FitchRatings

Fitch Revises Ethias's Outlook to Positive; Affirms IFS at 'A-'

Fitch Ratings-Paris/London-13 August 2019: Fitch Ratings has revised Ethias S.A.'s (Ethias) Outlooks to Positive from Stable. At the same time, Fitch has affirmed Ethias's Insurer Financial Strength (IFS) Rating at 'A-' (Strong) and Issuer Default Rating (IDR) at 'BBB+'. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

The Positive Outlook reflects Fitch's expectation that the company will maintain its strong capitalisation, as measured by Fitch's Prism Factor-Based Model (Prism FBM) score, and financial leverage ratio (FLR) in 2019. The group has begun to build a track record of stability following the completion of a multi-year action plan that has resulted in a strengthening in capitalisation, financial flexibility and asset-and-liability risk management.

The ratings primarily reflect Ethias's strong capitalisation and leverage, good profitability and strong business profile.

Ethias's Prism FBM score was at the upper-end of the 'Very Strong' category at end-2018, well in excess of the 'A' benchmark. Ethias capital position has improved significantly over the past five years, as high guarantee retail life reserves were offloaded. Ethias's FLR was stable at approximately 20% at end-2018. Ethias reported a Solvency II capital ratio of 181% at end-2018, excluding transitional arrangements (end-2017: 183%).

Fitch regards Ethias's profitability as good, driven by the company's non-life business. Net income return on equity (ROE) was 7.7% at end-2018 (2017: 6.7%). We expect Ethias to demonstrate sustained profitability in 2019 that would be more reflective of technical results, after having been affected by non-recurring items related to the company's restructuring. Reported net IFRS combined ratio deteriorated to 94.6% at end-2018 from 87.7% at end-2017, because of increased claim activity following more costly climate events and lower reserve releases. Ethias targets a combined ratio of below 95%.

Ethias's strong business profile is underpinned by the company's solid position on the Belgian insurance market, where it is the fourth-largest insurer. Ethias is a direct insurer and the leading insurer in the public sector. It is almost exclusively active in Belgium.

The full repayment of Vitrufin SA's (Ethias's parent) debt in January 2019 and the full disposal of Ethias's capital-intensive individual life portfolio in September 2018, marked, in our view, the completion of a multi-year action plan that has resulted in a strengthening in capitalisation, financial flexibility and asset-and-liability risk management. Ethias's 2019-2023 strategic plan aims to strengthen the insurer's leading position in direct, digital and public authority insurance, which are the three key competitive advantages of the company.

Ethias has significantly reduced its exposure to interest-rate risk resulting from historically high minimum guaranteed returns on retail life technical liabilities. The duration gap is now expected to remain below one year.

Fitch views Ethias's non-life reserve adequacy as strong. Reserve releases have been positive over the five-year period to end-2018.

RATING SENSITIVITIES

The ratings could be upgraded if Ethias maintains a 'Very Strong' Prism FBM score and a stable FLR, while return on equity remains stable.

The Outlook could be revised to Stable if Ethias's Prism score falls to the lower end of the 'Very Strong' category or FLR rises to above 30%. The Outlook could also be revised to Stable if profitability weakens, as evidenced in a return on equity below 6%.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3. ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

FULL LIST OF RATING ACTIONS

Ethias S.A.:
IFS Rating affirmed at 'A-'; Outlook revised to Positive from Stable
Long-Term IDR affirmed at 'BBB+'; Outlook revised to Positive from Stable
Undated subordinated debt affirmed at 'BBB-'
Dated subordinated debt affirmed at 'BBB-'

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Additional information is available on www.fitchratings.com
Applicable Criteria
Insurance Rating Criteria (pub. 11 Jan 2019)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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