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Oggetto	:	S&P affirms Cattolica’s rating at BBB, outlook stable

Testo del comunicato

Vedi allegato.

Società Cattolica di Assicurazione - Società Cooperativa
Sede in Verona, Lungadige Cangrande n.16
C.F. 00320160237 – Iscritta al Registro delle Imprese di Verona al n. 00320160237
Società iscritta all'Albo delle Società Cooperative al n. A100378
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PRESS RELEASE

S&P affirms Cattolica's rating at BBB outlook stable
Stand-alone credit profile unchanged at bbb+
Rating of subordinated debt also confirmed at BB+

Verona, 7 August 2018. Today Standard & Poor's has affirmed Cattolica's rating at BBB with a stable outlook.

Cattolica's stand-alone credit profile (SACP) is affirmed at bbb+, two notches higher than its financial strength rating at BBB, which is still constrained by that of Italy, as set out under S&P's criteria.

The outlook is affirmed stable and it reflects the outlook of the Italian sovereign debt.

The Agency also confirmed at BB+ the rating of both listed bonds issued by the Cattolica Group.

SOCIETÁ CATTOLICA DI ASSICURAZIONE

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S&P Global
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Societa Cattolica di Assicurazione

SACP* Assessments					SACP*			Support			Ratings
Anchor	bbb+	+	Modifiers	0	=	bbb	+	0		=	Financial Strength Rating
Business Risk			ERM and Management	0	Liquidity	0		Group Support	0		BBB/Stable/--
Strong											
Financial Risk			Holistic Analysis	0	Sovereign Risk	-1		Gov't Support	0		
Lower Adequate											

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths:

- Leading Italian insurer, ranking top five in the property/casualty (P/C) market and top 10 in the life segment.
- Well-diversified insurance portfolio and multi-distribution strategy enhanced by a large agency network and long-term distribution agreements with Italian leading banks, including UBI and ultimately Banco BPM (BBPM).
- Profitable PC portfolio sustained by sound underwriting and stabilizing claims in Italy, as demonstrated by the five-year average combined ratio of 95%.

Weaknesses:

- Large exposure to Italian assets, which limit the ratings on Cattolica to those on Italy.
- Weakened level of capital adequacy, as measured by our capital model, resulting from low retained earnings and recent acquisition of JVs with BBPM.
- Limited overall profitability over the past five years, constrained by the life and non-motor insurance portfolios' small operating results and assets impairments.

Rationale

Our ratings on Societá Cattolica di Assicurazione reflect Cattolica group's leading positions in both the life, and in particular, the non-life insurance markets. Cattolica is a long-established insurance group in Italy, and recent JVs with BBPM have strengthened its position in the Italian life market, further enhancing its well-diversified insurance portfolio and multi-distribution strategy. Cattolica has access to a spread-out insurance network including agencies and bank branches.

Our ratings also reflect Cattolica's strong P/C technical results over the past six years. Sound underwriting and the wider stabilizing claims environment in Italy have driven a five-year average combined ratio of 95%. The overall return on equity has been limited, however, below 5% owing to the small operating results of its life and non-motor insurance portfolios as well as a series of assets impairments.

Together with a high dividend pay-out and the recent acquisition and consolidation of JVs with BBPM, Cattolica's capital adequacy has weakened as measured by S&P Global Ratings' capital model, showing a small deficiency at the BBB confidence level. Regulatory solvency levels weakened to a still solid 160% at the end of June 2018 from 199% at the end of March, negatively impacted by the increase of the spread on Italian government bonds during the second quarter of 2018.

Our ratings on Cattolica are limited by those on Italy, according to our methodology, as Italian assets account for an estimated 75% of Cattolica invested assets, representing approximately 5.5x its shareholders' capital.

Outlook: Stable

The stable outlook on Cattolica mirrors that on Italy, reflecting Cattolica's very large domestic asset exposure relative to its capital. Any rating action on the sovereign could lead to a similar action on Cattolica.

