing its services business as part of its strategic plan, while debt collection revenues will likely grow as the level of insolvencies normalise. We expect the revenues from services to grow at a quicker pace than insurance premiums in the next 12-18 months, and the weight of services to increase gradually.

The group's credit exposure is generally granular and well diversified by country and by sector, although its predominant focus is on Europe. At the end of 2023, the group's largest country exposures continued to be Germany, followed by the USA and France. The proportion of exposure to emerging markets remains stable at 18%. Coface's exposure is also well diversified by sectors. Coface's exposure has only slightly increased to 685 billion at YE2023, reflecting a weaker economic growth environment and conservative underwriting.

The low average duration of Coface's policies as well as its dynamic management of exposure and good risk monitoring tools enable the company to act quickly and to actively manage its exposure, protecting its profitability through the cycle. These exposure management capabilities are evidenced by the sustained good underwriting profitability across the cycle. Combined ratio gross of reinsurance remained constant at 67.3% in FY2023 (67.2% FY2022) while the ratio after reinsurance improved slightly to 64.3% in FY2023 (67.7% FY2022), both on a restated IFRS 17 basis.

### **Asset quality: Generally high quality liquid investment portfolio - A**

At YE2023, the ratio of high risk assets to shareholders' equity remained relatively stable at 20.8%, indicating a low risk investment portfolio. The group's investment portfolio is predominantly fixed income focused, with some allocations to equity, real estate and other short-term securities and cash/cash equivalents. Coface de-risked materially its investment portfolio early in 2020, notably by selling convertible bonds, equities and below investment grade bonds. Coface's investment portfolio remains slightly higher risk than its credit insurance peers, primarily due to the higher allocations to equities, although this is driven by inclusion of investments in subsidiaries in the equity portfolio. Coface also holds around 4% of below investment grade debt, partially linked to sovereign bond investments in local markets Coface is operating in. Cash and cash equivalents comprise a significant portion of the portfolio.

Because of the cyclical nature of trade credit insurance exposures, we believe there is higher correlation between insurance exposures and invested assets than is typical for other insurers. In addition, there is the risk of assuming exposure to the same names on both the asset and liability sides of the balance sheet, although Coface has controls in place to manage correlation between its asset and liability exposures.

Credit exposure to reinsurers is relatively modest due to the still high retention levels and the high quality of the reinsurance panel.

### **Capital adequacy: Good capitalisation supported by dynamic exposure management - A**

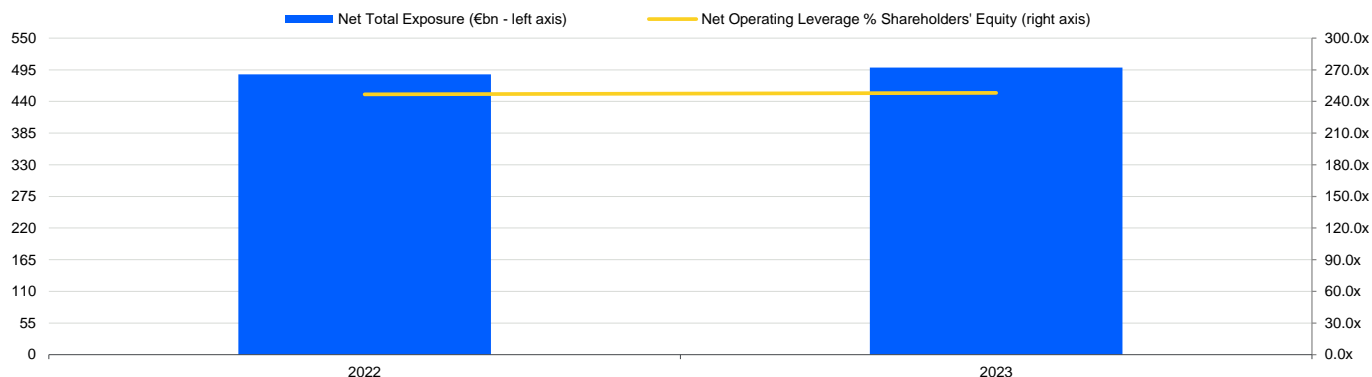
We consider the group's capitalisation to be good, with its economic/regulatory capital levels supported by the company's dynamic management of exposure and good underwriting risk monitoring tools, which can mitigate the volatility of the liability profile in an economic downturn. Coface manages its capital according to the Solvency II partial internal model (PIM) formula, for which it targets a range of 155% to 175% coverage of its capital requirement, but the company has maintained a level of solvency above this range for several years. Coface's solvency ratio was 199% as of YE2023 (201% at YE2022).

