

RATING ACTION COMMENTARY

Fitch Upgrades Milanese to IFS 'BBB'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 11 May 2022: Fitch Ratings has upgraded Assicuratrice Milanese S.p.A.'s (Milanese) Insurer Financial Strength (IFS) Rating to 'BBB' (Good) from 'BBB-' (Good) and its Long-Term Issuer Default Rating (IDR) to 'BBB-' from 'BB+'. The Outlooks are Stable. A full list of rating actions is detailed below.

The upgrade reflects Milanese's consolidation of its very strong capital position, while maintaining strong operating performance and low asset-concentration risk. We expect Milanese to maintain its current levels of capitalisation, financial performance and asset-concentration risk in 2022. The ratings continue to reflect Milanese's small size in the Italian insurance market, despite a strong franchise in medical malpractice, the company's core business.

KEY RATING DRIVERS

Very Strong Capital: Fitch's assessment of Milanese's capitalisation is reflected in Fitch's Prism Factor-Based Model (Prism FBM) score of 'Extremely Strong' at end-2021, unchanged from end-2020's. Milanese's Solvency II ratio, calculated according to the standard formula, was also very strong at 232% at end-2021 (end-2020: 244%). The company has no debt, which Fitch views as credit-positive.

Less Favourable Business Profile: Fitch assesses Milanese's business profile as less favourable in comparison with the Italian insurance sector as a whole. Milanese is a small non-life insurer that targets niche businesses, such as medical malpractice.

The company reported EUR55 million in equity and EUR75 million in gross premiums at end-2021. Two business lines, general liability and motor third-party liability (MTPL), contributed about three-quarters of the business volumes. Milanese's small size, limited diversification and a weak competitive position outside its core business constrain its ratings.

Very Strong Earnings: Milanese has a very strong earnings profile. The company's very strong financial performance and earnings in 2021 was supported by healthy underwriting results. It reported a very strong five-year (to 2021) average combined ratio of 69% (2021: 70%), leading to a five-year average return on equity of 15%; these levels are firmly supportive of the ratings.

Low Asset-Concentration Risk: Fitch views Milanese's investment risk as low. The company's exposure to Italian sovereign debt, a feature of the asset composition of the Italian market, was a low EUR10 million at end-1Q22 (2021: zero). Milanese's Fitch-estimated risky assets were a strong 32% of capital at end-2021, unchanged from end-2020's. The company also holds a highly liquid portfolio, with about 62% of it invested in cash or term deposits.

Extensive Reinsurance Coverage: Fitch assesses Milanese's reinsurance coverage as adequate for its ratings, as the company managed to renew and extend existing treaties with good renewal conditions. The company's reinsurance utilisation ratio was stable at a high level of 53% in 2021. However, we believe Milanese's high usage of reinsurance is commensurate with the risks the company assumes and helps mitigate concentration risk.

Good Reserve Adequacy: Milanese has a strong record of positive reserve movements across most lines of business. Fitch expects Milanese to maintain adequate reserve levels across the whole portfolio.

RATING SENSITIVITIES

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

--Sustained deterioration in Milanese's financial performance and earnings with the combined ratio above 100%

--Deterioration in Milanese's Prism FBM score to below 'Extremely Strong' for a sustained period

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

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

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

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RATING ACTIONS

| ENTITY / DEBT ⚡ | RATING ⚡ | PRIOR ⚡ |
|-------------------------------|---|-----------------------------------|
| Assicuratrice Milanese S.p.A. | LT IDR BBB- Rating Outlook Stable Upgrade | BB+ Rating Outlook Positive |

Ins Fin Str BBB Rating Outlook Stable

BBB- Rating
Outlook
Positive

Upgrade

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

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)

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Assicuratrice Milanese S.p.A.

EU Issued, UK Endorsed

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