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Research Update:

Credendo Single Risk Assigned 'A-' Financial Strength Rating; Outlook Stable

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Research Update:

Credendo Single Risk Assigned 'A-' Financial Strength Rating; Outlook Stable

Overview

- We regard Credendo Single Risk (Credendo SR) as strategically important to its parent, Credendo Export Credit Agency (ECA).
- Credendo SR's stand-alone credit profile (SACP) reflects its established niche position in single-risk credit insurance, sound capitalization, and reinsurance protection, but also its narrow business position and a lacking record of sustainable underwriting profitability after losses in 2016 and 2017.
- We are assigning our 'A-' insurer financial strength rating to Credendo SR.
- The stable outlook reflects our view that Credendo SR will remain strategically important to Credendo ECA and defend its SACP by generating profitable growth, turning around its underwriting performance, and maintaining its sound capitalization.

Rating Action

On Sept. 5, 2018, S&P Global Ratings assigned its 'A-' long-term insurer financial strength rating to Austria-based insurer Credendo Single Risk Insurance AG (Credendo SR). The outlook is stable.

Rationale

Our 'A-' rating on Credendo SR reflects our view of the company's strategically important group status to Belgium-based credit insurance parent, Credendo ECA (Delcredere/Ducroire), as a specialist single-risk insurer within the Credendo group. It also reflects Credendo SR's sound capitalization and reinsurance protection, countered by a somewhat narrow business position and a short record of sustainable underwriting profitability after reported losses in accounting years 2016 and 2017.

The strategically important group status reflects Credendo SR's contribution to the group's goal of diversifying further outside Belgium. We therefore factor three notches into the rating for group support. Credendo ECA has continuously backed Credendo SR, as demonstrated by a €40 million capital increase in 2018 to further strengthen Credendo SR's solvency and improve its competitive position. In our assessment of Credendo SR we do not assume any state support from Credendo ECA's ultimate parent, the government of Belgium (unsolicited; AA/Stable/A-1+).

Credendo SR's stand-alone credit profile (SACP) reflects the company's sound capitalization and comprehensive reinsurance protection. After the €40 million capital increase in 2018, we expect Credendo SR's Solvency II ratio to increase to about 270% in 2018. Moreover, with the capital increase, Credendo SR's 2018 capital adequacy has strengthened to the 'AAA' level, according to our capital model. We assume its capital adequacy will remain at this level in 2018-2020.

Another positive factor is the company's reinsurance protection, which has protected its balance sheet in the last two years, when higher losses occurred, in particular from commodity price fluctuations related to trade credit insurance.

Credendo SR has established a business position in the global, international single-risk credit insurance niche, with exposure in Europe, Asia, the Middle East, and Africa. This is partly offset by its narrow business position solely focused on single-risk credit insurance, as well as its relatively small absolute size, which makes it more vulnerable to large single claims.

We nevertheless believe that, following restructuring and comparably low loss ratios in underwriting years 2016 and 2017, Credendo SR is on track to achieve a combined ratio of about 95%-99% in 2018-2020, after underwriting losses in accounting years 2016 and 2017. We expect net income to increase gradually, with return on equity in 2018-2020 of about 1%-4%. However, Credendo SR still needs to demonstrate a sustainable track record of underwriting profitability after losses in 2016 and 2017.

Outlook

The stable outlook reflects our view that Credendo SR will remain strategically important to Credendo ECA and defend its SACP by generating profitable growth, turning around its underwriting performance, and maintaining its sound capitalization.

Downside scenario

We could lower the rating in the next 12-24 months if:

- We revise our assessment of Credendo SR's group status to moderately strategic or nonstrategic; or
- Credendo SR fails to demonstrate underwriting profitability in 2018-2020, which may result in a lower assessment of its business risk profile.

Upside scenario

We do not expect to raise the rating over the next 12-24 months, mainly owing to Credendo SR's short record of underwriting performance since its reported losses in 2016 and 2017. However, we could raise the ratings if we revise our group status assessment to core, for example, if the company sustainably outperforms its business plan in terms of operating performance and growth above the parent's targets.

Related Criteria

- Criteria - Insurance - Specialty: Trade Credit Insurance Capital Requirements Under Standard & Poor's Capital Adequacy Model, Dec. 6, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Belgian Export Credit Agency Credendo ECA 'AA/A-1+' Ratings Affirmed; Outlook Remains Stable, July 9, 2018

Ratings List

New Rating

Credendo Single Risk Insurance AG	
Financial Strength Rating	A-/Stable/--

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers:

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