

Research Update:

Covea Group Core And Guaranteed Subsidiaries 'AA-' Ratings Affirmed On Plan To Acquire PartnerRe; Outlook Remains Stable

October 29, 2021

Overview

- France-based mutual insurer Covea has announced plans to buy Bermuda-based reinsurer PartnerRe for \$9 billion (about €7.7 billion) in an all-cash deal that is expected to be finalized by mid-2022.
- This acquisition, in our opinion, will broaden the group's business and geographic diversification, but Covea's exposure to large catastrophe claims will likely increase.
- We therefore affirmed our 'AA-' ratings on the core and guaranteed subsidiaries of the Covea group.
- The stable outlook reflects our projection that the group will maintain capital adequacy above the 'AAA' level including the transaction in our forecast period, and that it will successfully integrate PartnerRe's reinsurance activities.

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Rating Action

On Oct. 29, 2021, S&P Global Ratings affirmed its 'AA-' long-term insurer financial strength and issuer credit ratings on the core and guaranteed subsidiaries of the Covea group (see "Ratings List" below for further details). The outlook remains stable.

Outlook

The stable outlook reflects our expectation that over the next two years, the Covea group will be able to successfully integrate PartnerRe's reinsurance activities and benefit from the broad diversity PartnerRe adds to the consolidated group, which will allow strong and stable earnings. It also reflects our expectation for excellent and organically increasing capital buffers, as well as prudent underwriting, investment, and reserving policies. The outlook further incorporates our view that the group will be able to withstand the potential negative effects of changing regulation

and stiff competition in the French property/casualty market, thanks to its strong brands, large scale, and client and product diversity.

Downside scenario

We could lower our ratings over the next two years if:

- The integration of PartnerRe generates unexpected losses, affecting the Covea group's fundamental strengths;
- The group's operating performance deteriorates markedly relative to peers' over a protracted period, as indicated, for example, by a multiyear sustained deterioration of the combined ratio (loss and expense) materially above 100%; or
- Projected capital and earnings deteriorate for a sustained period, which could happen if the group increases its risk or experiences severe investment or underwriting losses, or if its growth strategy, including further acquisitions, leads to materially reduced capital strength.

Upside scenario

An upgrade is unlikely in the next two years and would hinge on buffers being rebuilt, on top of excellent capital adequacy, thanks to strong and diversified retained earnings--above those of similarly rated peers--and a controlled risk appetite.

Rationale

With the acquisition of PartnerRe, Covea will change its business mix. In addition to maintaining its market-leading position in the French non-life insurance market, the group will add significant international reinsurance business to its portfolio.

We believe the addition of PartnerRe to the existing MMA, MAAF, and GMF brands enhances the group's reputation and the diversity of Covea's business risk profile by region and by line of business. Further, this acquisition strengthens the combined group's ability to generate solid earnings, thereby mitigating the risks arising from concentrated exposure to the French market. The combined group is expected to generate €22 billion to €25 billion in gross written premium in 2022, with PartnerRe contributing about 25% of the group's revenue. Under our base case, we assume the group can post net profits of €1.1 billion to €1.8 billion in 2022-2023.

Nevertheless, in our opinion, some of PartnerRe's reinsurance activities--specifically, those exposed to natural catastrophes--raise the risk of capital and earnings volatility for the group, which is reflected in our revised view of the group's combined risk exposure. We believe Covea's capital will recover above our 'AAA' capital threshold by 2023, despite the significant \$9 billion cash payment for PartnerRe. For this reason, we assume the combined group's projected capital and earnings will still be able to withstand extreme stress.

We expect the combined balance sheet of the group to no longer be free of financial debt, but we don't expect negative developments in leverage and coverage, given the manageable amount of debt brought by PartnerRe.

Ratings Score Snapshot

	To	From
Business risk profile	Very strong	Strong
Competitive position	Very strong	Strong
IICRA	Intermediate risk	Intermediate risk
Financial risk profile	Very strong	Excellent
Capital and earnings	Excellent	Excellent
Risk exposure	Moderately high	Moderately low
Funding structure	Neutral	Neutral
Anchor*	aa-	aa-
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Financial strength rating	AA-	AA-

*This is influenced by our view on the challenges of smoothly integrating a new and very different business while continuing to generate strong and stable earnings, leading to material capital accumulation.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

Ratings Affirmed

Covea Cooperations

MMA Vie

MMA IARD S.A.

MAAF Vie

GMF Vie

Issuer Credit Rating

Local Currency AA-/Stable/--

Covea Cooperations

MMA Vie

MMA IARD S.A.

MAAF Vie

GMF Vie

Covea Life Ltd.

Covea Insurance PLC

Financial Strength Rating

Local Currency AA-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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