Negative impacts on capital requirements from the growth in exposure have been offset by the management of the quality of exposure and improvements in asset quality. Own funds have not materially changed recently as the group distributed a high level of its earnings to shareholders (Coface's target is to distribute more than 80% of its profits to shareholders).

Based on the group's published sensitivity analysis, the Solvency II ratio is resilient to a range of financial market stresses. The ratio would for example remain within the target range in a 1 in 50 years credit crisis scenario (based on Coface's model).

Total net exposure to shareholders' equity (Moody's calculations) was also very strong at 248x in 2023. Following the termination of the reinsurance government schemes during Covid, Coface's cession rates have returned close to the long-term average, standing at 27% in 2023. Net underwriting leverage was at 1.1x in 2023.

Exhibit 3  
**Net Total Exposure and Net Operating Leverage as % of Shareholders' Equity**



Estimate based on the reported gross total exposure and the premium retention rate  
 Sources: Company reports and Moody's Ratings

**Profitability: Good profitability across the cycle - A**

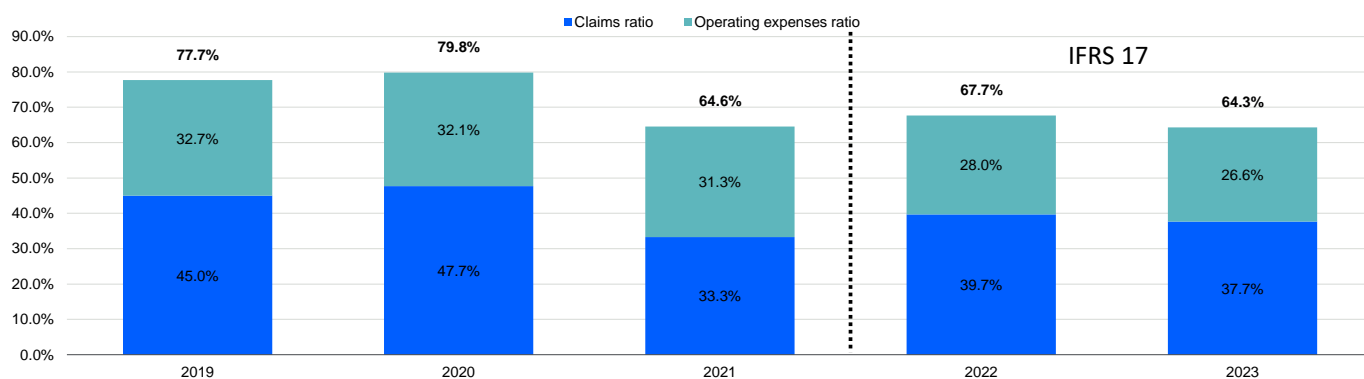
We consider Coface's profitability to be good on a through-the-cycle basis, with the group benefiting from underwriting actions it had taken on its portfolio in recent years.

The group's dynamic exposure management and loss mitigation capabilities have been effective in the past, enabling it to recover from a spike in loss ratios during the 2008/09 financial crisis relatively quickly. Coface's history of successful portfolio steering has driven a reduction in loss ratios since 2017. For example, dynamic exposure management was evidenced by the reduction of Coface's exposure to Russia in 2022, when exposures went down from €4.8 billion as at 24 February 2022 to €0.6 billion as at 31 December 2022.

We expect increasing corporate insolvencies and normalising claims will put pressure on Coface's net loss ratio going forward, even though this has not materialized yet. Weak economic growth and continuously fierce competition result in pressure on top line and Coface's expense ratio.

Nonetheless, even though earnings volatility will remain a feature of the credit insurance industry, we expect it to remain moderate. Under its new strategic plan presented in early 2024, Coface is targeting an IFRS 17 based undiscounted combined ratio of 78% through the cycle, which should translate into an as reported combined ratio of approximately 75%.

