FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades Generali's IFS to 'A-' on Sovereign Downgrade; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 05 May 2020: Fitch Ratings has downgraded Assicurazioni Generali S.p.A.'s (Generali) and core subsidiaries' Insurer Financial Strength (IFS) Ratings to 'A-' (Strong) from 'A' (Strong). The agency has also downgraded Generali's Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'A-'. The Outlooks are Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

The downgrades follow the downgrade of Italy's sovereign rating by Fitch to 'BBB-' from 'BBB' (see "Fitch Downgrades Italy to 'BBB-'; Outlook Stable", dated 28 April 2020, at www.fitchratings.com). Generali's credit quality is highly linked to Italy's sovereign rating given the group's exposure to Italian sovereign debt, in particular on its Italian books.

The ratings also reflect Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, under a set of ratings assumptions described below. These assumptions were used by Fitch to develop pro-forma financial metrics for Generali that Fitch compared with both ratings guidelines defined in its criteria and relative to previously established Rating Sensitivities for Generali. Our pro-forma analysis would have resulted in an affirmation of Generali's ratings.

The Stable Outlook reflects that on Italy's sovereign rating, as well as Fitch's view that Generali's ratings at their current level can withstand additional pressures from the coronavirus pandemic as per the agency's current assumptions.

Generali's exposure to Italian sovereign debt is high at 1.9x consolidated shareholders' equity at end-2019. Generali's risky assets ratio (RAR), which measures the ratio of risky assets to capital, increased to 1.7x consolidated shareholders' equity at end-2019 from 1.6x at end-2018. The 2019 ratio on a pro-forma basis is 2.0x. Fitch considers a portion of an insurer's exposure to 'BBB' category sovereign investments as risky assets. As a result of Italy's downgrade, this portion has increased to 50% from 30%, as per Fitch's insurance criteria. The increase in Generali's consolidated shareholders' equity in 2019 only partially offsets the higher weight attributed to the sovereign investments due to Italy's downgrade.

The sovereign downgrade is also captured in Fitch's assessment of Generali's investment risk via its Sovereign Investment Concentration Risk factor.

Under its insurance rating criteria, Fitch has lowered Generali's score for "Industry Profile and Operating Environment" (IPOE), which is different from Italy's IPOE and bespoke to Generali given its global footprint, and "Business Profile" following Italy's downgrade. The lowering of Generali's IPOE score reflects Italy's relatively higher economic and country risks. The "Business Profile" scoring is tethered to the IPOE score to reflect our assessment over country risk.

Generali's ratings reflect the group's very strong business profile, in particular due to its strong market positions in Italy, Germany and France, strong capitalisation and leverage and financial performance.

Our pro-forma analysis indicates that Generali has strong and resilient capitalisation relative to our coronavirus assumptions. Fitch considers Generali's "Capitalisation and Leverage" strong as measured by Fitch's Prism Factor-Based Capital Model (Prism FBM). Prism FBM remained stable at 'Very Strong' based on both end-2019 figures as well as per Fitch's pro-forma assumptions. Generali's pro-forma Prism FBM score did not breach the prior downgrade sensitivity for this metric.

The financial leverage ratio (FLR) improved to 27% as at end-2019 (2018 32%) following the reimbursement of EUR1.3 billion in January. It was 29% under the pro-forma assumptions; this level did not breach the prior downgrade sensitivity for this metric.

Assumptions for Coronavirus Impact (Rating Case):

Fitch used the following key assumptions, which are designed to identify areas of vulnerability, in support of the pro-forma ratings analysis discussed above:

--Decline in key stock market indices by 35% relative to 1 January 2020.

--Increase in two-year cumulative high yield bond default rate to 13%, applied to current non-investment grade assets, as well as 12% of 'BBB' assets.

--Both upward and downward pressure on interest rates, with spreads widening (including high yield by 400bp) coupled with notable declines in government rates.

--Capital markets access is limited for issuers at senior debt levels of 'BBB' and below.

--A COVID-19 infection rate of 5% and a mortality rate (as a percentage of infected) of 1%.

--For the non-life and reinsurance sectors, a negative impact on the industry-level accident year loss ratio from COVID-19-related claims at 3.5pp, partially offset by a favorable impact from the auto line averaging 1.5pp.

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's Rating Case assumptions with respect the Coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is available on the medical aspects of the outbreak. An indication of how ratings would be expected to be impacted under a set of Stress Case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

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

--A material adverse change in Fitch's Ratings Assumptions with respect to the coronavirus impact.

--A one-notch downgrade of Italy's Long-Term Local-Currency IDR, which would likely lead to a one-notch downgrade of Generali's ratings.

--A decrease of Generali's Prism FBM score below 'Very Strong' for a sustained period or the FLR deteriorating to more than 35%.

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

--A material positive change in Fitch's Ratings Assumptions with respect to the coronavirus impact.

--Positive rating action would be prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the Italian insurance industry and Generali.

--An upgrade of Italy's Long-Term Local-Currency IDR or sovereign investment concentration ratio below 150%.

Stress Case Sensitivity Analysis

--Fitch's Stress Case assumes a 60% stock market decline, two-year cumulative high yield bond default rate of 22%, high yield bond spreads widening by 600bp and more prolonged declines in government rates, heightened pressure on capital markets access, a COVID-19 infection rate of 15% and mortality rate of 0.75%, an adverse non-life industry-level loss ratio impact of 7pp for COVID-19 claims partially offset by a favorable 2pp for motor and a one notch lower Italian sovereign rating.

--The implied rating impact under the Stress Case would be an additional downgrade of one to two notches.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions 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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Generali Espana, S.A. de Seguros Y Reaseguros	Ins Fin Str	A-	Downgrade
Generali Versicherung AG, Wien	Ins Fin Str	A-	Downgrade
Dialog Versicherung AG	Ins Fin Str	A-	Downgrade

ENTITY/DEBT	RATING		
Assicurazioni Generali S.p.A.	LT IDR	BBB+	Downgrade

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Insurance Rating Criteria (pub. 02 Mar 2020) (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, v1.7.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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Assicurazioni Generali S.p.A.	EU Issued
Central Krankenversicherung AG	EU Issued
Cosmos Lebensversicherungs-AG	EU Issued
Cosmos Versicherung AG	EU Issued
Dialog Lebensversicherungs-AG	EU Issued
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