MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms the ratings of five trade credit insurers with stable outlooks

10 February 2021

Paris, February 10, 2021 – Moody's Investors Service (”Moody's”) has today affirmed the insurance financial strength (IFSR) and debt ratings, where applicable, of five trade credit insurance groups, while maintaining the stable outlook on two issuers and changing the outlook on three issuers to stable outlooks from negative. The groups affected include: Atradius Credito y Caucion S.A. (ACyC, A2 stable) and the other main operating companies of Atradius N.V. (Atradius), Compagnie Francaise d'Assurance pour le Comm. (Coface, A2 stable), Euler Hermes SA (Euler Hermes, Aa3 stable), Clal Credit Insurance (Clal, A3 stable) and BSSCH the Israeli Credit Insurance Company (ICIC, A3 stable).

Please click on this link https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1000004259 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

SECTOR RATIONALE

Moody's has changed the outlooks for Atradius, Coface and Clal to stable from negative and maintained the outlook of Euler Hermes and ICIC at stable, to reflect the moderate impact of the coronavirus crisis on the credit insurance industry at this stage, as well as the underwriting actions taken by all players to improve their risk profile and increase their resilience to a potential hike in claims in the next 12 to 18 months.

Credit insurers insure trade receivable balances of their clients. The number of insolvencies, and therefore the amount of claims reported by credit insurers, increased significantly in the first half of 2020, but subsequently decreased, notably thanks to the support that governments across the world offered to businesses. Credit insurers have reported combined ratios below 95% for the first nine months of 2020. Solvency ratios also remained strong and little impacted by the crisis.

Although economic uncertainties remain elevated and a spike in claims will likely occur when governments will reduce their support in the economy, Moody's believes that credit insurers took a number of actions which have improved their resilience to shocks. Insurers have reduced their exposure by around 10% on average in 2020 and rebalanced their portfolio to maintain the average quality of these exposures. They have in particular targeted their actions on the sectors most affected by the crisis. At the same time, they are increasing prices to better reflect the current level of risks. These actions follow an already conservative stance taken in 2019 as insurers anticipated a downturn in the economy. Credit insurers have been able to implement these actions gradually without any negative impact on their franchise, taking benefit of government support to both their clients and themselves.

Nonetheless, their revenues have decreased, reflecting lower trade volumes globally and the reduced turnover of their clients. In addition, Moody's expects net results for 2020 to be significantly lower than in 2019. This is a result of higher combined ratios, but also of ad hoc reinsurance schemes offered by various governments to credit insurers, which have depleted the net revenue base of credit insurers and do not always compensate for their expenses. Because the claims environment was relatively benign in 2020, the government schemes will have a negative impact on insurers' results. The negative impact of government schemes on net profits will continue in 2021 as most of these schemes have been renewed, for at least six months. More positively, price increases and the rebound in the global economy will likely support growth in revenues.

COMPANY RATIONALES

Atradius

The A2 IFSR of Atradius' main operating companies reflect the group's strong market position as the second largest global credit insurer, strong economic capitalisation, underpinned by Atradius' dynamic management of insured exposure, and good underwriting profitability through the-cycle. These strengths are partially offset by Atradius' limited diversification beyond credit insurance which increases its susceptibility to economic stresses, and its concentrated exposure to the Spanish economy (Government of Spain, Baa1 stable), especially in terms of contribution to revenues and risks (13% of total exposure as at 30 September 2020) via Atradius Credito y Caucion S.A., the group's main operating company, domiciled in Spain. Atradius' insured exposure went down by 10% between 31 December 2019 and 30 September 2020 reflecting underwriting actions to reduce risks, with the decline reaching 20% in some sectors.

In the first nine months of 2020, Atradius reported a net combined ratio of 92.3%, up from 75.8% in the same period of 2019, and a net result of €41.5 million (€171.2 million in the first nine months of 2019). Revenues went down by 1%, but Atradius maintained a high retention rate throughout the year. The group's solvency ratio remained resilient in 2020.

Coface

The A2 IFSR of Compagnie Francaise d'Assurance pour le Comm., the lead insurance entity of Coface SA (Baa1 stable), reflects the group's good position in the global credit insurance industry, strong economic capitalisation, underpinned by Coface's dynamic management of insured exposure, and good underwriting profitability through the-cycle. These strengths are partially offset by its limited diversification from credit insurance, a cyclical and competitive industry, slightly higher investment risk relative to peers, and a higher proportion of emerging markets exposure relative to peers. The group's actions to reduce underwriting risks, led to a reduction in insured exposure of 9% in 2020.

