18 JUL 2022

Fitch Rates Malakoff Humanis Prevoyance IFS 'A+'; Outlook Stable

Fitch Ratings - Paris - 18 Jul 2022: Fitch Ratings has assigned Malakoff Humanis Prevoyance an Insurer Financial Strength (IFS) Rating of 'A+' (Strong) and a Long-Term Issuer Default Rating (IDR) of 'A'. Fitch has also assigned the central body of the group, SGAM Malakoff Humanis, a Long-Term IDR of 'A'. All Outlooks are Stable.

Key Rating Drivers

The IFS Rating of Malakoff Humanis Prevoyance is based on a group consolidated assessment of the SGAM Malakoff Humanis's (MH) group. Fitch views Malakoff Humanis Prevoyance as 'Core' to the MH group, given its very strong integration within the group and the core nature of its business.

The rating of Malakoff Humanis Prevoyance reflects the group's strong company profile and a very strong capitalisation and leverage, which are partially offset by fairly high investment risks and low profitability for the rating category.

Strong Company Profile: We rank MH's business profile as 'Moderate' compared with that of other French insurers, driven by a leading competitive position in the group's health and protection market in France. This is partly offset by moderate diversification and business-risk profile relative to peers'. MH is a paritarian institution ('groupe paritaire') that is managed by its social partners with a strong societal engagement. Under the 'SGAM' legal structure, the affiliated companies are bound by solidarity mechanisms, which we view as strong and effective.

Very Strong Capitalisation and Leverage: MH is strongly capitalised for its ratings, as reflected in a Fitch's Prism Factor-Based Capital Model (FBM) score of 'Extremely Strong' at end-2021. However, the Prism FBM capital score is sensitive to the level of unrealised capital gains. The Solvency 2 (S2) ratio was 210% without transitional measures at end-2021 (206% at end-2020). The ratio's fairly high sensitivity to interest-rate changes positions MH favourably in a rising interest-rate environment. Financial leverage ratio (FLR), as calculated by Fitch, was negligible, at 4% at end-2021.

Low Profitability: As a well-capitalised organisation driven by paritarian and mutual values, MH has little need for high returns on capital. Return on equity (ROE) increased to 4.1% in 2021 (2020: -2.8%). On a run-rate basis, we expect ROE to be at around 2%-3%. The group's combined ratio (CR) was 102.6% in 2021 (102.5% in 2020). We view management's CR target of 100%-101% as a credible objective in a challenging insurance claims and regulatory environment.

High Investment Risk: MH's risky asset ratio was 105% at end-2021 (2020: 89%), which is fairly high for the rating. This is largely due to its high exposure to equities, although this is not uncommon practice in the French market. This does not materially impair the group's credit profile, in our view, given its very strong capitalisation.

RATING SENSITIVITIES

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

The ratings could be upgraded if MH builds a record of stable earnings, as reflected in an ROE above 3%, while maintaining a very strong capitalisation as reflected in a S2 ratio of at least 200%

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

-The ratings could be downgraded if the S2 ratio deteriorates to below 160% or if the group's Prism score weakens to the lower-end of the 'Very Strong' category on a sustained basis. This could result, for example, from substantial deterioration in underwriting performance, adverse reserve developments or material investment losses, with limited prospects for recovery

-A substantial erosion in the group's franchise and market position could also lead to a downgrade

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond 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

Date of Relevant Committee

29-Jun-2022

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Malakoff Humanis Prevoyance	LT IDR	A	New Rating		
	Ins Fin Str	A+	New Rating		
SGAM Malakoff Humanis	LT IDR	A	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		

RATINGS KEY	OUTLOOK	WATCH
EVOLVING	◇	◆
STABLE	○	

Applicable Criteria

Insurance Rating Criteria (pub.26 Nov 2021) (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, v1.7.2 (1)

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Solicitation Status

Endorsement Status

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