

FITCH AFFIRMS MUTRE AT IFS 'A-'; OUTLOOK STABLE

Fitch Ratings-London-25 July 2016: Fitch Ratings has affirmed MutRe's Insurer Financial Strength (IFS) rating at 'A-' with a Stable Outlook.

KEY RATING DRIVERS

The affirmation reflects the strong capital position of MutRe, its consistent strategy and its solid franchise in the French life, accident and health reinsurance market. The rating remains constrained by the company's small size and geographical concentration. Fitch believes that MutRe's size makes it more susceptible than larger companies to operational risks and changes in the external operating environment.

Fitch views MutRe's capital adequacy as strong, based on the agency's own internal risk-based assessment and on regulatory solvency ratios. At end-2015, MutRe's capitalisation, as measured by Fitch's Prism factor-based model (Prism FBM) score, was 'Extremely Strong'.

However, MutRe's Solvency II at 133% at FYE15 (calculated using the standard formula) is significantly lower than the reinsurer's Solvency I ratio (257%). This is due to an increase in solvency capital requirements (SCR) for certain lines of business with a long duration and lower available funds, which is mainly due to the deduction for risk margin and counterparty credit risk on reinsurance deposits held by cedants. In addition, pandemic risk, which is not entirely reinsurable, creates significant sensitivity in the Solvency II calculation, as measured by the company's Own Risk and Solvency Assessment (ORSA).

MutRe's financial leverage ratio is negligible and not expected by Fitch to increase in the medium term.

MutRe's net profit improved to EUR4.5m in 2015 from EUR1.3m in 2014, despite the negative impact of low interest rates on net long-term care provisions. The company's net combined ratio improved to 99.7% from 101.7% over the same period. Fitch expects MutRe's net profit to stabilise in 2016, but to grow less than previously expected in 2017 and onwards due to lower interest rates for a more prolonged period.

Fitch views MutRe's asset allocation as conservative, with high-quality fixed-income assets accounting for most of the reinsurer's investments. Moreover, Fitch assesses MutRe's liquidity as strong, which is supported by highly rated bonds, although a high proportion of the company's total assets are represented by funds withheld by cedants. Assets and liability management (ALM) is prudent, in Fitch's view.

In the light of the rapid concentration and consolidation trend in the French mutual insurers sector following the introduction of Solvency II, MutRe is executing its 2015-2019 strategic plan aimed at extending its offers for small- and medium-sized mutuals beyond health products to protection and long-term care. MutRe is also diversifying its distribution channels by offering its products via brokers.

Fitch expects this new strategy to offset the decline in premiums linked to the cancellation of two major contracts and the consolidation of cedants. Fitch also expects MutRe to remain profitable throughout its strategic plan.

RATING SENSITIVITIES

Key ratings triggers for a downgrade include a decline in profitability, as measured, for example, by the three-year average combined ratio being above 105% (2015: 99.7%) or net income return on equity below 3% (2015: 3.5%), or a sustained decline of the Prism FBM score to below 'Very Strong'.

In addition, MutRe's rating could be downgraded if the company is unable to renew contracts and maintain its franchise.

An upgrade is unlikely in the medium term, given the financial and business profile of the company, in particular its size and lack of significant diversification.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Methodology (pub. 17 May 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=881564

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