



RATING ACTION COMMENTARY

Fitch Affirms Groupama at IFS 'A'; Outlook Stable

Tue 19 May, 2020 - 10:43 ET

Fitch Ratings - Paris - 19 May 2020: Fitch Ratings has affirmed Groupama Assurances Mutuelles's (Groupama) and core subsidiaries' Insurer Financial Strength (IFS) Ratings at 'A' ('Strong') and Issuer Default Ratings (IDR) at 'A-'. The Outlooks are Stable.

A full list of rating actions is detailed below.

KEY RATING DRIVERS

The rating actions are based on Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, under a set of rating assumptions described below. These assumptions were used by Fitch to develop pro-forma financial metrics for Groupama that are compared with both rating guidelines defined in its criteria, and relative to previously established Rating Sensitivities for Groupama.

Our pro-forma analysis did not result in a change in our overall assessment of Groupama's creditworthiness. The ratings continue to reflect Groupama's sustained strong capitalisation and leverage and a very strong business profile in the French insurance sector. The ratings also reflect steady profitability and moderate investment risk.

Under our pro-forma analysis, we continue to view Groupama as strongly capitalised for its current ratings, with financial capital ratios marginally weaker than those reported in its 2019 results. Capitalisation, as measured by Fitch's Prism Factor-Based Model (FBM), remains "Very Strong" in our rating case, unchanged from the score achieved at end-2019. We nevertheless expect capital metrics, notably Solvency 2 ratio, to face pressure in the short- to medium-term owing to severe volatility in equities and fixed-income markets.

The pro-forma Fitch-calculated financial leverage ratio (FLR, 26% at end-2019) remains below our 32% rating sensitivity and within Fitch's criteria guidelines range of 24%-31% for the 'A' rating category.

Our pro-forma analysis of investment & asset risk highlights a high sensitivity to the rating of Italian sovereign debt (BBB-/Stable), which is a material exposure of the group, representing 84% of IFRS equity. Equity exposure is, however, lower than that of peers.

Our rating case analysis suggests a moderate weakening in operating earnings and a modest but positive net result. We expect Groupama's net income return on equity (ROE) to normalise to a run-rate of around 5% in 2021 as the pandemic-related adverse business and capital market conditions ease.

KEY ASSUMPTIONS

Assumptions for Coronavirus Impact (Rating Case):

Fitch used the following key assumptions, which are designed to identify areas of vulnerability, in support of the pro-forma ratings analysis discussed above:

--Decline in key stock market indices by 35% relative to 1 January 2020.

--Increase in two-year cumulative high-yield bond default rate to 13%, applied to current non-investment grade assets, as well as 12% of 'BBB' assets.

-- For the non-life and reinsurance sectors, a negative impact on the industry-level accident year loss ratio from COVID-19-related claims at 3.5pp, partially offset by a favourable impact from the auto line averaging 1.5pp.

--A coronavirus infection rate of 5% and a mortality rate (as a percent of infected) of 1%.

--A slightly declining investment margin, reflecting both upward and downward pressure on interest rates, with spreads widening and notable declines in government rates.

RATING SENSITIVITIES

The ratings remain sensitive to a material change in Fitch's rating-case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is made available on the medical aspects of the outbreak. A discussion of how ratings would be expected to be impacted under a set of stress-case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-- A material adverse change in Fitch's rating assumptions with respect to the coronavirus impact.

-- Deterioration in Groupama's capital position, as measured by a Prism FBM score falling to the lower end of the 'Strong' category.

-- FLR rising above 32%.

-- Significant increase in investment risk.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- A material positive change in Fitch's rating assumptions with respect to the coronavirus impact.

-- A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of Groupama.

-- Prism FBM score remaining at 'Very Strong' on a sustained basis, Solvency 2 ratio remaining above 160% and FLR below 28%.

-- Sustainably strong operating performance, as evidenced by a combined ratio consistently below 99%.

Stress Case Sensitivity Analysis

-- Fitch's stress case assumes a 60% stock market decline, two-year cumulative high-yield bond default rate of 22%, high-yield bond spreads widening by 600bp, more prolonged declines in government rates, heightened pressure on capital-market access, a coronavirus infection rate of 15% and mortality rate of 0.75%, and an adverse non-life industry-level loss ratio impact of 5pp.

-- The implied-rating impact under the stress case would be a downgrade of no more than one notch.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being

managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

ENTITY/DEBT	RATING		
Groupama Assurances Mutuelles	LT IDR	A-	Affirmed
	Ins Fin Str	A	Affirmed
● subordinated	LT	BBB	Affirmed
Gan Assurances	Ins Fin Str	A	Affirmed
Groupama Gan Vie	Ins Fin Str	A	Affirmed

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.1 (1)

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Groupama Assurances Mutuelles	EU Issued
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