Research Update:

# Covéa's Core And Guaranteed Subsidiaries Affirmed At 'AA-' And PartnerRe At 'A+' On Revised Capital Model Criteria

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## Overview

- Based on our revised criteria for analyzing insurers' risk-based capital ("Insurer Risk-Based Capital Adequacy--Methodology And Assumptions") published Nov. 15, 2023, we consider that the capital adequacy of France-based mutual insurer Covéa remains excellent.
- In addition, we now regard PartnerRe's operating entities (PartnerRe) as highly strategic rather than strategically important to Covéa Group, owing to our view of the group's strong support for the company if needed, which can offset potential pressures on PartnerRe's stand-alone credit profile.
- We therefore affirmed our 'AA-' ratings on the core and guaranteed subsidiaries of the Covéa group, as well as our 'A+' rating on PartnerRe.
- The stable outlook reflects our view that Covéa Group can maintain excellent capital adequacy and benefit from strong earnings over the cycle, enhanced by the diversity PartnerRe adds to the consolidated group.

## Rating Action

On Jan. 29, 2024, S&P Global Ratings affirmed its 'AA-' long-term financial strength and issuer credit ratings on the core and guaranteed subsidiaries of the France-based Covéa Group (see the Ratings List for details).

We also affirmed our 'A+' long-term financial strength rating on PartnerRe since the rating is limited to one notch below the group credit profile.

The outlooks on all our long-term ratings remain stable.

Under the new criteria, Covéa's capital adequacy benefits from the removal of haircuts, such as the one previously applied to the technical reserve discount. We've also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy. The recalibration of our capital charges--such as natural catastrophe risk charges, non-life premium, and non-life reserve risk charges--somewhat offsets these improvements.

## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Acquisition of PartnerRe, which has enhanced diversification outside France. | PartnerRe's exposure to natural catastrophes could lead to capital and earnings volatility. |
| Leading position in France's property and casualty (P&C) insurance market. | Comparatively weaker return on equity and limited geographic diversification within the primary insurance market compared with higher-rated peers'. |
| Very high capitalization under our revised criteria. | |

## Outlook

The stable outlook reflects our expectation that Covéa group will benefit from strong earnings over the cycle stemming from the consolidated group's diversity. Moreover, we expect excellent and organically increasing capital buffers, as well as prudent underwriting, investment, and reserving policies.

In our view, Covéa's strong brands, large scale, and client and product diversity will enable it to withstand potentially negative regulatory changes and strong competition in the French P&C insurance market.

### Downside scenario

We could lower our ratings on Covéa group's core and guaranteed subsidiaries over the next two years if:

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

### Upside scenario

An upgrade of the group's core and guaranteed subsidiaries is unlikely in the next two years and would hinge on capital buffers being rebuilt to that before PartnerRe's acquisition and profitability in line with that of higher rated peers.

A reassessment of PartnerRe's group status to core would also lead us to raise our ratings on PartnerRe, since we would equalize the ratings with the group's credit profile. Given the transformative impact of PartnerRe's acquisition on the group's risk profile, and its ongoing integration, we could consider revising our view of PartnerRe's group status with further evidence of the group's commitment of support under stressful conditions.

## Rationale

Covéa's business mix and geographic footprint have changed following the acquisition of PartnerRe, with the addition of a significant international reinsurance business to its leading position in France's P&C insurance market. This more than compensates for the impact on the group's diversification from the disposal of Italian subsidiaries Bipiemme Vita and Bipiemme Assicurazioni.

The group has historically posted stable revenue increases and underwriting profits. For 2023, Covéa's gross written premiums will benefit from the full inclusion of PartnerRe's expected reporting, with total gross premiums exceeding €26.5 billion. We expect net income will increase to more than €1.2 billion, with the combined ratio at 97%-99%. Over 2024-2025, the combined ratio will likely be stable at 97%-99% and net income higher than €1.4 billion.

We chose the lower anchor of the dual outcome to reflect Covéa's lower profitability than 'AA' rated peers.

