

RATING ACTION COMMENTARY

Fitch Affirms Ethias at IFS 'A-'; Outlook Stable

Tue 19 May, 2020 - 09:19 ET

Fitch Ratings - Paris - 19 May 2020: Fitch Ratings has affirmed Ethias's Insurer Financial Strength (IFS) Rating at 'A-' (Strong) and Issuer Default Rating (IDR) at 'BBB+'. The Outlooks are Stable. A full list of rating actions is below.

KEY RATING DRIVERS

The affirmation is 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 Ethias that Fitch compared with both ratings guidelines defined in its criteria, and relative to previously established Rating Sensitivities for Ethias.

Our pro-forma analysis did not result in a change in our assessment of Ethias's creditworthiness. The ratings primarily reflect Ethias's strong capitalisation and leverage, good profitability and strong business profile.

Under our pro-forma analysis, we continue to view Ethias as strongly capitalised for its rating, with financial capital ratios marginally weaker than

those reported in 2019 results. The Prism Factor-Based Model (FBM) score is estimated at "Extremely Strong" (excluding dividends) at end-2019 (2018: "Very Strong") and remains in excess of the 'A' benchmark in our rating case analysis. We expect Ethias's Solvency 2 ratio (191% at end-2019, excluding dividends) to remain above the 160% risk tolerance limit. The ratio remains sensitive to Belgian sovereign bond spread risk.

The pro-forma Fitch-calculated financial leverage ratio (FLR, 19% at end-2019) is only marginally weaker in our rating case analysis, remaining well below the 35% rating sensitivity.

Our rating case analysis suggests manageable COVID-19 related claims, resulting in a moderate weakening in operating earnings and net income return on equity (ROE). We expect post-crisis profitability metrics to be consistent or exceed the 2019 levels, assuming a recovery of market and business conditions and a combined ratio at or below the 95% target (2019: 97.6%).

Ethias has a strong balance sheet liquidity position, enhanced by unused repo capacity and no debt maturities before 2023.

KEY ASSUMPTIONS

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 COVID-19 infection rate of 5% and a mortality rate (as a percentage of infected) of 1%.

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

RATING SENSITIVITIES

The ratings remain sensitive to any 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 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.

-- Prism FBM score falling to 'Adequate'

-- FLR rising over 35%

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.

-- Positive rating action would be prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of Ethias.

-- Sustainable "Very Strong" Prism FBM score,

-- FLR remaining at or below 20%

-- Return on equity above 8% for a sustained period.

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 and more prolonged declines in government rates, heightened pressure on capital markets access, a COVID-19 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.

RATING ACTIONS

ENTITY/DEBT	RATING		
Ethias SA	LT IDR	BBB+	Affirmed
	Ins Fin Str	A-	Affirmed
● subordinated	LT	BBB-	Affirmed
● preferred	LT	BBB-	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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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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