Società Cattolica di Assicurazione - Società Cooperativa
Sede in Verona, Lungadige Cangrande n.16
C.F. 00320160237 – Iscritta al Registro delle Imprese di Verona al n. 00320160237
Società iscritta all'Albo delle Società Cooperative al n. A100378

PRESS RELEASE

S&P CONFIRMS CATTOLICA'S RATING

Verona, July 4th, 2013. Today Standard & Poor's has confirmed Cattolica's rating at BBB under revised insurance criteria introduced by the rating agency.

The rating continues to reflect the vision of S&P on Cattolica and on its solid operating performance that in the non-life business keeps outperforming the market by showing overall more stability compared to its competitors, thus confirming the strong competitive position of the Group in the Italian insurance sector, supported by a good diversification between life and non-life businesses and by complementary distribution networks.
The agency also confirmed a negative outlook solely on the base of its forecast on the persistence of a situation of unfavorable economic and financial trends of the Italian market.

SOCIETÀ CATTOLICA DI ASSICURAZIONE

CONTACT INFORMATION

Investor Relations Officer
Carlo Ferraresi
Tel. No. 0039 045 8391202
investor.relations@cattolicaassicurazioni.it

Institutional Communications
Aldo Canale
Tel. No. 0039 335 620 2116 / 0039 045 8391613
aldo.canale@cattolicaassicurazioni.it

Research Update:

Italy-Based Societa Cattolica di Assicurazione 'BBB' Ratings Affirmed After Insurance Criteria Change; Outlook Negative

Overview

- Following a review of Italy-based Società Cattolica di Assicurazione (Cattolica) under our revised insurance criteria, we are affirming our 'BBB' ratings on the company.
- The ratings reflect our view of Cattolica's satisfactory business risk profile and its lower adequate financial risk profile, based on its strong competitive position and weak capital adequacy.
- The negative outlook incorporates potential deterioration in Cattolica's capital adequacy as a result of unfavorable economic and financial trends in Italy.

Rating Action

On July 4, 2013, Standard & Poor's Ratings Services affirmed its 'BBB' long-term insurer financial strength and counterparty credit ratings on Italy-based composite insurer Società Cattolica di Assicurazione (Cattolica). The outlook is negative.

Rationale

The ratings reflect our view that Cattolica has a satisfactory business risk profile, and a lower adequate financial risk profile. Cattolica's business risk profile is built on a strong competitive position and its moderate industry and country risk. Its financial risk profile incorporates our lower adequate capital and earnings assessment, intermediate risk position, and adequate financial flexibility. We consider enterprise risk management (ERM) and management and governance practices as neutral for the ratings, whereas we view liquidity as exceptional. We combine the business risk and financial risk profiles to derive a 'bbb' anchor, the starting point for our ratings on Cattolica.

We consider that Cattolica faces moderate industry and country risk based on our view of the difficult domestic economic environment and specific industry risks for companies operating in the Italian non-life and life insurance markets. The industry's earning potential in the property/casualty (P/C) sector remains positive, as improving underwriting discipline and motor claims frequency offsets the negative competitive pressure on tariffs. The key role played by tied agents and long-term bank-insurance distribution agreements benefit established insurers. However, negative growth prospects and performance volatility from generally unpredictable P/C claims weigh negatively on Italian insurance industry risk, in our view.

We regard Cattolica's competitive position as strong. With total premiums of €3.6 billion at year-end 2012, Cattolica ranked fifth among Italian P/C insurers and 10th in life insurance. With 3.6% growth in P/C premiums in 2012 in a declining market, Cattolica was able to increase its market share in P/C business to 4.8% in 2012 from 4.5% one year earlier. Cattolica's P/C business continued to outperform the market in the first quarter of 2013, enabling the company to improve its market share to 5.1%. Cattolica's well-recognized and complementary distribution networks, combining tied agents and long-term bancassurance agreements, underpin the company's good position in Italy's insurance market. The tied-agents network in particular generates over 80% of Cattolica's P/C premiums. Cattolica also has balanced diversification between life and P/C insurance, with each business line contributing equally to total premiums. With a single-digit return on equity on average over the past five years, Cattolica's operating performance is not high, but has demonstrated generally greater stability compared with domestic peers'.

Under our base-case scenario we expect Cattolica's premiums to grow slightly in the next two years, on stability in P/C and a rebound in life. Banking joint-venture partners are revamping production following a significant 20.8% drop in life sales in 2012 through the bancassurance channel.

