

PRESS RELEASE

OCTOBER 07, 2021

# DBRS Morningstar Confirms UnipolSai and Unipol Gruppo Ratings; Trend Remains Negative

## INSURANCE ORGANIZATIONS

DBRS Ratings Limited (DBRS Morningstar) confirmed UnipolSai Assicurazioni S.p.A.'s (UnipolSai or the Company) Issuer Rating and Financial Strength Rating (FSR) at A (high). Unipol Gruppo S.p.A.'s (Unipol Gruppo) Issuer Rating was confirmed at BBB. The trend on all ratings remains Negative.

## KEY RATING CONSIDERATIONS

UnipolSai's A (high) FSR reflects the Company's strong position in Italy, where it has the largest market share in the nonlife segment and is among the top 6 life insurers. The Company offers a diverse range of products to retail and corporate customers and benefits from a leading agency network in the country. The Company's product risk is relatively low, however credit risk is adversely affected by the large exposure to Italian sovereign bonds. The Company's strong franchise and excellent operational execution have contributed to consistent premiums generation and strong underwriting profitability. UnipolSai has high levels of regulatory capital, which together with strong underwriting profitability mitigates the high sensitivity to Italian bond spreads.

The A (high) FSR of UnipolSai is three notches above DBRS Morningstar's sovereign rating on the Republic of Italy (BBB (high) with a Negative Trend) and falls within the four-notch ratings differential allowed by DBRS Morningstar's "Global Methodology for Rating Insurance Companies and Insurance Organizations". This differential reflects DBRS Morningstar's view that, given healthy profitability, insurance claims are likely to be satisfied by UnipolSai even if the sovereign is under stress. In the event of a weakening sovereign, premium revenues are likely to continue being generated, providing steady cash flow and enabling the Company to meet its claims obligations. The A (high) FSR also takes into account that the Company holds capital levels comfortably in excess of the regulatory minimums mandated by the Solvency II capital regime.

The Negative trend on UnipolSai's FSR is in line with the current trend on DBRS Morningstar's rating on Italy, given the substantial exposure to the sovereign through the Company's business and the investment assets.

The Issuer Rating of BBB of Unipol Gruppo is constrained by the rating on the Republic of Italy. Generally, the notching difference between the FSR of the operating insurance company and the Issuer Rating of the holding company is two notches to account for structural subordination and the priority ranking of policyholder claims. The differential is widened in this case due to the lower sovereign rating of Italy relative to DBRS Morningstar's assessment of the standalone risk of UnipolSai.

## RATING DRIVERS

An upgrade of the sovereign rating of the Republic of Italy, while maintaining high regulatory capital ratios, would lead to a ratings upgrade. The change of the trend on the Republic of Italy to Stable would also result in a corresponding change of the Trend on UnipolSai's ratings.

A downgrade of the sovereign rating of Italy would result in a downgrade of UnipolSai's ratings due to its material business and

asset exposure to Italy. Material and sustained deterioration in the Company's solvency, asset risk, and/or underwriting profitability would also negatively pressure ratings.

## RATING RATIONALE

UnipolSai is the leader in the Italian nonlife insurance market where it has the highest market shares across several key lines, including motor insurance. In the Italian life insurance, UnipolSai is the 6th largest player. The Company offers a diverse range of products to retail and corporate customers and benefits from a leading agency network, which, combined with strong brand recognition, represents a significant competitive advantage in the nonlife market dominated by traditional distribution through agents. UnipolSai comprises the insurance operations of Unipol Gruppo, an Italian holding company with group operations concentrated on insurance.

The Company's underwriting risk is low, benefiting from the focus on short term retail business in the nonlife segment. In the life business, the Company has been reducing exposure to traditional savings products with guaranteed rates and has been able to maintain substantial spread over the guaranteed rate. UnipolSai's business benefits from substantial product diversification, however its operations are concentrated on the Italian market. Consequently, exposure to the Italian sovereign bonds is significant, lowering the quality of the investment portfolio and constraining our assessment of the Company's risk profile. However, since 2019, credit quality has improved with the share of Italian government bonds declining to 40.6% at end-1H21 from 50.1% at end-2019. Our assessment of market risk takes into account EUR 4.3 billion of real estate holdings (7% of the investment portfolio), which exposes UnipolSai to the risk of a decline in property values in Italy. This risk is mitigated by the high quality of the property portfolio, which is concentrated in primary cities in Italy and generates steady yield.

DBRS Morningstar views UnipolSai's earnings generation ability as solid, supported by its leading franchise, extensive distribution channels, and profitable underwriting. These strengths are evident in the combined ratio, which has been consistently in the mid-90s range in recent years and has continued to modestly improve, despite the adverse impact of weather-related incidents in some years. In 2020 and H1 2021 the Company maintained its robust profitability, despite the substantial impact of the pandemic on the Company's operations.

In our assessment of liquidity, we take into account the Company's generally predictable claims profile, and adequate holdings of highly liquid assets. While UnipolSai's investment portfolio comprises mainly fixed income securities providing a source of readily marketable assets, the substantial domestic bond holdings expose the Company to any potential episodes of stressed market conditions. During the COVID-19 crisis, the Company maintained adequate liquidity, increased the buffer of highly liquid assets, implemented an even more stringent monitoring of its liquidity positions, and provided support to its agent network.

In our view of UnipolSai's capitalisation, we take into account strong capital cushions, solid earnings generation capacity, and leverage maintained at healthy levels. The solvency capital requirement ratio for the Company on a consolidated basis, as measured by an economic capital model (based on Solvency 2) was a high 290% at end-H1 2021 compared to 252% at end-2019, providing a sizable cushion against adverse impacts. In early 2020, substantial volatility in the financial markets during the initial phase of COVID-19 has led to a sharp decline of the Company's Solvency ratio. Despite this, Solvency remained above the risk appetite limit, reflecting strong capital cushions. We positively note that the review of asset allocation undertaken in 2H 2020 has led to a reduction in the sensitivity to Italian bond spreads, which nevertheless remains elevated. The leverage ratio (calculated at the Unipol Gruppo level on a consolidated basis) was a healthy 34% at H1 2021, improving from 35.1% at end-2019.

## 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>.

The Grid Summary Grades for UnipolSai Assicurazioni S.p.A are as follows: Franchise Strength – Strong; Risk Profile – Good/Moderate; Earnings Ability – Strong/Good; Liquidity – Strong/Good; Capitalization – Good.

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. 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/385578>

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

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Initial Rating Date: October 8, 2020

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## Ratings

### Unipol Gruppo S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
07-Oct-21	Issuer Rating	Confirmed	BBB	Neg	<b>UK</b> <b>E</b>

### UnipolSai Assicurazioni S.p.A.

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

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