Downside scenario

We could lower the ratings on Cattolica if we downgraded Italy, which would indicate our view of higher sovereign risk.

Upside scenario

We could raise the ratings on Cattolica if we upgraded Italy, which would indicate our view of lower sovereign risk.

Macroeconomic Assumptions

- Italian GDP to grow by over 1% over 2018-2020.
- Long-term Italian government bond yields above 3% over 2018-2020.
- The unemployment rate in Italy to decline in the next three years, according to S&P Global Ratings' forecasts, but remain more than 10%.
- Gross government debt to slightly decline remaining above 125% of GDP over 2018-2020.
- Fiscal deficit over GDP to decline to 1.5 over 2018-2020.

Key Metrics

	2019F*	2018F*	2017	2016	2015
Gross premiums written (€ mil.)	>5600	>5200	4781	4531	5172
Net income before minorities (€ mil.)	~140	~130	56	93	82
Return on shareholders' equity (%)	>4	>4	2.7	4.4	3.8

	2019F*	2018F*	2017	2016	2015
P/C net combined ratio (%)	~95	~95	97.1	95.6	93.4
Net investment yield	~3	~3	3.0	2.8	3.0
S&P capital adequacy	Lower adequate	Lower adequate	Lower adequate*	Upper adequate	Upper adequate
Financial leverage	<25	<25	22	8	8
EBITDA fixed charge cover	8-10	8-10	12	19	23

F--Forecast. *Adjusted to reflect the integration and consolidation of the JVs with BBPM.

Note: Figures in this table and the report are calculated according to S&P Global Ratings' criteria and may differ from those reported by Cattolica.

Business Risk Profile: Strong

With over €23 billion AuM and €4.9 billion reported premiums at year-end 2017, Cattolica ranked eighth largest insurance group in terms of premiums in Italy with an overall market share of 3.3%.

During 2018 Cattolica has significantly strengthened its position in the Italian life segment following the bancassurance agreements with BBPM, which will contribute to estimated €8.5 billion invested assets and €900 million premiums at end-2018. We estimate that organic growth will be moderate at around 2% including P/C and Life, broadly in line with the market.

The JVs with BBPM have also further enhanced Cattolica's multi-distribution strategy including a large and widespread network of bank branches and tied agents reaching 3.6 million clients. Cattolica also enjoys a relatively well-diversified insurance business mix, including, at year-end 2017: life (57%), motor (23%), property (7%), accident and health (6%), general liabilities (4%), and others (3%). We estimate that the weight of life will increase to almost 65% following the recent agreement with BBPM, more than offsetting the significant lower contribution from the JV with troubled bank Banca Popolare di Vicenza (BPVi).

With an average P/C combined ratio of 95% over the past five years, Cattolica continues to benefit from strong P/C underwriting technical performance, particularly in motor. Its performance has benefited from strong underwriting risk practises and reduced riskiness of operating in the Italian PC market resulting from strengthening technical reserves, fraud reduction initiatives, and legislative changes.

Overall, Cattolica's profitability has however been constrained over the past five years by lower operating results in life and non-motor business lines, as well as a series of assets impairments, driving a relatively low average return on equity of below 5.0% over the same period. We expect the elimination of guarantees on new life insurance contracts, together with higher sales of unit-linked products and regular premium products, will slowly support profitability. At same time, the widespread use of bancassurance distribution exposes life insurance volumes to changing strategies at banks.

Financial Risk Profile: Lower Adequate

At end-June 2018, Cattolica reported a Solvency II ratio of 160% as per the standard formula, using undertaking-specific parameters. The ratio weakened from 199% at end of March 2018, negatively impacted by the increase of the spread on Italian government bonds. The spread increased significantly but not sufficiently to trigger country specific volatility adjustments, which would have neutralized in part the negative impact of widening spreads on Cattolica's Solvency II ratio.

