

# Dagong Europe Affirms 'AA-' Long Term Credit Rating on Euler Hermes SA, Outlook Stable

## *Rating Action Report*

Milan, 20 January 2015

Dagong Europe has affirmed the Long-Term Credit Rating of 'AA-' and equivalent Short-Term Credit Rating of 'A-1' on Euler Hermes group core subsidiary Euler Hermes SA, based in Belgium. The outlook is Stable.

### RATING RATIONALE

The Long-Term Credit Rating of 'AA-' combines 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 major stakeholder Allianz SE (Allianz). The IFSA reflects the very strong and resilient financial profile of Euler Hermes SA (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 strong execution. These strengths are partially constrained by EH's mono-line business model (credit and trade insurance), the potentially high product risk, and sensitivity to economic cyclicality. The main considerations for the IFSA are:

- **Strong operational environment:** Characterised by well-established legal and regulatory frameworks and strong potential for further industry development. These positive factors are partially offset by the weakening economic environment in the core European countries.
- **Successful strategy and strong competitive positioning:** Very experienced management team and long-standing track record of successful execution of strategies. Leading player in the global credit insurance sector with an over 30% market share. Going forward, we expect growth opportunities to come mainly from the US and emerging markets, particularly Asian.
- **Strong risk management:** Prudent underwriting and sophisticated risk-management tools mitigating high tail risks and protecting from volatility in earnings and capital. Its high geographic diversification in terms of credit exposure also reduces sensitivity to economic downturns.
- **Very strong profitability, but exposed to earnings volatility:** EH continues to show a solid track record of stable and resilient underwriting results with a proven ability to react to deterioration in the credit profiles of buyers. EH's overall technical performance is stable and robust in our view, considering its exposure and sensitivity to the macroeconomic environment, with a net combined ratio of 75.6% at 3Q14.
- **Very strong capital:** EH maintains a large, stable and high-quality capital base, consisting primarily of shareholder equity comfortably supporting growth needs, and providing a buffer against unfavourable losses. Capital is managed at consolidated level, with parental

#### Primary Analyst

Linas Grigaliunas  
Director Financial Institutions  
[linas.grigaliunas@dagongeuropa.com](mailto:linas.grigaliunas@dagongeuropa.com)

#### Back-up Analyst

Carola Saldias  
Sector Head  
Senior Director Financial Institutions  
[carola.saldias@dagongeuropa.com](mailto:carola.saldias@dagongeuropa.com)

#### Committee Chairperson

Richard Miratsky  
Sector Head  
Senior Director Corporates

supervision for economic and risk management purposes. We consider that the main risks to EH's capital potentially could come from a significant deterioration in the credit risk of buyers, and severe losses outside of reinsurance protection.

We regard the potential external support from the parent for Euler Hermes as 'High'. In our view, EH is a strategically important and a highly integrated member of Allianz, providing diversification, high returns and growth opportunities. In addition, with its specialised niche products, EH enables Allianz to provide a full product range, from retail to risk management solutions, for its corporate client segment.

#### **OUTLOOK - STABLE**

The stable outlook reflects our expectations that EH will maintain and strengthen its competitive positioning, deliver on its steady and controlled growth strategy in emerging markets, and maintain a large capital base and strong profitability over the cycle. We anticipate return on equity to be above 12% and a net combined ratio of 75-85%. We expect the excess capital buffer to reduce gradually due to organic growth and M&A activities.

#### **UPSIDE - DOWNSIDE POTENTIAL FOR THE RATING**

We would consider a positive rating action if EH successfully delivers on its growth strategy and strengthens its competitive positioning by increasing diversification, while maintaining its strong financial profile. We would also consider a positive rating action if the integration and shared customer base with its parent, Allianz, increases significantly.

We would consider a negative rating action if we observe weakened risk management practices or a significant reduction in EH's capital levels, which could derive from a high and persistent earnings deterioration due to greater than expected losses.

#### **EULER HERMES BUSINESS PROFILE**

EH is a global leader in the specialised niche credit insurance market. It wrote over 30% of global credit insurance premiums in 2013. The company specialises in credit insurance, which accounted for 81% of its turnover in 2013. EH is present in more than 50 countries and has exposure in most of the countries in the world. However, the majority of premiums come from Europe, which represented over 70% of turnover in 2013. The business model and services to clients are based on credit-trade insurance. In addition, it leverages on its global trade market knowledge by providing information and helping clients to manage credit risk and trade receivables, mainly through collection services and payment monitoring tools.

#### **FULL LIST OF SOLICITED RATINGS ASSIGNED**

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

Long-Term Credit Rating (FC&LC)	AA-
Short-Term Credit Rating (FC&LC)	A-1
Outlook	Stable

**FC & LC:** Foreign Currency and Local Currency

## RATING HISTORY

Ratings affirmed on 6 November 2014:  
Euler Hermes SA AA-/A-1/Stable

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, updated 5 December 2014](#)
- [Dagong Europe Ratings Definitions, published on 13 May 2014](#)

## CONTACTS

### Primary Analyst

Linas Grigaliunas  
*Director Financial Institutions*  
+390272746011  
[linas.grigaliunas@dagongeuropa.com](mailto:linas.grigaliunas@dagongeuropa.com)

### Back-up Analyst

Carola Saldias  
*Sector Head*  
*Senior Director Financial Institutions*  
+390272746011  
[carola.saldias@dagongeuropa.com](mailto:carola.saldias@dagongeuropa.com)

### Committee Chairperson

Richard Miratsky  
*Sector Head*  
*Senior Director Corporates*

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#### External Communications

Sidney Shin-Yi Dung

Chief Communications Officer

Tel +39 02 727460 38

[sidney.dung@dagongeuropa.com](mailto:sidney.dung@dagongeuropa.com)

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