FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Assicuratrice Milanese's Outlook to Stable; Affirms IFS at 'BBB-'

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Fitch Ratings - Frankfurt am Main - 14 Jun 2021: Fitch Ratings has revised Assicuratrice Milanese S.p.A.'s (Milanese) Outlook to Stable from Negative, while affirming the insurance company's Insurer Financial Strength (IFS) Rating and Long-Term Issuer Default Rating (IDR) at 'BBB-' and 'BB+', respectively.

KEY RATING DRIVERS

The revision of Milanese's Outlook to Stable reflects the company's resilience to the adverse business conditions caused by the coronavirus pandemic and reduced asset risk following the sale of all Italian sovereign bonds in February 2020.

The ratings of Milanese continue to reflect its very strong financial performance and capitalisation, which are offset by its small size and scale in the Italian insurance market, despite a strong franchise in medical malpractice, the company's core business line

Fitch assesses Milanese's business profile as 'Less Favourable' than the Italian insurance sector as a whole. Milanese is a small non-life insurer that targets niche businesses such as medical malpractice. As of end-2020, the company reported EUR56 million in equity and EUR67 million in gross written premiums (GWP). Two lines of business, i.e. general liability

Feedback

and motor third-party liability, contributed roughly 75% to the business volume. Limited diversification and a weak competitive position outside of its core business constrain its rating.

Fitch's assessment of Milanese's capitalisation is reflected in Fitch's Prism Factor-Based Model score of 'Extremely Strong' as of end-2020, unchanged from end-2019. Milanese's Solvency II ratio, calculated according to the standard formula, was also very strong at 244% as of end-2020 (214% at end-2019). The company has no financial debt, which Fitch views as credit-positive.

Milanese's very strong financial performance and earnings in 2020 was supported by healthy underwriting results. Milanese reported a very strong five-year (to 2020) average combined ratio of 68%, leading to a five-year average return on equity (ROE) of 18%. We expect profitability to remain very strong as the company moderately grows in size and scale.

Fitch views Milanese's investment risk as low. The company reduced its direct exposure to Italian sovereign debt to zero in early 2020, eliminating concentration risk related to these securities. The company holds a highly liquid portfolio, of which about 70% is invested in cash or term deposits. As a result, Milanese's Fitch-estimated risky assets ratio, which measures the ratio of risky assets to capital, improved significantly to 32% at end-2020 from 77% in 2019. We expect Milanese to continue adhering to a prudent investment policy, minimising asset-concentration risk.

Fitch assesses the reinsurance coverage of Milanese as adequate for its rating, as the company managed to renew and in minor part extend existing treaties. The company's reinsurance utilisation ratio was stable at a high 53% in 2020 (52% in 2019). However, we believe that its high usage of reinsurance is commensurate with the risks the company assumes and helps mitigate concentration risk.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Maintenance of an 'Extremely Strong' Prism FBM score and an ROE above 15% with low volatility could lead to an upgrade.

--A significant improvement of Milanese's business profile through profitable growth and higher diversification, which Fitch considers unlikely in the next 12 to 24 months.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A weakening of Milanese's business profile driven by, for example, lower premium volume.

--Weaker reinsurance coverage leading to substantial deterioration in capital position, as evident in a Solvency II coverage ratio of less than 140%.

--A downgrade of Italy's Long-Term Local-Currency IDR.

--Material investment in Italian sovereign debt above 1.5x consolidated shareholders' equity.

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

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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
Assicuratrice Milanese S.p.A.	LT IDR	BB+ Rating Outlook Stable	Affirmed	BB+ Rating Outlook Negative
	Ins Fin Str	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Negative

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Insurance Rating Criteria (pub. 15 Apr 2021) (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, v1.7.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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Endorsement Policy

Feedback

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Assicuratrice Milanese S.p.A.	EU Issued, UK Endorsed

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