

Italian Insurers Remain Resilient to Coronavirus Reviews

Limited Impact of Fitch Rating Case Assumptions on Capitalisation

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“Italian insurers showed resiliency to Fitch’s current rating case assumptions due to their strong capital position and solid 2019 results”

Alberto Messina, Director, Fitch Ratings

Related Research

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Fitch Affirms Assicuratrice Milanese's IFS at 'BBB-'; Outlook Negative (May 2020)

Fitch Downgrades ITAS Mutua's IFS to 'BBB-' on Sovereign Downgrade; Rating on RWN (May 2020)

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Over the past five weeks Fitch Ratings has reviewed its ratings in the Italian insurance sector in light of the coronavirus pandemic. This review, which comprised ten groups, resulted in one company placed on Rating Watch Negative (RWN) and one being assigned a Negative Outlook.

However, the ratings of seven insurance groups were downgraded following Italy's downgrade to 'BBB-/Stable from 'BBB'/Negative (see [Fitch Downgrades Italy to 'BBB-'; Outlook Stable](#), published 28 April 2020 at www.fitchratings.com).

Coronavirus Risks Facing Italian Insurers

The rating actions were based on Fitch's assessment of the effects of the pandemic, including its economic impact on capital market volatility, interest rates, market liquidity and insured claims/reserves, under a set of rating assumptions that were used to develop pro-forma financial metrics.

These were compared with rating guidelines defined in our criteria, and previously established rating sensitivities.

Overall, our analysis found that Italian insurers are resilient to the rating case assumptions used, and that the majority of ratings would have been affirmed in the absence of the sovereign downgrade.

Sovereign Rating Remains a Key Driver

Italy's downgrade led to negative rating actions across most Italian insurers due to their large exposure to Italian sovereign debt. A full list of current rating levels is at the bottom of this report.

Italian insurers' ratings are sensitive to changes to the Italian sovereign rating as the insurers hold a significant amount of domestic bonds to match their liabilities. The implications of the coronavirus pandemic as well as the sovereign downgrade on Fitch's ratings of Italian insurers are outlined below.

Capitalisation and Leverage Strong

Italian insurers remained resilient to Fitch's rating case assumptions, due to their strong capitalisation and solid 2019 results. Most Italian insurers' capitalisation improved in 2019 from 2018 levels. Fitch's Prism Factor-Based Capital Model (Prism FBM) scores ranged from 'Extremely Strong' to 'Strong' and mostly remained at the same level under Fitch's pro-forma assumptions.

Similarly, financial leverage ratios improved in 2019 across most insurers due to an increase in consolidated shareholders' equity supported by solid year-end results. Existing rating sensitivities relative to capitalisation and leverage, a key rating driver for Italian insurers, were not breached, showing Italian insurers' resilience to Fitch's coronavirus rating case assumptions.

High Asset Risk a Key Rating Driver

Fitch views Italian insurers' exposure to Italian sovereign debt of around 2.0x consolidated shareholders' equity, on average, as high and concentrated. Italy's downgrade led to a one-notch lowering of Fitch's sovereign investment concentration ratio, which acts as a cap to the investment and asset risk factor. Most insurers' risky assets ratios, which measure the ratio of risky assets to capital, sharply increased as a result of Italy's downgrade. Fitch's [Insurance Rating Criteria](#) consider a portion of an insurer's exposure to sovereign investments as risky assets. As a result of Italy's downgrade, this portion has increased to 50% from 30%.

Country Risk Affects IPOE Score

Following Italy's rating downgrade, Fitch has lowered Italy's score for industry profile and operating environment (IPOE). This has resulted in Fitch lowering most insurers' business profiles as a consequence. Both are defined under our insurance criteria. The lowering of Italy's IPOE score reflects Italy's higher economic and country risks. The business profile scoring is tied to the IPOE score to reflect our assessment of country risk.

Fitch lowered the business profile score for all insurers but Assicuratrice Milanese S.p.A. (Milanese). Fitch assessed the impact of Italy's downgrade on Milanese's business profile as limited, as the company's core medical malpractice business remained resilient in 2019 and 1Q20. Fitch considers the business profile credit factor to have a high influence on Milanese's rating, alongside its reinsurance coverage. Our assessment of Milanese's business profile, combined with Milanese's reduced investment risk driven by no exposure to Italian government debt, led to the affirmation of Milanese's ratings.

SACE's ratings were downgraded following both a change in SACE's business profile and Fitch's expectation that SACE may become an Italian government agent in relation to certain provisions included in Italian government-issued decree. The decree was approved in response to the coronavirus outbreak, which has resulted in a number of restrictive measures, including the forced closure of most businesses. Fitch aligned SACE's ratings with Italy's rating to reflect the increasing linkage with the Italian government.

Stable Earnings Profile

Fitch expects Italian insurers' earnings to decrease in 2020 due to the coronavirus pandemic's effects on premiums and claims. However, Fitch expects non-life insurers' combined ratios to increase due to a rise in non-motor claims, partially offset by a favourable impact from the motor line of business, which is expected to have fewer claims due to the lockdown measures. However, Fitch views Italian insurers' run-rate earnings to remain stable for the next 12 months. This is due to a decrease in premium volumes that will be partially offset by lower claims as well as strong investment income fuelled by the widening of spreads.

Fitch placed ITAS Mutua's (ITAS) ratings on RWN, reflecting the uncertainty and risk to ITAS's earnings and capitalisation due to higher claims following the coronavirus pandemic. Our key considerations included ITAS's low profitability based on both end-2019 numbers and Fitch's pro-forma results, as well as the length and severity of the pandemic. ITAS reported a loss for 2019 due to an increase in the combined ratio caused by higher natural catastrophe claims. Fitch expects the coronavirus pandemic to lead to a further deterioration of ITAS's technical results and lower financial earnings.

Italian Insurers: Summary Ratings/Outlooks

Issuer name	Current IFS Rating/Outlook or Watch	Prior IFS Rating/Outlook or Watch ^a
Assicurazioni Generali S.p.A.	A-/Stable	A/Negative
Vittoria Assicurazioni S.p.A.	BBB+/Stable	A-/Negative
Societa Reale Mutua di Assicurazioni	BBB+/Stable	A-/Negative
Intesa Sanpaolo Vita S.p.A.	BBB/Stable	BBB+/Negative
UnipolSai Assicurazioni S.p.A.	BBB/Stable	BBB+/Negative
SIAT - Societa Italiana Assicurazioni e Riassicurazioni - per Azioni	BBB/Stable	BBB+/Negative
SACE S.p.A. ^b	BBB-/Stable	BBB+/Negative
SACE BT S.p.A.	BBB-/Stable	A-/Negative
Assicuratrice Milanese S.p.A.	BBB-/Negative	BBB-/Negative
ITAS Mutua	BBB-/RWN	BBB/Negative

^a All ratings correct as at 26 March 2020

^b These are Long-Term Issuer Default Ratings, not IFS ratings
IFS = Insurer Financial Strength, RWN = Rating Watch Negative
Source: Fitch Ratings

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