Exhibit 4  
**Reported Net Combined Ratio**



Sources: Company filings and Moody's Ratings

**Reserve Adequacy: Short-tailed risk profile limits reserve risk - A**

We consider Coface's reserving risk to be low, mainly because of the short-tailed nature of its insurance risks and its ability to manage insured exposures dynamically. During 2016, the group strengthened reserves on certain emerging markets business that exhibited higher than expected loss patterns, although aggregate reserve development remained favourable. Coface has reported favourable aggregate reserve run-off since 2009 when negative reserve development was reported due to the exceptionally high claims frequency experienced at the end of 2008 and the subsequent challenging assessment of IBNR. Nonetheless, Coface has significantly increased its prudence in reserving after 2009, with reserve releases consistently exceeding 20% of premiums, since 2018 significantly higher than that.

Coface also provisioned underwriting years 2022 and 2023 at a relatively high level in view of the low level of reported claims globally, suggesting some conservatism in technical reserves.

**Financial Flexibility: Good financial leverage but substantial operational debt as part of the factoring business - A**

Coface's financial flexibility remains good while the group's financial leverage has increased slightly in recent years. Coface issued €300 million of new Tier 2 debt, subordinated guaranteed notes, in November 2023 to refinance the rest of debt maturing in 2024 (€227 million after a tender offer of €153 to purchase the 2024 maturity with the €300 million issued in September 2022). As a result, the group's financial leverage was temporary higher than usual at YE2023, at 32%, but on a pro-forma basis in the meantime has reduced to c. 24%. The interest expense of the new debt is higher than on the old debt (5.75% - 2024 issuance vs 4.125% - 2014 issuance).

Coface carries a significant amount of debt and payables to support its factoring business, that Moody's currently classifies as operating debt.

Effective June 2019, Coface SA was included in the SBF120 index, which tracks the top 120 companies on the Paris stock exchange, in terms of market capitalization and liquidity. Inclusion in this index has led to improved perception amongst investors and enhance its financial flexibility.

**Other Considerations**

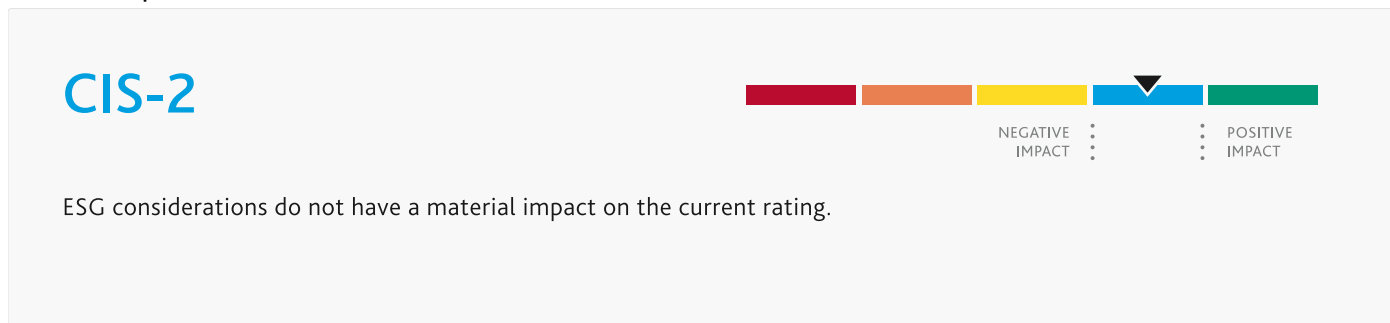
Coface operates a meaningful factoring business, focused on the German and Polish markets.

As of December 2023, net factoring receivables amounted to approximately €2.9 billion (YE2022: €2.9 billion), while revenue from factoring amounted to €72 million in 2023 and €70 million in 2022. The factoring business exposes Coface to liquidity risk not faced in its traditional credit insurance business, and the management of funding sources and maturity matching is a key consideration. Coface manages funding and liquidity risk in its factoring business through a diverse set of funding mechanisms. The group's main sources of funding for its factoring business include the following facilities: (i) a receivables securitisation programme in the amount of €1.3 billion, (ii) commercial paper programme (with backup facility in place) in the amount €700 million, and (iii) bilateral credit lines with a panel of banks, in the amount of about €1.79 billion.

## ESG considerations

### Coface SA's ESG credit impact score is CIS-2

Exhibit 5  
ESG credit impact score



Source: Moody's Ratings

Coface's **CIS-2** reflects the limited credit impact of environmental and social risks on the rating to date. The group's strong governance, including risk management and capitalisation, along with its predominant focus on trade credit insurance and its diversified portfolio of very short-tail exposures help reduce its physical climate and social risks.