In 2020, Coface reported a combined ratio of 79.8% up from 77.7% in 2019, and a net result of €82.9 million (€146.7 million in 2019). Revenues went down by 0.6% but the group achieved a record 92.9% retention rate in 2020. Coface's solvency ratio went up to 205% from 190% at year-end 2019. The ratio was in part supported by the non payment of dividend during the year and reinsurance government schemes.

Euler Hermes

Euler Hermes' Aa3 IFSR reflects its leading position in the credit insurance market globally, strong economic capitalisation, underpinned by Euler Hermes' dynamic management of insured exposure, and strong underwriting profitability through the-cycle. These strengths are partially offset by the company's limited diversification beyond credit insurance, an inherently cyclical and competitive industry with meaningful exposure to country-specific risks and the global economic environment, and its strong growth in the surety and bonding sector which is a longer term exposure that reduces its overall underwriting flexibility. Euler Hermes' rating also benefits from implicit and explicit support provided by its ultimate parent Allianz SE (Allianz, Aa3 stable). Euler Hermes took a number of underwriting actions to protect its economic capitalisation and offset the increase in claims and of insolvencies risks. In particular, the group's decreased its insured exposure and reported price increases at renewals of 5% in Q3 2020.

In the first nine months of 2020, Allianz reported a net combined ratio for its credit insurance business of 96.2%, up from 81% in the same period of 2019, and an operating profit of €105 million (€346 million in the first nine months of 2019). Revenues went down by 5.9%, mostly explained by a decrease in policyholders' turnover.

Clal

The A3 IFSR of Clal reflects its strong market position in Israel, very good underwriting flexibility, strong capitalisation and good underwriting profitability through the-cycle. In addition, Clal benefits from affiliation with the Atradius group the second largest global credit insurer, which holds a minority stake in Clal and provides significant reinsurance capacity. These strengths are partially offset by Clal's small market share relative to its global credit insurance peers and concentrated exposure to the Israeli market, which elevates Clal's susceptibility to the risk of significant financial distress in Israel. Clal is majority owned by Clal Insurance Company – one of the largest multi-line insurance group's in Israel.

Similar to its global credit insurance peers, Clal took significant actions to reduce its exposure to higher risk sectors and buyers over the course of 2020, limiting the extent of claims incurred due to the coronavirus disruption. In addition, Clal benefited from the Government of Israel's credit insurance top-up scheme, which enabled Clal and other credit insurers to offset some of its exposure to higher risk buyers. While Moody's expects corporate insolvencies and credit insurance claims to rise as government support is phased out, the portfolio actions that Clal has taken will limit the impact on its profitability and capital.

ICIC

The A3 IFSR of ICIC reflects its standalone credit profile and one notch of support due to implicit and explicit support from its joint-parent companies, Euler Hermes and Harel Insurance Investments and Financial Services Ltd. (Harel). Explicit support is evidenced by ICIC's cession of a significant (50%) quota-share to Euler Hermes and a capital maintenance agreement in favour of ICIC from the parent entities. In addition, ICIC's operations and marketing activities are closely integrated with both Euler Hermes and Harel, including ICIC's integration into Euler Hermes' buyer risk and underwriting platform, adding to our expectation of support from the parent entities, if required.

ICIC's standalone credit profile reflects its leading market position in Israel, strong capitalisation and very good underwriting profitability through the-cycle. In addition, ICIC benefits from significant global diversification of its credit insurance exposures and very good underwriting flexibility. These strengths are partially offset by ICIC's modest size relative to its global credit insurance peers, predominant focus on the Israeli market and concentrated exposure to the Israeli corporate sector through its domestic credit insurance business and investment portfolio.

Similar to its global credit insurance peers, ICIC took significant actions to reduce its exposure to higher risk sectors and buyers over the course of 2020, limiting the extent of claims incurred due to the coronavirus disruption, albeit that its overall exposure has increased slightly over the course of 2020 as the company expanded its market share. In addition, ICIC also benefited from the Government of Israel's credit insurance top-up scheme.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

In Moody's view, the fortunes of the trade credit insurers tend to be similarly impacted by global economic shocks, although differentiated outcomes could emerge as the impact of the coronavirus unfolds. As such, Moody's stated that the unsupported ratings could face downward rating pressure in the event of claims trending significantly higher than was observed during the 2008/09 financial crisis, which is one key benchmark against which the credit insurers capital adequacy has been measured. Similarly, ratings could be weakened if credit insurers were not able to implement efficient underwriting actions in case of an increase in the level of insolvencies, or if they relaxed underwriting discipline before the uncertainties in the economic environment came down.

