

Research Update:

Grupo Catalana Occidente Core Entities Outlook Revised To Negative On Plan To Acquire Seguros Groupama; Ratings Affirmed

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Overview

- On June 20, 2012, Spain-based insurance group Grupo Catalana Occidente S.A. y Sociedades Dependientes (GCO) announced its intention to acquire 49% of Spain-based insurer Seguros Groupama, Seguros y Reaseguros, S.A.U. (Seguros Groupama; not rated).
- We believe the transaction has diluted GCO's geographic diversification and has also caused a weakening in GCO's capitalization, which is now less supportive of the current rating level.
- We are therefore revising our outlook on GCO to negative from stable.
- We are also affirming the 'A-' rating on GCO's core operating entities.
- The negative outlook reflects that on the Kingdom of Spain. It also reflects our view that capitalization may not be restored to strong levels over the next two years, the execution risks associated with the transaction, and the potential for weaker operating performance associated with assimilating Seguros Groupama into the GCO group.

Rating Action

On June 22, 2012, Standard & Poor's Ratings Services revised its outlook to negative from stable on the core operating entities of Spain-based insurance group Grupo Catalana Occidente S.A. y Sociedades Dependientes (GCO):

- Spain-based Seguros Catalana Occidente, S.A. de Seguros y Reaseguros (Seguros Catalana Occidente), Bilbao Compañía Anonima de Seguros y Reaseguros, S.A. (Seguros Bilbao);
- Netherlands-based credit insurer Atradius Credit Insurance N.V. (Atradius);
- Ireland-based Atradius Reinsurance Ltd;
- U.S.-based Atradius Trade Credit Insurance Inc.; and
- Spain-based credit insurer Compañía Española de Seguros y Reaseguros de Credito y Caucion, S.A.

At the same time, we affirmed the 'A-' long-term counterparty credit and financial strength ratings on GCO's core operating entities. The 'A-2' short-term counterparty credit rating on Atradius Credit Insurance N.V. was also affirmed.

Rationale

The outlook revision follows the announcement that GCO and its immediate parent INOC S.A. (not rated), have entered into an agreement to acquire 49% and 51%, respectively, of the share capital of Spain-based insurer Seguros Groupama, Seguros y Reaseguros, S.A.U. (Seguros Groupama; not rated). Although the acquisition will be managed separately from GCO and not consolidated into its accounts, GCO has the right, under the terms of a call option, to acquire INOC's shareholding in Seguros Groupama over the next three years. The transaction, which is subject to regulatory approval, is expected to be completed by the end of 2012.

In our opinion, the transaction has caused a weakening in GCO's capitalization, which we now consider to be less supportive of the current rating level. Furthermore, we believe that the acquisition would increase GCO and INOC's exposure to Spain to 77% of gross premium written when it completes from the current 70%. This will dilute GCO's geographic diversification and increase the group's sensitivity to country risk, which we already consider to be high. Consequently, we are reducing to one notch from two notches the differential which we allow under our criteria between the ratings on the core operating entities of GCO and the ratings on the Spanish sovereign (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published June 14, 2011).

The ratings on GCO reflect our view of its strong operating performance and strong competitive position. We believe that the acquisition has the potential to strengthen GCO's longer-term competitive position in Spain. We consider these factors to be partly offset by GCO's only good quality of capital, in addition to the weakening of capital adequacy mentioned above. A further constraint is the inherent volatility of the credit insurance business and its sensitivity to swings in economic cycles.

We believe that GCO will maintain its strong competitive position, with revenues in both main business areas remaining stable in 2012 despite the uncertain economic environment, and also maintain a sound earnings track record. We expect a slight deterioration in the group's trade credit insurance business results, but our base-case expectation is for the combined ratio to remain below 95% in 2012. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) We estimate net income for 2012 to be in excess of €150 million.

Outlook

The negative outlook reflects that on the Kingdom of Spain (BBB+/Negative/A-2). It also reflects our view that capitalization may not be restored to strong levels over the next two years, the execution risks associated with the transaction, and the potential for weaker operating performance associated with assimilating Seguros Groupama into the GCO group.

We could lower the ratings if:

- We lower the long-term rating on the Kingdom of Spain;
- The adverse economic environment or the assimilation of Seguros Groupama impairs GCO's profitability by more than we currently expect; or
- The group's capitalization falls to levels that we no longer consider to be supportive of the ratings.

Based on current information, we consider an upgrade to be unlikely. However, if the transaction does not go ahead as planned, we could revise the outlook back to stable.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Ratings On Spain Lowered To 'BBB+/A-2' On Debt Concerns; Outlook Negative, April 26, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Group Methodology, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Atradius Credit Insurance N.V.		
Counterparty Credit Rating	A-/Negative/A-2	A-/Stable/A-2
Financial Strength Rating	A-/Negative/--	A-/Stable/--
Seguros Catalana Occidente S.A. de Seguros y Reaseguros Compania Espanola de Seguros y Reaseguros de Credito y Cauccion S.A. Bilbao, Compania Anonima de Seguros y Reaseguros S.A. Atradius Trade Credit Insurance Inc. Atradius Reinsurance Ltd.		
Counterparty Credit Rating	A-/Negative/--	A-/Stable/--
Financial Strength Rating	A-/Negative/--	A-/Stable/--

Ratings Affirmed

Atradius Finance B.V.

Subordinated*

BBB

*Guaranteed by Atradius N.V. and Atradius Credit Insurance N.V.

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