

Research Update:

France-Based Covea Group Core And Guaranteed Subsidiaries Upgraded To 'AA-'; Outlook Stable

January 21, 2020

Overview

- Covea group's capital adequacy has further increased and provides a significant buffer to mitigate acquisition risk.
- The group has maintained a leading competitive position in the property/casualty market in France while generating stable profits.
- We are therefore upgrading the group and its core and guaranteed subsidiaries to 'AA-' from 'A+'.
- The outlook is stable because we project that the group can withstand any potential adverse development while maintaining excellent capital adequacy.

Rating Action

On Jan. 21, 2020, S&P Global Ratings raised its long-term insurer financial strength and issuer credit ratings to 'AA-' from 'A+' 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 withstand the potential negative effect of changing regulations and stiff competition in the French property/casualty (P/C) market, thanks to strong brands, large scale, and client and product diversity; and
- Sustainable, exceptional, and still-increasing capital buffers, as well as prudent underwriting and reserving policies.

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Upside scenario

A potential upgrade is unlikely in the next two years and would hinge on a significant improvement in the group's geographical diversification.

Downside scenario

Although unlikely over the next two years, we could lower our ratings by one notch if:

- The group's operating performance were to deteriorate markedly relative to peers' over a protracted period. This would be indicated, for example, by a multi-year sustained deterioration of the combined ratio (loss and expense) materially above 100%; or
- Capital adequacy was to deteriorate significantly. This could happen if the group shifts its investments to much riskier policies, experiences severe investment losses, or its growth strategy, including via acquisitions, leads to materially reduced capital strength.

Rationale

The rating upgrade is based on our further improved view of Covea group's capital adequacy, its leading competitive position in the P/C market in France, and its ability to generate stable profits. We believe Covea has built up capital adequacy that we consider exceptional in absolute terms and relative with peers. This is due to the stringent underwriting, reserving and financial discipline implemented by the group for decades as well as its mutual status, which facilitates capital accumulation in the absence of dividend requirements. We expect this prudent approach will be unchanged in the foreseeable future. Under our base-case scenario, we expect Covea group's capital adequacy will remain excellent even if the group undertakes a sizeable acquisition. This also takes into account the significant financial flexibility brought by the absence of financial debt on the group's balance sheet.

In addition, we expect the Covea group to continue to leverage its leading competitive position in the French P/C market and solid position in life, with both business lines generating stable profits in recent years. We consider the contribution of Covea's life business to be resilient even in a prolonged low-interest-rate environment, given its very-low guaranteed minimum bonus rate. In contrast, we view the group's limited geographical diversification outside France as a limiting factor in comparison with some 'AA' category rated insurance groups.

Ratings Score Snapshot

| Business Risk Profile | Strong |
|-------------------------------|-------------------|
| Competitive position | Strong |
| IICRA | Intermediate risk |
| Financial Risk Profile | Excellent |
| Capital and earnings | Excellent |
| Risk exposure | Moderately low |
| Funding structure | Neutral |

| | |
|----------------------------------|-------------|
| Anchor* | aa- |
| Modifiers | |
| Governance | Neutral |
| Liquidity | Exceptional |
| Comparable ratings analysis | 0 |
| Financial Strength Rating | AA- |

*This is influenced by our view of Covea group's exceptional capital levels, market position in France, and brand recognition.

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

Ratings List

Upgraded

| | To | From |
|----------------------------|---------------|--------------|
| Covea Cooperations | | |
| MMA Vie | | |
| MMA IARD S.A. | | |
| MAAF Vie | | |
| GMF Vie | | |
| Issuer Credit Rating | AA-/Stable/-- | A+/Stable/-- |
| Financial Strength Rating | AA-/Stable/-- | A+/Stable/-- |
| Covea Life Ltd. | | |
| Covea Insurance PLC | | |
| Financial Strength Rating | AA-/Stable/-- | A+/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

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