According to our measures, Cattolica's capital adequacy has weakened as result of the acquisition and integration of the JV with BBPM, and the implied increase in asset and liability risks, and goodwill only partly offset by the €500 million subordinated debt issued in November 2017 and our estimated higher retained earnings.

Under our base-case scenario, we expect Cattolica's year-end net profits before minorities and impairments to grow from €130 million in 2018 to €180 million in 2020 as the insurer increasingly benefits from improving profitability of its life portfolio and its partnership with BBPM. Our base-case scenario also incorporates a fixed dividend pay-out ratio of 50% with a minimum of €60 million per year. Cattolica's historically high dividend payout has limited its capacity to build capital significantly through retained earnings.

As result of the recent bond issue, the consolidated financial leverage ratio has been pushed up to above 20% from less than 10%, while the fixed-charge coverage ratio fell to below 10x from over 20x. Given the actual leverage level, we estimate Cattolica's capacity and appetite to issue further hybrid has reduced, but our view of its financial flexibility continues to benefit from its demonstrated ability to access equity markets and support from its shareholders.

Cattolica's total invested assets at year-end 2017 were mostly fixed income, accounting for about 90%, with the average credit quality in the 'BBB' range, mirroring the rating on Italy. As of Dec. 31, 2017, Cattolica had about €11.5 billion invested in Italian government securities, approximately 50% of total investments according to our calculations. Cattolica is slowly reducing its concentration in Italian government bonds, and instead diversifying its portfolio into other European government bonds. Exposure to shares, real estate, bonds rated 'BB' or lower, and unrated loans--which we regard as high-risk assets--is relatively conservative, with risks amply mitigated by significant profit-sharing liabilities.

Most of the insurer's long-term life liabilities are coverd by long-term Italian sovereign bonds. While we neutralize swings in market value of these bonds in our assessment of Cattolica's capital adequacy, this large exposure brings some volatility to its SII ratio as seen in the data reported at end of June 2017. We also note that the asset-liability duration mismatch above three years is higher than the Italian average of two years, resulting among others in higher capital requirements.

We expect increased focus on unit-linked products and 0% guaranteed rates on new and renewed business since 2015 to reduce exposure to interest risk, benefiting profitability.

Other Assessments

As of Dec. 31, 2017, we estimate that Italian assets accounted for some 75% of Cattolica's invested assets, approximately 5.5x the group's shareholders' equity. As such, under our criteria, we cap our rating on Cattolica at the level of the long-term sovereign rating on Italy because of the insurer's material investment exposure to Italian assets.

We view Cattolica's ERM and control practices in place for its main risks (investment, reserving, and underwriting) as adequate. As Cattolica has successfully adapted to and complied with Solvency II, its overall risk management has evolved in line with the evolving regulatory requirements. Strategic risk management is benefiting from the insurer's increasing focus on return on risk-adjusted capital by business line.

In our opinion, Cattolica's management has proven its ability to improve and maintain a reliable technical performance in P/C, even under difficult market conditions, as well as to reduce risks deriving from the life business as market conditions and regulation change. We notice however a widening in the life asset and liability duration gap. We expect the recently appointed new management team to focus on optimization and digitalization, enhancing Cattolica's sophistication and competitiveness. We view positively Cattolica's 2018-2020 industrial plan and general enhanced planning, although we believe that some targets in terms of growth and profitability, in particular for the non-motor and life segment, may prove challenging.

We regard Cattolica's liquidity as exceptional, owing to the strength of available liquidity sources, mainly a highly liquid investment portfolio and recent years' positive net inflows.

Related Criteria

- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of August 7, 2018)	
Operating Company Covered By This Report	
Societa Cattolica di Assicurazione	
Financial Strength Rating	
Local Currency	BBB/Stable/--
Issuer Credit Rating	
Local Currency	BBB/Stable/--
Subordinated	BB+
Domicile	Italy

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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