

RATING ACTION COMMENTARY

Fitch Affirms Groupama at IFS 'A'; Outlook Stable

Tue 29 Sep, 2020

Fitch Ratings - Paris - 29 Sep 2020: Fitch Ratings has affirmed Groupama Assurances Mutuelles' (Groupama) and core subsidiaries' Insurer Financial Strength (IFS) Ratings at 'A' ('Strong') and Issuer Default Ratings (IDR) at 'A-'. The Outlooks on both IFS Ratings and IDRs is Stable.

A full list of rating actions is available below.

KEY RATING DRIVERS

The affirmation reflects primarily Groupama's very strong business profile, and strong capitalisation and leverage. These strengths are partially offset by sensitivity to interest-rate risk and Italian sovereign risk, which is higher than many of its peers'. Fitch expects the pandemic to have a limited adverse effect on Groupama, due to its earnings diversification and strong capital position.

Groupama has a very strong business profile in France, where the group holds important market positions in property and casualty (P&C), life, and health. Fitch ranks Groupama's business profile as 'Favourable' compared with that of other French insurance companies. Given this ranking, Fitch scores Groupama's business profile 'aa-' under its credit factor scoring guidelines.

Fitch views Groupama as strongly capitalised for its current ratings. Groupama scored 'Very Strong' at end-2019 under Fitch's Prism Factor-Based Capital Model (Prism FBM), unchanged from end-2018. Its reported Solvency II (S2) capital ratio, excluding transitional measures, fell to 152% at end-June 2020 from 178% at end-2019, but remained strong. The ratio is, however, also more sensitive to changes in interest rates than many of its peers. Including transitional measures, the regulatory ratio was 252%.

Groupama's financial leverage ratio (FLR) at end-2019 was 26%, which is within Fitch's criteria guidelines range of 24%-31% for the 'A' rating category. We expect the ratio to remain stable at end-2020.

Fitch assesses Groupama's overall financial performance as strong. For 1H20, Groupama reported a net income of EUR139 million (1H19: EUR106 million). The insurance operating result, as calculated by Groupama, increased 2%, driven by an improvement in non-life, notably outside of France, which more than offset deterioration in life and health.

In non-life, lower claims frequencies in home and motor insurance in 1H20 more than offset higher claims in the business lines most affected by the pandemic (business interruption, workers' compensation and trade-credit insurance), resulting in a net combined ratio of 97.9% (unchanged from 1H19).

Our assessment of investment and asset risk is sensitive to Italy's ratings (BBB-/Stable), which is a material exposure of the group at 85% of IFRS equity at end June-2020. Equity exposure is, however, lower than that of peers.

RATING SENSITIVITIES

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. -- Deterioration in Groupama's capital position, as measured by the Prism FBM score falling to the lower end of the 'Strong' category. -- FLR rising above 32%. -- Significant increase in investment risk. 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. -- A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of Groupama. -- Prism FBM score remaining at 'Very Strong' on a sustained basis, SII ratio above 160% and FLR below 28%. -- Sustainably strong operating performance, as evidenced by a combined ratio consistently below 99%.

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

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			PRIOR
Groupama Assurances Mutuelles	LT IDR	A- ●	Affirmed	A- ●
	Ins Fin Str	A ●	Affirmed	A ●
● subordinated	LT	BBB	Affirmed	BBB
Gan Assurances	Ins Fin Str	A ●	Affirmed	A ●
Groupama Gan Vie	Ins Fin Str	A ●	Affirmed	A ●

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

- Insurance Rating Criteria (pub. 25 Aug 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)

ADDITIONAL DISCLOSURES

- [Dodd-Frank Rating Information Disclosure Form](#)
- [Solicitation Status](#)
- [Endorsement Policy](#)

ENDORSEMENT STATUS

Gan Assurances	EU Issued
Groupama Assurances Mutuelles	EU Issued
Groupama Gan Vie	EU Issued

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