

RATING ACTION COMMENTARY

Fitch Upgrades Ethias' IFS to 'A'; Outlook Positive

Thu 03 Jun, 2021 - 10:26 ET

Fitch Ratings - Paris - 03 Jun 2021: Fitch Ratings has upgraded Ethias SA's (Ethias) Insurer Financial Strength (IFS) Rating to 'A' from 'A-' and Ethias' Issuer Default Rating (IDR) to 'A-' from 'BBB+'. The Outlooks are Positive.

A full list of rating actions is below.

KEY RATING DRIVERS

The upgrade reflects Fitch's view that Ethias has consolidated its very strong capitalisation, its low leverage and strong operating performance since it completed a multi-year action plan in 2018. The ratings actions also consider the resilience of these factors during the coronavirus pandemic. Ethias' ratings also reflect a strong business profile.

The Positive Outlook reflects Fitch's view that the group could achieve a combined ratio sustainably below 95%, while maintaining its very strong capitalisation and low leverage

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stable at 18% at end-2020 (end-2019: 19%), which compares favourably relative to Fitch's criteria guidelines for the 'A' rating category.

Fitch assesses Ethias' overall financial performance as strong, reinforced by a rise in operating income to EUR260 million in 2020 from EUR207 million in 2019. This was driven by an improved net combined ratio of 93.3% (end-2019: 97.6%) following lower claims frequency in motor and workers' compensation and a positive result of portfolio adjustments. As a result, the company's Fitch-calculated return on equity (ROE) remained strong at 7.3% at end-2020 (2019: 8.5%).

Ethias's strong business profile is underpinned by the company's solid position in the Belgian insurance market, where it is the fourth-largest insurer. Ethias is a direct insurer and the leading insurer in the public sector. The company has a balanced business mix but is almost exclusively active in Belgium.

Fitch views Ethias' non-life reserve adequacy as strong. Reserve releases have been positive over the five-year period to end-2020. Ethias also elected to further strengthen its reserves in 2020.

Ethias manages the duration gap of its life-insurance liabilities and assets at below one year, having previously reduced its exposure to interest-rate risk resulting from historically high minimum guaranteed returns.

RATING SENSITIVITIES

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

--A combined ratio sustained below 95%, while Prism FBM score remains "Very Strong" and FLR remains at or below 20%.

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

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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>

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

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Ethias SA	LT A- Rating Outlook Positive Upgrade IDR	BBB+ Rating Outlook

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ENTITY/DEBT	RATING	PRIOR
● subordinated	LT BBB	Upgrade BBB-

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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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Ethias SA

EU Issued, UK Endorsed

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