We assess Cattolica's capital and earnings as lower adequate. Our view mainly incorporates increased capital requirements for asset and liability risk charges, coming from sustained balance sheet growth in 2010 and 2011 and following the deterioration in the credit quality of Italy (unsolicited BBB+/Negative/A-2) and its financial institutions in 2012. On Dec. 31, 2012, Cattolica held €8 billion in Italian government bonds, amounting to an estimated 60% of invested assets and 5x total shareholder funds. We estimate that a further 10% of total invested assets consist of bonds issued by, and deposits held by, Italian banks. In addition, we believe that Cattolica's P/C claims reserves continue to show slight deficiencies versus expected claims settlements, mainly on non-motor third-party liabilities, which we factor into our assessment of capital adequacy.

Under our base-case scenario, we consider that Cattolica's capitalization will remain at current levels for the next two years. We do not expect Cattolica's earnings generation to be enough to improve capitalization to upper adequate levels over this time frame. Under our base case, we assume Cattolica will report net income after minorities between €60 million and €75 million in the next three years, against €62 million in 2012, provided that Italian bond and equity markets don't deteriorate further on their Dec. 31, 2012, levels. We base our net income figure on an expected net non-life combined ratio (loss and expense, excluding intangible write-downs) of about 95%-97%, stable life margins, and lower asset write-downs than the €48 million recorded in 2012. We have also taken into account a dividend pay-out ratio of 60%, which is slightly lower than the 2012 level.

In our opinion, Cattolica exhibits an intermediate risk position. We consider that most of the company's long-term Italian sovereign bonds, which are subject to high volatility, cover long-term life liabilities. We think that this matching mitigates the impact of the large swings in available-for-sale reserves on the market value of life bonds on our view of Cattolica's capital adequacy. In addition, soft forms of capital, such as the present value of future profits, are a limited component of Cattolica's total adjusted capital, which lowers the impact of Italian bond price volatility on our view of capital adequacy. Finally, we regard Cattolica's low share of exposure to domestic equities as an additional factor underpinning our assessment of its risk position. We nevertheless note that between the end of 2001 and the first half of 2012, life insurance net inflows have been inversely correlated to movements in Italian government bond spreads. Reoccurrence over a longer timeframe could create additional risk that potentially leads Cattolica to sell assets backing life liabilities at depressed market prices.

Cattolica has adequate financial flexibility in our view. The company has not tapped the capital market since its flotation in 2000 and has a relatively unleveraged balance sheet, with only €80 million in hybrid debt, issued in 2010 and privately placed to its bancassurance partner UBI. In 2011, shareholders renewed the board of directors' mandate, initially granted in 2006, to increase share capital through a rights issue of a maximum €500 million. Cattolica also has the possibility of terminating its main bancassurance joint ventures without a loss at the end of the agreements in case of failure to reach pre-agreed business volumes targets. This creates long-term financial flexibility in of the event of structural underperformance of the joint-ventures.

Cattolica's ERM is adequate, in our opinion. We view the company's risk controls for investment, reserving, and underwriting as neutral to our overall assessment. The importance of ERM for the rating is low, given Cattolica's domestic focus and concentration on traditional insurance products geared to a very wide retail and small and midsize enterprise client base.

We regard Cattolica's management and governance as satisfactory. We recognize management's proven ability to improve and maintain a reliable technical performance in P/C, even under difficult market conditions. We regard the company's strategic planning as historically over-optimistic, however. While Cattolica carries lower debt than its peers', its current levels of solvency, reserve adequacy, and exposure to domestic investments indicate a risk appetite in line with its main domestic competitors.

We regard Cattolica's liquidity as exceptional, owing to the strength of available liquidity sources, mainly premium income, and a highly liquid portfolio of own investments that contains more than €12 billion in marketable securities and deposits.

Outlook

The negative outlook incorporates potential deterioration in Cattolica's capital adequacy as a result of unfavorable economic and financial trends in Italy. We regard Cattolica as vulnerable to potential weakening in the creditworthiness of Italy, given the high concentration of Cattolica's investments in Italian government bonds.

We could lower the ratings on Cattolica if potential deterioration in Italy's creditworthiness or Italian financial markets was such that we believed it would materially impair our view of the company's capital adequacy or risk position.

We could revise the outlook to stable if highly volatile capital adequacy arising from the difficult external economic and financial environment markedly decreased and Cattolica was able to demonstrate particular resilience to the deteriorating economic prospects by continuing to outperform peers in terms of volume growth and profitability.

Ratings Score Snapshot

Financial Strength Rating	BBB/Negative/--
Anchor	bbb
Business Risk Profile	Satisfactory
IICRA*	Moderate Risk
Competitive Position	Strong
Financial Risk Profile	Lower Adequate
Capital and Earnings	Lower Adequate
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management and Governance	Satisfactory
Comparative Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

*Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013

Ratings List

Ratings Affirmed

Societa Cattolica di Assicurazione

Counterparty Credit Rating	BBB/Negative/--
Financial Strength Rating	BBB/Negative/--

Additional Contact:
Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

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