

Research Update:

France-Based Covea Group Core And Guaranteed Subsidiaries Affirmed At 'AA-' On Plan To Buy PartnerRe; Outlook Stable

March 3, 2020

Overview

- France-based mutual insurance Covea group has announced plans to acquire the Bermuda-based reinsurer PartnerRe for \$9 billion in an all-cash transaction that is expected to close before year end.
- We anticipate the acquisition will bring the group broader geographical and business diversification, while exposure to large catastrophe claims could increase.
- Under these assumptions, we are affirming our ratings on the core and guaranteed subsidiaries of the Covea group at 'AA-'.
- The outlook is stable because we project that the group will continue to enjoy significant financial flexibility and competitive edge to face any potential adverse development and will maintain excellent capital adequacy.

Rating Action

On March 3, 2020, S&P Global Ratings affirmed its 'AA-' long-term insurer financial strength and issuer credit ratings on the core subsidiaries and guaranteed entities of the France-domiciled Covea group (see the ratings list below for further details). The outlook is stable.

Outlook

The stable outlook reflects our expectation for the next two years of the group's:

- Ability to integrate PartnerRe's reinsurance activities and the benefits it will gain from the broad diversity PartnerRe adds to the consolidated group, allowing strong and stable earnings.
- Excellent and organically increasing capital buffers, as well as prudent underwriting, investment, and reserving policies.

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- Ability to withstand the potential negative effect of changing regulation and stiff competition in the French property/casualty (P/C) market, thanks to strong brands, large scale, and client and product diversity.

Upside scenario

An upgrade is unlikely in the next two years and would hinge on buffers being rebuilt, on top of the excellent capital adequacy, thanks to retained earnings and a controlled risk appetite.

Downside scenario

We could lower our ratings over the next two years by one notch if:

- The integration of PartnerRe generated unexpected losses, affecting the Covea group's fundamental strengths;
- The group's operating performance were to deteriorate markedly relative to peers' over a protracted period. This would be indicated, for example, by a multiyear sustained deterioration of the combined ratio (loss and expense) materially above 100%; or
- Projected capital and earnings were to deteriorate below their current excellent level for a maintained period. This could happen if the group increases its risk profile, experiences severe investment or underwriting losses, or if its growth strategy, including via further acquisitions, leads to materially reduced capital strength.

Rationale

The ratings affirmation comes with material changes in the credit factors underlying the ratings.

With the acquisition of Partner Re, the group markedly changes its business mix. It keeps its leading position in the non-life French insurance market, while adding significant international reinsurance activity. This brings broader diversity to the group's business risk profile and adds the PartnerRe commercial brand name on top of the existing MMA, MAAF, and GMF brands. This diversity strengthens the combined group's ability to generate solid earnings and mitigates the risks arising from concentrated exposure on the French market.

Nevertheless, some of the reinsurance activities carried by PartnerRe, and more specifically its exposure to natural catastrophes, elevate the risk of earnings volatility for the group, and we reflect this in our revised view of the combined group's risk exposure.

We expect the Covea group's capital will recover above the excellent level by 2021, despite the significant \$9 billion cash payment for PartnerRe. For this reason, we assume projected capital and earnings of the combined group will continue to be able to withstand an extreme stress. We anticipate the combined balance sheet will shift away from being free of financial debt, without raising concerns in terms of financial leverage or fixed charge coverage, given the manageable amount of debt brought by PartnerRe.

Ratings Score Snapshot

	To	From
Business Risk Profile	Very Strong	Strong
Competitive position	Very Strong	Strong
IICRA	Intermediate Risk	Intermediate risk
Financial Risk Profile	Very Strong	Excellent
Capital and earnings	Excellent	Excellent
Risk exposure	Moderately high	Moderately low
Funding structure	Neutral	Neutral
Anchor*	aa-	aa-
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Financial Strength Rating	AA-	AA-

*This is influenced by our view on the challenges to smoothly integrate a new and very different business while continuing to generate strong and stable earnings leading to material capital accumulation.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- France-Based Covea Group Core And Guaranteed Subsidiaries Upgraded To 'AA-'; Outlook Stable, Jan. 21, 2020
- PartnerRe Ltd. Outlook Revised To Positive From Stable On Announced Acquisition By Covea Group; Ratings Affirmed, March 3, 2020

Ratings List

Ratings Affirmed

Covea Cooperations

MMA Vie

MMA IARD S.A.

MAAF Vie

GMF Vie

Issuer Credit Rating AA-/Stable/--

Covea Cooperations

MMA Vie

MMA IARD S.A.

MAAF Vie

GMF Vie

Covea Life Ltd.

Covea Insurance PLC

Financial Strength Rating AA-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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