



RATING ACTION COMMENTARY

Fitch Affirms Groupama at IFS 'A+'; Outlook Stable

Tue 30 May, 2023 - 10:18 AM ET

Fitch Ratings - Paris - 30 May 2023: Fitch Ratings has affirmed Groupama Assurances Mutuelles' (Groupama) and core subsidiaries' Insurer Financial Strength (IFS) Ratings at 'A+' and Issuer Default Ratings (IDR) at 'A'. The Outlooks on both IFS Ratings and IDRs are Stable.

The affirmation reflects primarily Groupama's strong capitalisation and leverage as well as its very strong business profile.

KEY RATING DRIVERS

Very Strong Capitalisation: Groupama's capitalisation is a rating strength. The group's very strong Solvency II (S2) ratio improved to 207% at end-2022 without transitional measures, from 183% at end-2021, primarily driven by higher interest rates. Including transitional measures, the regulatory ratio was 282% at end-2022. The sensitivity of the S2 ratio to interest-rate changes fell significantly in 2022.

Fitch's Prism Factor-Based Capital Model (Prism FBM) deteriorated to 'Very Strong' at end-2022 from 'Extremely Strong' at end-2021, due to a lower capital base as higher interest rates turned unrealised capital gains into unrealised capital losses. This was partly offset by Fitch adding back 50% of the negative revaluation reserve to available capital, reflecting our view that a large portion of fixed-income unrealised losses will be recaptured in shareholder equity over time. We expect Groupama's capitalisation to remain very strong in 2023.

Moderate Leverage: The Fitch-calculated financial leverage ratio (FLR) improved to 26% at end-2022 from 28% at end-2021, benefitting from the partial buy-back of grandfathered Tier 1 perpetual subordinated debt as well the same partial credit for unrealised losses as the one made in Prism. We expect the ratio to remain broadly stable in 2023 and well within Fitch's criteria guidelines range for the 'a' rating category for FLR.

Very Strong Company Profile: Fitch ranks Groupama's business profile as 'Favourable' compared with that of other French insurance companies. This assessment reflects its position as one of the largest insurance groups in France with a strong, well-established, diversified franchise across several business lines.

Strong Profitability: Groupama's record of stable profitability, supported by diverse earning sources, underpins our assessment of its financial performance. The non-life combined ratio (CR) deteriorated to 99.4% in 2022 from 97.8% in 2021, primarily driven by high inflation and weather-related losses. By contrast, life & health operating earnings, which is the main contributor to earnings, improved on higher interest rates. We expect overall better operating profitability in 2023, assuming normal levels of natural catastrophe losses and that price increases together with other measures will be sufficient to offset claims inflation.

Moderate Investment Risk: Fitch views Groupama's investment and asset risk as moderate and commensurate with its ratings. We believe that the increase in risky assets-to-capital ratio to 88% at end-2022 from 70% at end-2021 does not reflect higher investment risk but rather lower shareholder equity. However, a material exposure to Italian sovereign bonds (BBB/Stable), representing 12% of the group's fixed-income portfolio and 80% of IFRS equity, adds potential volatility to the group's balance sheet.

Strong Reserve Adequacy, Well-Managed ALM: Fitch views Groupama's reserve adequacy as strong. Reserve strengthening to account for higher inflation in 2022 was largely offset by releases of non-life annuity reserves (eg motor liability) due to higher interest rates. Non-life reserve releases were positive over the five-year period to end-2022. Fitch views Groupama's asset and liability management (ALM) risk as well-managed, as reflected in a strong liquidity risk profile, reduced duration gap (3.3 years on the life book) and a very low average guaranteed rate of 0.9%.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

-Sustained improvements in profitability, as reflected in a return on equity (ROE) above 7%, while FLR falls below 25%, the S2 ratio remains above 180% or Prism FBM score remains 'Very Strong' and investment risk remains moderate

Factors that Could, Individually or Collectively, Lead to Negative Rating

Action/Downgrade:

-Deterioration in the capital position, as measured by the Prism FBM score falling below 'Very Strong' on a sustained basis, or a group S2 ratio falling below 150% with limited prospects for recovery

-FLR rising above 30%

-Significant increase in investment risk, as underlined by a risky asset-to-capital ratio deteriorating to above 110%, which could result from a downgrade of Italy's rating to below investment grade.

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 ⚡
Groupama Assurances Mutuelles	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
subordinated	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
Gan Assurances	LT	BBB+ Affirmed	BBB+
Gan Assurances	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
Groupama Gan Vie	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 (1)

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Gan Assurances

EU Issued, UK Endorsed

Groupama Assurances Mutuelles

EU Issued, UK Endorsed

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