



## Fitch Affirms Credendo Single Risk at IFS 'A-'; Outlook Stable

Fitch Ratings-London-29 October 2018: Fitch Ratings has affirmed Credendo Single Risk Insurance AG's (Credendo SR) Insurer Financial Strength (IFS) rating at 'A-'. The Outlook is Stable.

### KEY RATING DRIVERS

Credendo SR's rating reflects the high likelihood of support from its parent Credendo Export Credit Agency (Credendo ECA), and the company's weak profitability. Fitch views Credendo SR as strategically 'Very Important' to the parent.

However, Fitch has identified potential external barriers that could limit the parent's ability to provide timely support. This resulted in the uplift from Credendo SR's standalone rating of 'BBB-' being capped at three notches. Support by state-owned Credendo ECA to Credendo SR is permitted in a limited number of cases, including where the commercial viability of the investment can be demonstrated.

Fitch expects the EUR40million capital increase to Credendo SR in 1H18 to improve its business position through stronger solvency, improved risk taking capacity, and access to a broader range of customers. However, Credendo SR remains a small competitor compared with leading credit insurers.

Fitch believes management actions such as more cautious client and risk selection together with reinforced capitalisation will improve Credendo SR's position to absorb potential risk accumulations. The underwriting result is vulnerable to commodity price fluctuations through concentrated exposure to traded commodities such as oil, refined products, metals and pharmaceuticals. This reflects Credendo SR's clientele mix, which includes a large number of commodity traders.

Fitch assesses Credendo SR's post-capital increase capitalisation as 'Strong' and commensurate with the 'A' rating category, based on a net par to equity calculation and also considering recovery potential and future expected growth. The capital structure remains debt free.

Reinsurance is an important element of Credendo SR's risk management given high underwritten exposure relative to equity. Fitch views cession and retention rates are adequately set to protect Credendo SR's capital in most situations. However, earnings are vulnerable to higher than expected claims frequency in case the stop loss capacity is exhausted.

A sharp decline in premiums put further pressure on the underwriting result despite the normalising claims situation. Fitch expects claim volumes to decrease as claims on pre-2017 contracts "run-off" and the flow of new claims reduce. The combined ratio is likely to improve as business volumes are expected to pick up in 2H18, following weak performance in 1H18. However, meaningful improvement is unlikely until 2019.

### RATING SENSITIVITIES

The rating could be downgraded if in Fitch's view, Credendo SR will not achieve positive earnings by end-2019.

A change in Fitch's view of Credendo SR's strategic importance to its parent could lead to an upgrade or a downgrade.

A downgrade of Belgium's sovereign rating could lead to a downgrade of Credendo SR's rating.

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**Applicable Criteria**

Insurance Rating Criteria (pub. 30 Nov 2017) (<https://www.fitchratings.com/site/re/905036>)

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