In addition, the following rating drivers apply to individual companies:

Atradius

The following could lead to a downgrade in Atradius' ratings: (i) material deterioration in underwriting profitability, with a 5-year combined ratio consistently above 95% through-the-cycle, (ii) material decline in capital adequacy, including Solvency II capital coverage decreasing below 150% with limited ability to improve capitalisation in the near term, (iii) financial leverage consistently exceeding 30%, (iv) significant erosion of the company's market position and franchise, or (v) meaningful weakening in the credit profile of its parent, Grupo Catalana Occidente (GCO) or the Spanish sovereign.

The following could lead to an upgrade in Atradius' ratings: (i) a meaningful improvement in market share without deterioration in profitability and quality of exposure, (ii) an improvement in the group's business diversification towards a higher proportion of fee-based services, (iii) an increased geographic diversification.

Coface

The following could lead to a downgrade in Coface's ratings: (i) material deterioration in underwriting profitability, with a 5-year combined ratio consistently above 95% through-the-cycle, (ii) material decline in capital adequacy, including Solvency II capital coverage decreasing below 150% with limited ability to improve capitalisation in the near term, (iii) financial leverage consistently exceeding 30% or a significant increase in the company's operational debt, (iv) significant erosion of the company's market position and franchise, (v) higher than expected losses on its investment portfolio.

The following could lead to an upgrade in Coface’s ratings: (i) improvement in the group’s business diversification towards a higher proportion of fee-based services, (ii) a meaningful improvement in market share without deterioration in profitability and quality of exposure, (iii) higher levels of actual and target capitalisation, together with a low level of investment risk.

Euler Hermes

Given that Euler Hermes' Aa3 IFSR benefits from support provided by Allianz, we do not believe there is currently upside to Euler Hermes' rating, potentially aside from an upgrade in the rating of its parent. Similarly, due to the 100% ownership by Allianz, the key driver of negative pressure on Euler Hermes' IFSR would be a downgrade of Allianz's ratings, or a change in the nature and extent of support expected from Allianz. That notwithstanding, the following factors could lead to negative pressure on Euler Hermes' standalone credit profile: (i) material deterioration of earnings and operating performance resulting in a combined ratio in excess of 90%, over a sustained period of time, (ii) a material decline in capital adequacy, including Solvency II capital coverage decreasing below 150% with limited ability to improve capitalisation in the near term, or (iii) significant erosion of the company's market position and franchise.

Clal

The following could lead to an upgrade of Clal’s rating: (i) significant implicit and explicit support from a higher rated parent entity, (ii) significant growth in Clal's scale and global footprint that significantly reduces the company's exposure to Israel, both in terms of insured risk and the credit insurance market.

Conversely, the following could lead to a downgrade of Clal's rating: (i) significant reduction in capitalization over a one year period, (ii) a material decline in profitability with the combined ratio consistently above 90%, (iii) weakening of Clal's market position in the Israeli credit insurance market, (iv) material changes to the level of protection from Clal's reinsurance program, including reduction in the number of reinstatements available on the excess-of-loss protection, and (v) indications of diminished willingness or a deterioration in the ability of Clal Insurance Company to provide support to Clal.

ICIC

The following could lead to an upgrade of ICIC’s rating: (i) increased support from Euler Hermes, and to a lesser extent Harel, (ii) growth in ICIC’s export business and/or global footprint that significantly reduced the company’s exposure to Israel, both in terms of insured risk and the credit insurance market, (iii) stabilisation of Solvency II capital level consistently above 275% without transitional provisions.

Conversely, the following could lead to a downgrade of ICIC’s rating: (i) indications of diminished willingness or ability of Euler Hermes or Harel to provide support to ICIC, including a downgrade of Euler Hermes’ IFSR or evidence of financial weakness at Harel, (ii) significant reduction in capitalization over a one year period, or Net Underwriting Leverage above 1x, or ICIC’s Solvency II ratio below 200%, (iii) a material decline in profitability with the combined ratio consistently above 95%, (iv) weakening of ICIC’s market position such that it is consistently below 35% of the Israeli credit insurance market, (v) material changes to the level of protection from ICIC’s reinsurance program.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Trade Credit Insurers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187570. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1000004259 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody’s disclosures on the following items:

- Endorsement
- Rating Solicitation
- Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Disclosure to Rated Entity

• Lead Analyst

• Releasing Office

For further specification of Moody’s key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody’s Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody’s general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody’s disclosures on the lead rating analyst and the Moody’s legal entity that has issued the ratings.

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