

## RATING ACTION COMMENTARY

# Fitch Upgrades Generali to IFS 'A+'; Outlook Stable

Mon 18 Sep, 2023 - 12:00 ET

Fitch Ratings - Frankfurt am Main - 18 Sep 2023: Fitch Ratings has upgraded Assicurazioni Generali S.p.A.'s (Generali) and its core subsidiaries' Insurer Financial Strength (IFS) Ratings to 'A+' (Strong) from 'A' (Strong). The agency has also upgraded Generali's Long-Term Issuer Default Rating (IDR) to 'A' from 'A-'. The Outlooks are Stable.

The upgrades reflect the consolidation of Generali's very strong capitalisation and moderate financial leverage. It also reflects Generali's reduced sovereign investment concentration risk, despite a fall in shareholders' equity as interest rates rose in 2022.

The ratings continue to reflect Generali's very strong company profile and strong and resilient operating performance.

Fitch has chosen to withdraw the ratings of certain Generali entities for commercial reasons. Fitch will continue to maintain the IFS Rating of Generali and some of its core operating entities.

A full list of rating actions, including rating withdrawals, is provided below.

## KEY RATING DRIVERS

**Very Strong Capitalisation:** Generali's 'Very Strong' capitalisation is measured by a Solvency II (S2) ratio of 228% at end-1H23 and 221% at end-2022 (end-2021: 227%). Fitch expects Generali to maintain its capital strength in the medium term.

Generali's Prism Factor-Based Capital Model (Prism FBM) deteriorated to 'Strong' at end-2022 from 'Very Strong', largely reflecting a lower capital base due to unrealised fixed-income losses. Fitch added back 50% of unrealised losses on bonds to available capital, reflecting Fitch's view that a large portion of those losses will be captured in shareholders' equity over time due to bonds approaching their par value as their maturity nears. We expect Generali's Prism FBM score to be 'Very Strong' in 2023 under IFRS17.

**Moderate Financial Leverage:** Generali's Fitch-calculated financial leverage ratio (FLR) slightly improved to 25% at end-2022 (end-2021: 26%). During 1H23, Generali issued EUR500 million subordinated notes in April and redeemed EUR500 million of its outstanding EUR1.5 billion subordinated perpetual notes with a first call date in November 2025. We expect the FLR to have remained stable at end-1H23.

**Reduced Investment Concentration Risk:** Our assessment of Generali's investment and asset risk is primarily driven by the group's large, albeit reducing, exposure to Italian sovereign debt. Generali's exposure to Italian sovereign debt creates large concentration risk and potential volatility in capital adequacy, which Fitch views as a rating weakness. However, Generali has been progressively reducing its exposure to Italian bonds over the past four years to protect its solvency capital from the volatility of Italian government spreads.

The group's exposure to Italian bonds significantly decreased to EUR44 billion at end-2022 (end-2021: EUR63 billion). This corresponded to 2.1x of the group's consolidated shareholders' equity, up from 1.8x at end-2022. This rise was solely due to a sharp decrease in group's shareholders' equity as the market value of fixed-interest assets declined amid rising interest rates. Generali's exposure to Italian bonds further decreased to EUR41 billion at end-1H23, leading to pro-forma end-1H23 sovereign investments at 1.9x shareholders' equity. We expect Generali's sovereign investments to remain below 2x shareholders' equity in 2023 and 2024, as unrealised losses unwind over time.

**Very Strong Company Profile:** Our assessment of Generali's business profile is based on the group's 'Most Favourable' competitive positioning in its core markets versus that of peers across Europe, the group's large size and broad diversification across geographies, products, client groups and distribution channels. Generali is the third-largest European insurance group by premiums. It has a leading position in core western European countries and a significant presence in central and eastern Europe and in Asia.

**Strong Operating Performance:** Generali's 1H23 operating profit improved to EUR3.7 billion (1H22: EUR2.9 billion), benefiting from a very strong performance in non-life. The group's combined ratio improved to 92% from 97%, mostly as a result of a significant 11% annual increase in gross premiums in 1H23.

In 2022, Generali reported a higher operating profit at EUR6.5 billion (2021: EUR5.9 billion). The group's non-life combined ratio slightly deteriorated to 93% (2021: 91%), as a result of an inflation-related rise in claims cost. Generali's 2017-2021 average Fitch-calculated return on equity (ROE) was 10%, which we view as strong. We expect ROE to remain strong and supportive of the ratings in 2023-2024.

## RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Negative Rating

Action/Downgrade:

--A sustained increase in Generali's sovereign investment concentration risk

--A deterioration of Generali's capitalisation or a significant increase in the FLR, both on a sustained basis

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

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

--A further reduction in Generali's sovereign investment concentration risk on a sustained basis and an upgrade of Italy's Long-Term Local-Currency IDR

## 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Generali Espana, S.A. de Seguros Y Reaseguros	LT IFS A+ Rating Outlook Stable	A Rating Outlook Positive
	Upgrade	

Generali Versicherung AG	LT IFS	A+ Rating Outlook Stable		A Rating Outlook Positive
	Upgrade			
Dialog Versicherung AG	LT IFS	A+ Rating Outlook Stable		A Rating Outlook Positive
	Upgrade			
	LT IFS	WD	Withdrawn	A+ Rating Outlook Stable
Assicurazioni Generali S.p.A.	LT IDR	A Rating Outlook Stable		A- Rating Outlook Positive
	Upgrade			
	LT IFS	A+ Rating Outlook Stable		A Rating Outlook Positive
	Upgrade			
senior unsecured	LT	A	Upgrade	A-
subordinated	LT	A-	Upgrade	BBB+
subordinated	LT	BBB+	Upgrade	BBB
Cosmos Versicherung AG	LT IFS	A+ Rating Outlook Stable		A Rating Outlook Positive
	Upgrade			

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## FITCH RATINGS ANALYSTS

**Alberto Messina**

Director

Primary Rating Analyst

+49 69 768076 234

alberto.messina@fitchratings.com

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

### **Harish Gohil, FIA**

Managing Director

Secondary Rating Analyst

+44 20 3530 1257

harish.gohil@fitchratings.com

### **Jeffrey Liew**

Senior Director

Committee Chairperson

+852 2263 9939

jeffrey.liew@fitchratings.com

## **MEDIA CONTACTS**

### **Athos Larkou**

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 20 Jul 2023\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 (1)

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Generali Deutschland Versicherung AG	EU Issued, UK Endorsed
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