



RATING ACTION COMMENTARY

Fitch Affirms Coface at IFS 'AA-'; Outlook Stable

Thu 09 Nov, 2023 - 11:58 ET

Fitch Ratings - Paris - 09 Nov 2023: Fitch Ratings has affirmed Coface SA's operating entities' (together Coface) Insurer Financial Strength (IFS) Ratings at 'AA-'. Fitch has also affirmed Coface's Long-Term Issuer Default Rating (IDR) at 'A+'. The Outlooks are Stable. A full list of rating actions is below.

The affirmations reflect Coface's 'Very Strong' company profile and capitalisation, as well as 'Strong' profitability through the cycle. The Stable Outlooks reflect our view that Coface will maintain sufficient rating headroom to withstand weaker macro-economic conditions and rising corporate default risk over the next 12-24 months.

KEY RATING DRIVERS

'Very Strong' Company Profile: Fitch Ratings ranks Coface SA's business profile as 'Favourable' compared with other global trade credit insurers'. Coface is a specialist insurer but has a very strong, well-established and geographically diversified franchise in the global trade credit insurance sector, where it is the third-largest insurer with an estimated 15% market share. Factoring, information services and other fee-based activities (16% of revenue at end-2Q23) enhance Coface's business diversification.

'Very Strong' Capitalisation: Coface's 'Very Strong' capitalisation is underlined by a solvency 2 (S2) ratio of 192% at end-1H23 (201% at end-2022), above the group's target of 155%-175%. Net leverage increased to 1.4x at end-2022 (1.1x at end-2021), driven by both increased sales activity and slight erosion of the capital base due to adverse market movements. We expect this ratio to remain above its five-year average of 1.2x in 2024, which, if sustained, could put pressure on our assessment of capitalisation.

Historical High Insured Exposure: Gross credit insurance risk exposure was at a record EUR690 billion at end-1H23, up 42% from the trough at end-2020, which is broadly consistent with the market's insured exposure growth, reflecting strong post-pandemic economic recovery. We believe Coface maintained underwriting discipline during the period, as reflected in its internal credit risk indicators, despite insured exposure

growing faster than gross written premium. Exposure growth slowed markedly in 1H23 and we expect it to peak in 2023 and diminish in 2024, given Coface's lower risk appetite as the economy slows.

Low Financial Leverage: Coface's financial leverage ratio (FLR), from which we exclude factoring assets, increased to 21% at end-2022 (end-2021: 16%), as net debt increased as a result of the September 2022 issue of EUR300 million subordinated notes and a parallel EUR153 million debt buy-back. This level remains consistent with our 'aa' category rating guidelines and we expect it to remain broadly stable in 2024, assuming Coface refinances its remaining EUR227 million debt maturing in March 2024. Fitch views sources of funding for the factoring business as robust and well-diversified, thereby mitigating liquidity risk for the segment.

Strong Financial Performance: Fitch views Coface's financial performance as 'Strong' across the economic cycle, underpinned by underwriting profitability, effective risk management and reinsurance. The Fitch-calculated return on equity (ROE) and reported combined ratio (CR) averaged 9% and 74%, respectively, over the past five years. We factor in inherent earnings volatility in credit insurance into our scoring of financial performance.

Coface reported very strong 1H23 earnings, driven by sustained revenue growth and subdued, albeit normalising, loss activity. Net CR, reported under IFRS17/9, slightly deteriorated to 65.5% (IFRS17 pro-forma 1H22: 63.4%). We expect the CR to normalise to Coface's average target through the cycle of around 80% in the next 12 to 24 months, reflecting our expectation for rising claims activity and lower volumes in 2024 as the credit cycle turns, amid a slowly improving pricing environment.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

-An upgrade is unlikely in the medium term, given Coface's smaller size and lower product diversification than higher-rated insurers'

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-A sharp, sustained deterioration in CR or net income, revealing larger-than-expected underwriting losses and credit risk vulnerabilities in insured or factoring portfolio

-The S2 ratio falling below 160% or net leverage increasing above 1.6x, both on a sustained basis

-Deterioration in the business profile, as reflected in a substantially weaker competitive position or higher business risks

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Coface Re SA	LT IFS	AA- Rating Outlook Stable	AA- Rating Outlook Stable
	Affirmed		
Coface Finanz GmbH	LT IDR	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
COFACE SA	LT IDR	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
	ST IDR	F1 Affirmed	F1

subordinated	LT	A-	Affirmed	A-
subordinated	LT	BBB+	Affirmed	BBB+
senior unsecured	ST	F1	Affirmed	F1
Coface North America Insurance Company (CNAIC)	LT IFS	AA- Rating Outlook Stable		AA- Rating Outlook Stable
	Affirmed			
Compagnie Francaise d'Assurance pour le Commerce Exterieur SA	LT IDR	A+ Rating Outlook Stable		A+ Rating Outlook Stable
	Affirmed			
	LT IFS	AA- Rating Outlook Stable		AA- Rating Outlook Stable
	Affirmed			

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 20 Jul 2023\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 (1)

ADDITIONAL DISCLOSURES

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Coface North America Insurance Company (CNAIC)	EU Issued, UK Endorsed
Coface Re SA	EU Issued, UK Endorsed
COFACE SA	EU Issued, UK Endorsed

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