The revision of our assessment of PartnerRe's group status to highly strategic reflects the group's strong support for the company and decreasing integration risk, which offset potential pressures on PartnerRe's stand-alone credit profile.

Covéa Group's financial risk profile is supported by robust capital adequacy, which we believe is a key strength to the ratings. The implementation of our revised criteria for analyzing insurers' risk-based capital does not lead to any changes in our assessment of the group's capital and earnings. We believe Covéa's prudent approach to accumulating capital, solid earnings, and diversification of earnings from the reinsurance market will continue to support the group's capital.

In our base-case scenario, we believe the group's capital adequacy will stay above the 99.99% confidence level in 2023-2025. We assess the group's risk exposure as moderately high, given PartnerRe's exposure to natural catastrophes, which intensifies capital and earnings volatility for the Covéa group. We assess the average credit quality of Covéa's investment portfolio at 'AA-', although high-risk assets are held for the group's own account and for those of policyholders in the form of equities, property, and a small portfolio of low-rated or unrated bonds.

Covéa group has sufficient financial flexibility, given its size and financial strength, supported by low debt at PartnerRe. The group's financial debt has increased following the acquisition of PartnerRe. However, this does not change our view of the group's leverage or fixed-charge coverage ratios, which we regard as manageable given financial leverage of 13.2% at the end of 2022.

The company can meet its short-term financial obligations due to its substantial holdings of cash, near cash instruments, and highly marketable securities. We see minimal risk that Covéa's subsidiaries will have to pledge significant sums as collateral, or fund a sudden wave of policyholder withdrawals, relating for instance to confidence-sensitive savings contracts.

Covéa Coopérations is an operational holding company that was created in 2012. It has sufficient sources of cash to fulfil its financial obligations. As such, we equalize the ratings on the holding company with the group credit profile (GCP), as opposed to the standard two notches below the GCP to derive the issuer credit rating on a holding company of an insurance company.

## Ratings Score Snapshot

| | |
|---|---|
| Financial strength rating | AA- |
| Anchor* | aa- |
| Business risk | Very strong |
| IICRA | Intermediate risk |
| Competitive position | Very strong |
| Financial risk | Very strong |
| Capital and earnings | Excellent |
| Risk exposure | Moderately high |
| Funding structure | Neutral |
| Modifiers | |
| Governance | Neutral |
| Liquidity | Exceptional |
| Comparable ratings analysis | 0 |
| Support | 0 |
| Group support | 0 |
| Government support | 0 |

*We choose the lower anchor of the dual outcome to reflect lower profitability than 'AA' rated peers. IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## 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/-- |
| **Partner Reinsurance Asia Pte. Ltd.** | |
| **Partner Reinsurance Europe SE** | |
| **Partner Reinsurance Co. of U.S.** | |
| **Partner Reinsurance Co. Ltd.** | |
| Issuer Credit Rating | |
| Local Currency | A+/Stable/-- |
| **Partner Reinsurance Asia Pte. Ltd.** | |
| **Partnerre America Insurance Co.** | |
| **PartnerRe Life Reinsurance Co. of Canada** | |
| **PartnerRe Life Reinsurance Co. of America** | |
| **PartnerRe Ireland Insurance dac** | |
| **Partner Reinsurance Europe SE** | |
| **Partner Reinsurance Co. of U.S.** | |
| **Partner Reinsurance Co. Ltd.** | |
| Financial Strength Rating | |
| Local Currency | A+/Stable/-- |
| **PartnerRe Ltd.** | |
| Issuer Credit Rating | |
| Local Currency | A-/Stable/-- |
| **PartnerRe Finance B LLC** | |
| Senior Unsecured | A- |
| Junior Subordinated | BBB |

| Ratings Affirmed | |
|---|---|
| **PartnerRe Finance II Inc.** | |
| Preferred Stock | BBB |
| **PartnerRe Ireland Finance Dac** | |
| Senior Unsecured | A- |
| **PartnerRe Ltd.** | |
| Preferred Stock | BBB |