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Dagong Global Affirms the Long-Term Credit Rating of SIAT p.A. at 'BBB+', Outlook 'Stable'

Dagong Global has affirmed the Long-Term Credit Rating of Italy-based Società Italiana di Assicurazioni e Riassicurazioni per Azioni (SIAT) at 'BBB+', with Outlook 'Stable'. The Short-Term Credit Rating is affirmed at 'A-2'.

RATING RATIONALE

The Long-Term Credit Rating of 'BBB+' is based on its Insurer Financial Strength Rating (IFSR) of 'BBB+'. Following the change in our Criteria for Rating Insurance Companies, we introduce the IFSR and we discontinue the Individual Financial Strength Assessment.

The IFSR reflects SIAT's strong and resilient financial profile, good risk management practices and large capital base compared to its net premiums earned. The IFSR is also supported by very strong liquidity and a leading competitive position in the Italian marine insurance. These strengths are partially offset by an improving, but still challenging economic and industry environment, SIAT's business concentration in marine & transportation, still volatile underwriting and investment results. The main considerations for the IFSR are laid out below.

Very strong capital

The company maintains a high-quality capital base, in line with peers in marine insurance industry, due to its exposure to high-severity risks. However, total shareholder funds are small in absolute terms and are exposed to financial markets volatility, particularly due to its high investment concentration in Italian government bonds, which account for 57% of total investments by YE17.

Very strong liquidity

The company maintains a large, readily available and highly liquid investment portfolio. Cash to net technical reserves stood at 3.1% by YE17. In our view, this provides sufficient coverage under a combined asset stress and inflated liabilities scenarios.

Very strong profitability

On average SIAT has a track record of strong overall and technical profitability, with a 3-year average return on assets up to YE17 of 1.5% and a return on equity of 8.4%. However, the underlying components of the profitability have been somewhat volatile on a yoy basis, due to the volatile investment and underwriting results.

Strong risk management

SIAT benefits from a strong centralised risk management function within the Unipol Group, headed by UnipolSai, and its risk management framework. The investment portfolio is mostly composed by government bonds (concentrated in Italian gov. bonds) and real estate (partially for own use). However, with Solvency II regulation (SII) in place, we are seeing improvements in investment portfolio diversification and we expect this trend to continue

Strong competitive position

Strong competitive position in its home market; SIAT has a strong and defensible competitive position in the niche marine insurance market in Italy, but faces fierce competition in the global market (mainly hull and cargo insurance), where the product portfolio is mostly composed by two business lines (Hull and Cargo, with 73% and 19% of GPW by YE17, respectively), which in our view limits the company's overall competitive position.

Challenging operational environment

SIAT's operational environment is underpinned by improving, but still relatively slow growth in global trade, slowly improving, but uncertain global economic environment, overcapacity in the shipping industry, low prices of commodities and high insurance underwriting capacity. We view particularly the current challenges to global trade, posed by protectionists' policies, as a major threat to the marine insurance industry. We acknowledge that in order to improve its business diversification, SIAT had launched aviation insurance as a new business line.

Support Assessment

We consider the likelihood of support for SIAT by Unipol Group to be high. In our view, SIAT is a strategically important for UnipolSai and therefore Unipol Group as a niche marine insurer. With a high level of integration with the group, SIAT serves as an expertise centre for marine and transportation insurance and provides the group with geographic and product diversification.

RATING OUTLOOK

The stable outlook reflects our expectations that SIAT will grow its premium volumes and will continue to protect its competitive position in hull and cargo sectors with Italian and international clients. We also expect the company to further develop and strengthen its risk management practices, maintain its risk profile and preserve profitability. We also expect SII solvency ratio to be above 160%, the net combined ratio to be below 93% on average and return on equity around 8% over 2018-2020.

RATING SENSITIVITIES

A positive rating action based on the IFSR is unlikely as it is already at the same level as the group. However, we would consider a positive rating action on SIAT via external support assessment if we see a positive rating change at the group level. At the same time we could upgrade the IFSR without upgrading the Long-Term Credit Rating if we see regulatory solvency levels consistently above 180%, sustained profitability with ROE above 10% and a positive top line development.

We would consider a negative rating action on SIAT's Long-Term Credit Rating if our opinion on Unipol Group deteriorates. This is mainly because, in our view, deterioration of credit characteristics at the group level could also weaken SIAT's credit profile, due to its high degree of integration.

A negative rating action based on a weakening of SIAT's IFSR is unlikely due to potential support from the Unipol Group. We could lower the IFSR if we observe a weakening of risk management practices, an increased risk profile, lower and volatile gross and net profitability, and/or a weakening of broker and reinsurance relationships.

COMPANY PROFILE

Based in Genova - Italy, SIAT is a marine insurance specialist established in 1967. Following the acquisition of Fondaria-Sai by Unipol Group in 2012, SIAT became part of Unipol Group, the second largest insurance group in Italy. Since then, SIAT has focused its activities on marine and transportation. Its main business lines are hull and cargo insurance. Historically and at present, SIAT is one of the leaders in the Italian marine insurance market with GPW of EUR 137Mn in 2017.

FULL LIST OF SOLICITED RATINGS

Società Italiana di Assicurazioni e Riassicurazioni per Azioni (SIAT)

Long-Term Credit Rating (FC&LC)	BBB+
Outlook	Stable
Short-Term Credit Rating (FC&LC)	A-2
Insurer Financial Strength Rating (IFSR)	BBB+
FC&LC: Foreign Currency and Local Currency	

RATING HISTORY

SIAT	BBB+/A-2/Stable (17 November 2017)
SIAT	BBB+/A-2/Stable (25 November 2016)
SIAT	BBB+/A-2/Stable (27 November 2015)

OTHER RELATED RATED ENTITIES

UnipolSai Assicurazioni S.p.A.	BBB+/A-2/Stable (16 November 2018)
Unipol Gruppo S.p.A.	BBB-/A-3/Stable (16 November 2018)
Unipol Banca S.p.A.	BB+/B/Stable (16 November 2018)

CRITERIA APPLIED

Criteria for Rating Insurance Companies (05 October 2018)
 General Rating Framework (14 August 2018)

OTHER REGULATORY DISCLOSURES

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<http://www.dagongeuropa.com/procedures.php>

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