



RATING ACTION REPORT

02.October.2017

## Dagong Affirms and Withdraws the Long-Term and Short-Term Credit Ratings of Euler Hermes SA

Dagong Europe affirms the 'AA-' Long Term Credit Rating and equivalent Short Term Credit Rating of 'A-1' on Euler Hermes SA, based in Belgium. The Outlook is also affirmed as Stable. At the same time, the ratings are withdrawn following the client's request.

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### RATING RATIONALE

The affirmation of the Long-Term Credit Rating of 'AA-' reflects an Individual Financial Strength Assessment (IFSA) of 'a+' and External Support Assessment (ESA) of 'High', resulting in a one-notch uplift, based on the support from its parent and major stakeholder Allianz Group, via its operating holding entity Allianz SE (Allianz). The IFSA reflects the Very Strong and resilient financial profile of EH, its prudent risk management practices and large capital base. The rating is also supported by EH's leading competitive position in the credit insurance industry, coherent development strategy and its strong execution. These strengths are partially constrained by EH's mono-line business model (trade credit insurance), the potentially high product risk and sensitivity to economic cyclicality. The main considerations for the IFSA are:

- **Satisfactory operational environment:** Being a very international company, EH is exposed to increased geopolitical risks, currency fluctuations, volatile economic growth and increasingly frequent changes in international and domestic trade regulations. We see the industry development potential for credit insurance as 'Satisfactory' since it is negatively affected by increasing competition in the sector, weakening profitability and high cost of operations in smaller and developing markets. The current low interest rate environment also adds pressure on industry's profitability. These negative aspects are partially offset by Strong and well-established regulatory and legal frameworks for insurance business in the core European countries and improving economic outlook.
- **Successful strategy and Very Strong competitive position:** In our view, EH can count on a very experienced management team and a long-standing track record of successful execution of strategies and achieved goals. It is the leading player in the global credit insurance sector with a market share of above 30% and Strong geographical diversification. For 2017-18 we expect a low level of growth in premiums at about 1%-2% due to volatile economic environment, increasing risks and the company's strategic focus on protecting profitability.
- **Very Strong risk management:** Our view is based on very well developed risk management framework, supported by prudent underwriting policies. The implemented sophisticated risk management tools help EH to mitigate high tail risks and reduce volatility of earnings and capital. EH has a proven ability to identify and react to early signs of deterioration in the country, sector or buyers' risk profile and reduce its exposures to prevent large losses.

- **Very Strong financial performance, supported by Very Strong profitability but exposed to earnings volatility:** EH continues to show a solid track record of high, although slowly reducing profitability, due to lower investment returns, with a three-year average return on assets at 5.1%<sup>1</sup> and return on equity of 11.2%. EH's technical performance is stable and robust, considering its exposure to high severity risks and sensitivity to the macroeconomic environment. The net combined ratio was stable and stood at 79.3% 1H17 and a three-year average at 79.1% (2014-16).
- **Excellent level of capital:** EH maintains a large, stable and high-quality capital base, consisting primarily of shareholder equity. It stands at 45.7% relative to its total assets adjusted<sup>2</sup>. The capital is managed at group level for economic and risk management purposes. By 1H17, the Solvency II ratio at the EH group level stood at 165%, slightly above the target of 160%. Due to the volatile nature of the credit insurance business, we believe the main risks to EH's capital could come from a significant deterioration in the credit risk of buyers, and severe losses outside of the current reinsurance protection structure.

The affirmation also reflected our view on the potential external support from Allianz, Euler Hermes' major shareholder, as 'High'. In our view, EH is a strategically important and a highly integrated member of the Allianz Group. It provides high returns, diversification and growth opportunities for the parent. In addition, with its specialised niche products, EH supplements Allianz's value proposition and enables a full product range offer for its corporate client segment, from retail to risk management solutions.

#### RATING OUTLOOK

The outlook at the time of withdrawal was Stable, reflecting our expectations that EH will maintain and strengthen its competitive position, prudently manage increasing risks and growth in emerging markets, and at the same time maintain a large capital base and Very Strong profitability over the cycle. We anticipate return on equity to be around 11% and a net combined ratio within 75%-85% range in 2017-18.

#### EULER HERMES BUSINESS PROFILE

EH is a global leader and specialist in the niche credit insurance market with over 30% market share and also provides bonding, guarantees and collection services.

With over 100 year's history the group has evolved and grown significantly boosted by M&A's and JV's. EH is present in more than 50 countries and has exposure in most of the countries in the world with the majority of premiums coming from Europe, the largest trade credit insurance market that represented over 70% of the group's turnover in 2016.

The group's organizational structure has been significantly streamlined in 2010-2014, while the optimisation process is still ongoing. During these years, the group became highly centralised and has largely the same processes, risk management, IT, underwriting across all of its operations.

In addition, it leverages on its global trade market knowledge by providing important business information to companies and helping them to manage their trade receivables through payments monitoring and collection services.

#### FULL LIST OF SOLICITED RATINGS ASSIGNED

##### Ratings Affirmed

##### **Euler Hermes SA**

Long-Term Credit Rating (FC&LC)	AA-
Outlook	Stable
Short-Term Credit Rating (FC&LC)	A-1
IFSA	a+
ESA	High, Group Support

<sup>1</sup> All ratios in this document are based on Dagong Europe calculations, unless stated differently. The financial data is taken from Euler Hermes Group SA financial statements and presentations. Where possible we use the most recent available or restated data.

<sup>2</sup> Total assets adjusted exclude Reinsurance assets from Total assets.

FC & LC: Foreign Currency and Local Currency

### **Ratings Withdrawn**

#### **Euler Hermes SA**

	<b><u>From</u></b>	<b><u>To</u></b>
Long-Term Credit Rating (FC&LC)	AA-	WR
Outlook	Stable	WR
Short-Term Credit Rating (FC&LC)	A-1	WR
IFSA	a+	WR
ESA	High, Group Support	WR

### **RATING HISTORY**

Ratings affirmed on 24 July 2017:

Euler Hermes SA AA-/A-1/Stable

Ratings affirmed on 26 July 2016:

Euler Hermes SA AA-/A-1/Stable

Ratings affirmed on 20 January 2016:

Euler Hermes SA AA-/A-1/Stable

Ratings affirmed on 20 January 2015:

Euler Hermes SA AA-/A-1/Stable

Ratings affirmed on 6 November 2014:

Euler Hermes SA AA-/A-1/Stable

Ratings withdrawn on 6 November 2014:

Euler Hermes France SA WR

Euler Hermes Deutschland AG WR

Ratings assigned on 20 January 2014:

Euler Hermes SA AA-/A-1/Stable

Euler Hermes France SA AA-/A-1/Stable

Euler Hermes Deutschland AG AA-/A-1/Stable

### **CRITERIA APPLIED**

- [Dagong Europe Criteria for Rating Insurance Companies, published on 10 July 2017](#)

### **OTHER REGULATORY DISCLOSURES**

- The List of Ratings included in this Rating Action Report were solicited and disclosed to the issuer(s).
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- This Rating Action Report was disclosed to the rated entity before being issued. Dagong Europe had provided a one advance copy to the issuer to review factual errors and unintentional release of confidential information. Dagong Europe maintains editorial control over the Rating Action Report, representing its independent opinion.

For any further information on criteria and procedures, please refer to the following links:

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