

RATING ACTION COMMENTARY

Fitch Affirms Generali at IFS 'A+'; Outlook Positive

Tue 19 Nov, 2024 - 11:43 ET

Fitch Ratings - Frankfurt am Main - 19 Nov 2024: Fitch Ratings has affirmed Assicurazioni Generali S.p.A.'s (Generali) and its core subsidiaries' 'Insurer Financial Strength (IFS) Ratings at 'A+' (Strong). The agency has also affirmed Generali's Long-Term Issuer Default Rating (IDR) at 'A'. The Outlooks are Positive.

The ratings reflect the group's very strong capitalisation, low financial leverage, still high, but reduced, sovereign investment concentration risk and its very strong company profile. The Positive Outlook reflects that on Italy's sovereign rating as the sovereign rating and its Outlook affect our assessment of the industry profile and operating environment where the insurer operates as well as the credit quality of Generali's investment portfolio.

A full list of rating actions is provided below.

KEY RATING DRIVERS

'Very Strong' Capitalisation: Fitch views Generali's capitalisation as 'Very Strong', as measured by a Solvency II (S2) ratio of 220% at end-2023 (end-2022: 221%). At end-9M24, the S2 ratio was 209%. Generali's Prism Global score remained 'Very Strong' at end-2023 based on IFRS 17 accounts, which include the contractual service margin (CSM) as additional source of available capital. We expect Generali to maintain its capital strength in the medium term.

Low Financial Leverage: Generali's Fitch-calculated financial leverage ratio (FLR) remained stable at 15% at end-2023. We expect the FLR to remain broadly unchanged by end-2024 and to decline by end-2025 after Generali placed EUR750 million of subordinated tier 2 notes in September 2024 to pre-finance part of its outstanding EUR1 billion subordinated perpetual notes ahead of their first call date in November 2025.

Reduced Investment Concentration Risk: Our assessment of Generali's investment and asset risk is 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, the insurer has progressively reduced its exposure to Italian bonds over the past five years to protect its solvency capital from the potential volatility of Italian government spreads.

The group's exposure to Italian sovereign bonds fell to EUR39 billion at end-2023 from EUR43 billion at end-2022. This corresponded to 0.6x its consolidated shareholders' equity including the CSM (end-2022: 0.7x). As of end-1H24, Generali held EUR36 billion of Italian sovereign bonds. We expect the investment concentration risk to decline further by end-2024.

'Very Strong' Company Profile: Generali is the third-largest European insurance group by premiums. It has a leading position in major western European countries and a significant presence in central and eastern Europe and in Asia. The group's business profile benefits from its large size and broad diversification across geographies, products, client groups and distribution channels.

'Very Strong' Operating Performance: Generali's 2023 operating profit, calculated under IFRS 17, improved to EUR6.9 billion (2022: EUR6.4 billion), benefiting mainly from a very strong performance in non-life. The Fitch-calculated combined ratio improved to 92.8% in 2023 from 94.2% a year before. This was due to steeper discounting, volume growth and a better attritional loss ratio. Generali's Fitch-calculated return on equity (ROE) was 13.5% in 2023, which Fitch views as very strong. We expect ROE to remain on a similar level in 2024.

In 9M24, Generali reported a higher operating result of EUR5.4 billion (9M23: EUR5.0 billion), which was supported by a better performance of the life and asset & wealth management segments and benefitted from recent acquisitions. In non-life, the reported combined ratio reached 94.0% (9M23: 94.3%) as a better attritional loss ratio more than compensated for a smaller discounting effect.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Increase in Generali's sovereign investment concentration risk to above 1.0x capital on a sustained basis

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

- A revision of Italy's Outlook to Stable

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

-An upgrade of the Italian sovereign, while Generali's sovereign investment concentration risk remains below 1.0x capital

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 is a score of '3', unless otherwise disclosed in this section. A score of '3' 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 on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
Generali Deutschland Lebensversicherung AG	LT IFS A+ Rating Outlook Positive Affirmed	A+ Rating Outlook Positive
Generali Espana, S.A. de Seguros Y Reaseguros	LT IFS A+ Rating Outlook Positive Affirmed	A+ Rating Outlook Positive

Generali Versicherung AG	LT IFS	A+ Rating Outlook Positive	A+ Rating Outlook Positive
	Affirmed		
Assicurazioni Generali S.p.A.	LT IDR	A Rating Outlook Positive	A Rating Outlook Positive
	Affirmed		
	LT IFS	A+ Rating Outlook Positive	A+ Rating Outlook Positive
	Affirmed		
subordinated	LT	BBB+ Affirmed	BBB+
senior unsecured	LT	A Affirmed	A
subordinated	LT	A- Affirmed	A-
Generali IARD S.A.	LT IFS	A+ Rating Outlook Positive	A+ Rating Outlook Positive
	Affirmed		
Generali Deutschland AG	LT IFS	A+ Rating Outlook Positive	A+ Rating Outlook Positive
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Global (ex-U.S.) Model, v1.8.1 (1)

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