MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Atradius' main operating companies to A1 IFSR, stable outlook

29 September 2023

Paris, September 29, 2023 - Moody's Investors Service ("Moody's") has today upgraded the insurance financial strength ratings (IFSR) of Atradius N.V.'s (Atradius) main subsidiaries Atradius Credito y Caucion S.A., Atradius Reinsurance DAC and Atradius Trade Credit Insurance Inc. to A1 from A2 and affirmed Atradius Credito y Caucion S.A.'s short-term IFSR at P-1. At the same time, Moody's upgraded Atradius Finance B.V.'s backed subordinated debt rating to Baa1(hyb) from Baa2(hyb). Moody's also changed the outlooks on these entities to stable from positive.

RATINGS RATIONALE

The rating action reflects (1) the conservative balance sheet maintained by the group in the last five years, as evidenced by strong capitalisation, prudent reserving levels and conservative asset allocation, (2) Atradius' focus on underwriting discipline in a challenging macroeconomic environment and (3) a gradually reduced concentration risk, notably to Spain.

Moody's notes that Atradius has maintained a Solvency II ratio above 200% since the introduction of Solvency II, and the rating agency expects that Atradius will maintain a very strong level of solvency in the next 12-24 months. Atradius also manages its balance sheet conservatively, with a current high level of reserves and a consistent conservative asset allocation. Atradius' own funds also grew significantly as the company maintains a moderate dividend policy. Atradius paid dividend at around 50% of its earnings and net income reached record levels in 2021 (€240 million) and 2022 (€332 million) thanks to an exceptional low claims environment.

Atradius has also maintained a conservative underwriting risk appetite since 2020, which explained why the group's solvency ratio did not deteriorate materially, despite the strong growth in exposure (+43% between year-end 2020 and mid-year 2023).

While Moody's expects an increase of credit defaults, and therefore higher claims and higher combined ratios for Atradius in the next 12-18 months, the rating agency expects the group to be able to manage credit risk exposures in order to limit the impact of the deterioration in the economic activity on its profitability. Credit insurers' ability to quickly adjust their risk exposure by cancelling credit limits and to quickly reprice their policies when claims increase remains also a key credit strength for Atradius.

Moody's also says that Atradius' geographic diversification improved thanks to a lower concentration to Spain and Portugal, jurisdictions which have traditionally experienced a higher level of trade credit insurance claims than many other European countries. As at year-end 2022, these represented 11% of Atradius' credit insurance exposure, down from 16% in 2017. This level of concentration to one geography is in line with credit insurance peers, and the average quality of countries where Atradius operates is also in line with peers.

In addition, while Atradius is owned 83.2% (35.77% directly and 47.43% indirectly) by Grupo Catalana Occidente, S.A., a Spanish-based insurance group, the lower concentration to Spain also reduces linkages between the credit profile of Atradius and that of the Government of Spain (Baa1 stable). The loose linkage is also evidenced by Atradius' ability to finance itself independently from its Spanish parent. Although Atradius is not a frequent debt issuer, it has issued in the past from Atradius Finance B.V., an entity domiciled in the Netherlands.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

While unlikely in the next 12-18 months, Atradius' ratings could be upgraded if (1) the group's business profile improves with a meaningfully higher weight of fee-based revenues, (2) the group improves its profitability with a combined ratio below 75% through the cycle, with moderate volatility and limited spikes during credit crisis, (3) the group consistently maintains a Solvency II ratio above 220%, and (4) the group maintains a conservative asset and underwriting risk appetite.

Conversely, the following factors could exert downward pressure on the ratings: (1) a volatile underwriting profitability, with for example a spike in the combined ratio materially above 100%, (2) a decline in capital, as evidenced for example by a Solvency II capital coverage below 180%, (3) a meaningful change in asset or underwriting risk appetite, or (4) a meaningful weakening in the credit profile of its parent, Grupo Catalana Occidente, S.A.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Trade Credit Insurers Methodology published in January 2023 and available at https://ratings.moodys.com/rmc-documents/397709. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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