



# SPAFID CONNECT

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*Testo del comunicato*

Vedi allegato.

## PRESS RELEASE

### S&P affirms Cattolica's rating at BBB

### The outlook is also confirmed

### The rating of the two listed bond issues downgraded by one notch (to BB)

Verona, 10 June 2020. Today Standard & Poor's has affirmed Cattolica's rating at BBB with a negative outlook. The Agency has affirmed the rating at BBB as the Group's financial strength and operating performance remain unchanged despite the COVID-19 pandemic and short-term SII volatility, thanks to its strong technical performance.

Cattolica's Assessment before sovereign risk is affirmed at bbb+, one notch 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 negative and it reflects the outlook of the Italian sovereign debt.

The Agency, on the other hand, has downgraded from BB+ to BB the rating of both listed bonds issued by the Cattolica Group following the weakening of the Group's Solvency II ratio determined by the current situation of the financial markets generated by the crisis linked to the COVID-19 pandemic, while considering "remote" the hypothesis of the deferral of the coupon.

#### SOCIETÀ CATTOLICA DI ASSICURAZIONE

*Cattolica Assicurazioni is one of the main players on the Italian insurance market and the only cooperative company in its industry to be listed on the Milan Stock Exchange, where it has been present since November 2000. With nearly 3.5 million customers who rely on the insurance solutions and products it distributes, the Group has total premiums of nearly €7 billion (2019). At the Group level, Cattolica has 1,395 agencies spread throughout Italy, covering both large cities and smaller towns, and a network of 1,887 agents. For further information: [www.cattolica.it/profilo-societario](http://www.cattolica.it/profilo-societario)*

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Research Update:

# Societa Cattolica di Assicurazione's Tier 2 Debt Downgraded To 'BB' On Weakening Solvency II Ratio; Ratings Affirmed

June 10, 2020

## Overview

- Societa Cattolica di Assicurazione's solvency II (SII) ratio dropped to 122% on May 22, 2020, from 147% in first-quarter 2020 due to lower risk-free rates and wider spreads on Italian government bonds, which represent 55% of the group's investments.
- As the SII ratio is getting closer to the regulatory minimum, we see a higher risk that the group could defer coupon payments on its rated hybrid instruments and, consequently, are downgrading these instruments to 'BB' from 'BB+'.
- At the same time, we are affirming the 'BBB' ratings on the group, because our view of its financial strength and operating performance remains unchanged despite the COVID-19 pandemic and short-term SII volatility.
- The negative outlook reflects that on Italy.

## Rating Action

On June 10, 2020, S&P Global Ratings downgraded Societa Cattolica di Assicurazione's (Cattolica's) Tier 2 notes to 'BB' from 'BB+'. We also affirmed the 'BBB' long-term insurer financial strength and issuer credit ratings on the company with a negative outlook.

## Rationale

The solvency II (SII) ratio decline increases the likelihood of coupon deferral. Under our methodology for rating junior subordinated debt issues, we currently rate Cattolica's Tier 2 notes two notches below the 'BBB' long-term issuer credit rating. The rating on the notes reflects their subordination and interest deferral features. As the group's SII gets closer to the regulatory minimum, we see a higher risk--albeit still remote--that Cattolica could defer the coupon payments to protect its capitalization. Taking into account that Cattolica announced its interim

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estimated SII ratio dropped to 122% on May 22, 2020, we now add a one-notch negative adjustment for increased risk of coupon nonpayment, and have lowered the rating on these notes from 'BB+' to 'BB'.

We see deferral risk as still remote, since we expect Cattolica to undertake capital management actions in the coming months to materially strengthen its SII ratio. We understand that Cattolica management's initial proposal is a capital equity raise combined with an exchange offer of some existing Tier 2 instruments into restricted Tier 1 instruments. We also observe that the spread on Italian government bonds has significantly declined since May 22 (by about 40 basis points) which will have materially increased SII.

Cattolica's concentration in Italian government bonds links its SII ratio to volatile spread dynamics. The group's SII ratio for first-quarter 2020 was 147%, down from 175% at year-end 2019, due to COVID-19-related market turmoil. We understand that the additional drop in May is the consequence of unfavorable movements in the risk free curve, Italian government bond spreads, and the volatility adjustment. The group was particularly affected because Italian government bonds still account for 55% of total invested assets, despite a partial diversification effort conducted in recent years.

Short-term market volatility does not hamper our view of the group's intrinsic creditworthiness. We expect Cattolica's operating performance will remain resilient in 2020 despite the COVID-19 pandemic, since the company has confirmed its pre-crisis guidance. Despite a deceleration in gross written premium growth with respect to our previous forecast, driven by severe lockdown measures imposed in Italy between March and May, we believe that sound technical performance in property/casualty business lines, especially motor, will enable the company to reach a net income (before minority interests) above €100 million this year.

Furthermore, our fair assessment of Cattolica's financial risk profile is well positioned in its current category, and less subject to short-term market dynamics than the SII ratio.

As Cattolica's regulatory capital position evolves, we could alter the notching on the notes to reflect changes in the likelihood of suspension on the hybrids. We could narrow the notching between the rating on the hybrid notes and the issuer credit rating if we observe a sustainable and significant increase in Cattolica's SII ratio. In this regard, we understand that Italy's Institute for the Supervision of Insurance has requested Cattolica conduct a substantial capital increase. However, the timing and size of this increase remains uncertain, in our view.

## **Outlook**

The negative outlook mirrors that on Italy.

## **Downside scenario**

We could lower the ratings on Cattolica if we lower our long-term rating on Italy.

## **Upside scenario**

We could revise our outlook to stable if we revise the outlook on Italy to stable.

## Ratings Score Snapshot

Financial strength rating	BBB
Anchor	bbb+
Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
Financial risk	Fair
Capital and earnings	Fair
Risk exposure	Moderately Low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 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

- Societa Cattolica di Assicurazione, Sept. 4, 2019

## Ratings List

### Downgraded

	To	From
<b>Societa Cattolica di Assicurazione</b>		
Subordinated	BB	BB+

### Ratings Affirmed

<b>Societa Cattolica di Assicurazione</b>		
Issuer Credit Rating		
Local Currency	BBB/Negative/--	
Financial Strength Rating		
Local Currency	BBB/Negative/--	

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