

DBRS Morningstar Confirms Siat Societa Italiana Assicurazioni e Riassicurazioni p.A At 'A (high)'; Trend Remains Negative

INSURANCE ORGANIZATIONS

DBRS Ratings Limited (DBRS Morningstar) confirmed Siat Societa Italiana di Assicurazioni e Riassicurazioni p.A (Siat or the Company)'s Financial Strength Rating (FSR) of 'A (high)'. The trend on the rating remains Negative.

KEY RATING CONSIDERATIONS

As a wholly-owned and strategically important subsidiary of UnipolSai Assicurazioni S.p.A (UnipolSai; rated A (high) with a Negative trend by DBRS Morningstar), Siat's ratings are primarily driven by the parent's rating. As per DBRS Morningstar's "Global Methodology for Rating Insurance Companies and Insurance Organizations" the equalization of Siat's FSR with that of UnipolSai reflects the expectation of support from its parent for this subsidiary given its strategic and financial importance to the parent.

Siat is UnipolSai's subsidiary specialised in marine insurance and is strategically important to UnipolSai from the point of view of its overall insurance business. The operations of Siat are interconnected with those of UnipolSai as the latter provides many operational functions, including asset portfolio management, risk management, audit, information technology, and actuarial services. On a stand-alone basis, DBRS Morningstar views Siat as a strong player in marine insurance with leading positions in Italy's hull and cargo insurance market and a well-developed distribution network. The Company has conservative risk management practices and its underwriting benefits from over 50 years of operations in the marine insurance market. The product suite is composed of products that have historically generated good underwriting profits for the Company, however large claims and adverse market conditions have led to weaker profitability in some years. Siat mitigates its underwriting risk by the extensive use of outward reinsurance. Siat's balance sheet is conservatively managed.

The Negative trend reflects the Negative trend on the ratings of the Parent.

RATING DRIVERS

As Siat's ratings primarily reflect the ratings of UnipolSai, an upgrade of UnipolSai's FSR would result in an upgrade of Siat's rating.

Conversely, a downgrade of UnipolSai's ratings would result in a ratings downgrade of Siat. In addition, any indication of a reduced ability or willingness of UnipolSai to support Siat would result in a ratings downgrade.

RATING RATIONALE

Siat specialises in the marine insurance business and has over five decades of experience in the Italian and European markets. The Company is the leader in the hull market in Italy with 29.6% market share and the third largest player in the Italian cargo insurance with 12.2% market share (all market shares and ranking include Siat and other Unipol Gruppo companies); these are its two primary business segments. The Company also has a relatively new but growing aviation business, which contributes to revenue diversification. The contribution of the international business in 2020 has grown and it represented 59% of total premiums. Products are distributed through a sizable network of agents and brokers. UnipolSai cedes its maritime premium exposure to Siat. In turn, Siat cedes a sizable portion of its premiums to a number of reinsurance counterparties.

Siat has a well-developed and efficient internal controls and risk management system, which is integrated into that of its parent. The product suite is composed of products that have historically generated good underwriting profits, however, in some years, large claims and adverse market conditions have led to weaker profitability. Siat mitigates a substantial part of its underwriting risk by using outward reinsurance. The credit quality of Siat's bond portfolio is constrained by a relatively high weight of BBB-rated bonds, representing around three quarters of the total and consisting mainly of Italian sovereign exposure. However, this is partly mitigated by high liquidity of the Italian bonds. Also, Siat has no non-investment grade bonds and its holdings of shares and funds in the portfolio are negligible. The Company has some exposure to real estate, however around one third of it are office buildings for own use.

The Company's revenue generation capability benefits from its leading positions in the Italian hull and cargo insurance and wide distribution network. Presence in the domestic and international markets as well as a relatively new aviation segment contribute to revenue diversification. Following high claim rates and inadequate pricing in the hull market, which put pressure on Siat's profitability in 2018-19, the Company initiated a review of the hull portfolio and has exited unprofitable businesses. This, combined with an improvement in the market, has translated into a strong rebound in the combined ratio and net profit in 2020.

The nature of Siat's business exposes it to some claims volatility. The Company could be also affected by catastrophic risk events and potentially large insured losses. However, these risks are mitigated in part by Siat's comprehensive reinsurance programme. The Company's liquidity profile is enhanced by substantial holdings of liquid fixed income securities. While Siat does have a high proportion of BBB rated bonds, the majority of these are Italian sovereign bonds, representing a source of readily marketable assets.

Siat's capitalisation is commensurate with its risk profile. The Company maintains a solid buffer above the minimum capital requirements and the internal risk appetite level, providing good protection against adverse economic and business shocks. At end-2020, Siat's Solvency Capital Requirement ratio was 174%. The use of reinsurance helps reduce some of the demands of required regulatory capital, particularly the amount of capital to be held for catastrophic risks. The ownership by UnipolSai provides flexibility in the timing and frequency of dividend payments.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Insurance Companies and Insurance Organizations (<https://www.dbrsmorningstar.com/research/381667>; 16 July 2021). Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (<https://www.dbrsmorningstar.com/research/373262>; 03 February 2021).

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>

The sources of information used for this rating include Company Documents, UnipolSai Consolidated Interim Financial Report at 30 June 2021, UnipolSai 2020 Solvency and Financial Condition Report, UnipolSai 2020 Consolidated Financial Statements, UnipolSai 2020 Annual Report, UnipolSai Sustainability Report 2019, Unipol Gruppo 1H21 Consolidated Interim Financial Report, Unipol Gruppo 2020 Solvency and Financial Condition Report, Unipol Gruppo 2020 Integrated Consolidated Financial Statements,

Unipol Gruppo 2020 Annual Report, Siat Relazione Sulla Solvibilità e Condizione Finanziaria 2020, and Siat 2020 Annual Report. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/385552>

This rating is endorsed by DBRS Ratings GmbH for use in the European Union.

Lead Analyst: Tomasz Walkowicz, Vice President

Rating Committee Chair: Ross Abercromby, Managing Director, Global FIG

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DBRS Ratings Limited

20 Fenchurch Street, 31st Floor, London EC3M 3BY United Kingdom

Tel. +44 (0) 20 7855 6600

Registered and incorporated under the laws of England and Wales: Company No. 7139960

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Siat Societa Italiana di Assicurazioni e Riassicurazioni p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
07-Oct-21	Financial Strength Rating	Confirmed	A (high)	Neg	UK E

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Contacts

Tomasz Walkowicz

Vice President, Global Financial Institutions

+44 20 7855 6643

tomasz.walkowicz@dbrsmorningstar.com

Ross Abercromby

Managing Director - Global FIG

+44 20 7855 6657

ross.abercromby@dbrsmorningstar.com

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