Exhibit 6  
ESG issuer profile scores



Source: Moody's Ratings

### Environmental

Coface has low exposure to environmental risk, although it does have indirect exposure to environmental risk through the exposures the group insures. These include, for example, companies in the automotive sector which are exposed to carbon transition risk, and manufacturers and retailers with large physical footprints that are meaningfully exposed to physical climate risks. These indirect risks are mitigated by the significant geographic and sectoral diversification of Coface's portfolio and the very short-term nature of these exposures, which allows credit insurers to quickly manage down their exposures to sectors facing rising environmental risks.

### Social

Coface has low exposure to social risks. Social pressures may affect indirectly Coface because its clients or its insured exposures may be affected by new societal trends, but the impact is low because of the exposures' short-term nature and extensive diversification. Nonetheless, as credit insurers also play a role in the global economy by facilitating the development of trade, they are subject to an increasing level of political scrutiny which could result in new business or financial constraints, notably in France or in the UK.

### Governance

Coface faces low governance risks. As a leading credit insurer, Coface maintains a strong level of solvency, which is a key requirement from brokers and clients. Risk management is also a pillar of the business model of credit insurers which monitor the quality of their exposures and can cut limits quickly to adapt their risk profile. Coface benefits from an independent board and experienced management with a good track record.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

Exhibit 7

### Rating Factors

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	ScoreAdj	Score
Business Profile								A	A
<b>Market Position and Brand (10%)</b>								A	A
-Relative Market Share Ratio				X					
-Distribution and Access to New Markets			X						
<b>Product Focus and Diversification (20%)</b>								A	A
-Business Diversification				X					
-Flexibility of Underwriting			X						
-Risk Diversification		X							
Financial Profile								Aa	A
<b>Asset Quality (15%)</b>								Aaa	A
-High Risk Assets % Shareholders' Equity	X								
-Reinsurance Recoverable % Shareholders' Equity	18.8%								
-Goodwill & Intangibles % Shareholders' Equity	11.7%								
<b>Capital Adequacy (20%)</b>								Aa	A
-Net Operating Leverage			X						
-Net Underwriting Leverage (Credit Insurers)		X							
<b>Profitability (20%)</b>								Aa	A
-Combined Ratio (5 yr. avg.)	68.4%								
-Sharpe Ratio of ROC (5 yr.)									
<b>Reserve Adequacy (5%)</b>								Aaa	A
-Worst Reserve Development for the Last 10 Years % Beg. Reserves	0.0%								
<b>Financial Flexibility (10%)</b>								A	A
-Financial Leverage			31.6%						
-Earnings Coverage (5 yr. avg.)	10.5x								
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								Aa3	A1

[1] Information based on IFRS17 financial statements as of fiscal year ended December 31, 2023. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Ratings

## Support and Structural Considerations

Coface SA's A3 long-term issuer rating is two notches below the A1 IFSR of Compagnie Francaise d'Assurance pour le Commerce Exterieur, Coface's lead operating insurance entity, which is consistent with Moody's standard approach for insurance groups domiciled and operating in jurisdictions where group-wide regulatory supervision applies.

The Baa1(hyb) rating of Coface's subordinated debt is one notch below Coface's long-term issuer rating which is in line with Moody's standard notching practices for this type of instruments.

The P-2 Commercial Paper (CP) rating is supported by the holding company's strong liquidity sources, including committed multi-bank credit facilities, an intercompany liquidity account, which facilitates loans between holding and affiliates, as well as cash and short-term investments at the holding company. The CP programme (€700 million capacity) is used to refinance the factoring receivables (€2.9 billion as of December 2023), as part of a diverse receivables funding structure.



## Ratings

Exhibit 8

<b>Category</b>	<b>Moody's Rating</b>
<b>COMPAGNIE FRANCAISE D'ASSURANCE POUR LE COMM.</b>	
Outlook	Stable
Insurance Financial Strength	A1
ST Insurance Financial Strength	P-1
<b>COFACE SA</b>	
Outlook	Stable
LT Issuer rating	A3
Subordinate	Baa1 (hyb)
Commercial Paper	P-2

Source: Moody's Ratings

## Moody's related publication

### Sector In-Depth

- » [Credit insurers remain disciplined and financially strong as claims will rise \(March 2024\)](#)

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