

Compania Espanola de Seguros de Credito a la Exportacion S.A.

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Credit Highlights

Operating Company Covered
By This Report

Financial Strength Rating

Local Currency

A-/Stable/--

Overview

Strengths	Risks
A leading credit insurance, surety, and information services provider in Spain and South America.	Potentially high claims in 2021 due to economic uncertainties following the COVID-19 pandemic.
Exclusive agent managing the trade credit insurance on behalf of the Spanish government, which bears the risk.	Limited absolute size and geographic spread compared with its main competitors.
Excellent capital adequacy, according to our risk-based capital model.	Reduced premium base as a result of high competition over the past few years.

S&P Global Ratings estimate that Compania Espanola de Seguros de Credito a la Exportacion S.A. (CESCE) will maintain its excellent capital adequacy amid the pandemic. CESCE has ample capital to absorb capital market volatility and a potential increase in claims due to the pandemic, in our view.

We expect that CESCE will navigate adverse macroeconomic conditions caused by the pandemic, while maintaining a leading role as a credit insurer in Spain and a surety provider in South America. We anticipate that losses surging from the current pandemic will be lower than in past crises, because of states supporting the economy. However, the evolution of losses will depend on the support being extended throughout adverse times. CESCE will also benefit from potential hardening of market conditions, with price increases supported by the heightened risk environment.

We continue to think that CESCE will remain the exclusive agent of the Spanish government to manage the country's export trade credit activities. Accordingly, we view CESCE as a government-related entity (GRE), although we do not include any explicit support in our ratings on the group.

Nonetheless, our ratings on CESCE continue to be constrained by our view of its business risk profile.

Our rating is influenced by the group's high business concentration and the pronounced competitiveness in the Spanish credit insurance market. CESCE's volumes contracted significantly in 2015 by about 15% and have flattened since then, as prices and demand have declined due to strong competition and a favorable claims environment. Potential for price increases in the context of the pandemic may revert the trend over the long term, but our view is that it would only compensate the expected adverse macroeconomic impact of the pandemic. CESCE's limited absolute size and geographic spread compared with its main competitors remain its major rating weaknesses, in our view.

Outlook

The stable outlook reflects our expectation that the ratings will not change over the next two years. We estimate that CESCE will maintain capital adequacy at excellent levels, according to our risk-based capital model, in spite of the current global recession, while maintaining its premiums base and preserving a leading position in the Spanish credit insurance, surety, and information services markets. We also anticipate that CESCE will continue to display good earnings in light of the pandemic's impact and will maintain its exclusive agreement with the Spanish government.

Downside scenario

We could lower our ratings on CESCE if we see a prolonged deterioration of its capital position or its earnings. We may also take a negative rating action if we lower the ratings on Spain to 'BBB+' or lower.

Upside scenario

Ratings upside is unlikely based on CESCE's stand-alone credit characteristics because it would require a significant improvement in the insurer's competitive position. For CESCE to benefit from its GRE status under our criteria, we would need to raise our long-term ratings on Spain to 'AA-.

Key Assumptions

- A decline in Spanish real GDP of 11.3% in 2020 followed by a rebound in 2021 of 6.5%.
- Spain's unemployment rate increasing to about 15.9% for 2020 and 17.6% for 2021 from 14.1% in 2019.
- Low long-term Spanish interest rates at 0.2% in 2020 and 0.3% in 2021.

Key Metrics

	2021F	2020F	2019	2018	2017
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (mil. €)	~170	~170	165	161	156
Net income (mil. €)	~10	15-20	24	35	22
Return on shareholders' equity (%)	~2.5	3.5-4.5	5.5	8.2	5.4

F--S&P Global Ratings' forecast.

Business Risk Profile

CESCE group plays a leading role in the Spanish credit insurance market and South American surety market.

The insurer's competitive position and overall profitability benefit from its exclusive agreement with the Spanish government, its main shareholder (50.25%). We also view positively CESCE's information services businesses, which

generates fees for the provision of information on counterparties' creditworthiness, with no risk taking.

CESCE enjoys a market share of about 20% in the Spanish credit insurance sector. It is the third-largest credit insurer in Spain after Credito y Caucion (Grupo Atradius/Catalana Occidente) and Solunion. CESCE is also a leading surety provider in different South American markets.

The group is facing an adverse macroeconomic environment due to the pandemic. However, we don't expect the claims experience to be as negative as during the 2008-2009 financial crisis. Supportive state policies have reduced the number of corporate defaults and mitigated the impact on CESCE's activities. As an example of policies taken by the states to support the economy, CESCE has been mandated by the Spanish government to provide liquidity access to corporates via credit lines (the total of credit lines can reach €2 billion), with the government bearing the ultimate risk.

We expect premiums will be in line with 2019, with the negative impact of the recession being mitigated by price increases. CESCE's overall earnings will continue to benefit from its state-related business and the information provision business via its subsidiary, Informa.

CESCE cedes between 30% and 40% of its premiums to its reinsurers, as the insurer retains very little risk outside Spain. CESCE's concentration in one segment--which is very competitive and highly sensitive to economic swings--as well as its limited scale and geographic diversification compared with its main competitors, constrain our assessment.

Financial Risk Profile

CESCE's financial risk profile benefits from excellent capital adequacy, which comfortably exceeds the level expected at the 'AAA' range according to our model. Nonetheless, we limit our view to reflect the absolute small size of the group capital base. CESCE group also displayed a regulatory Solvency II ratio at 260% at year-end 2019.

We expect CESCE will report reduced net results in 2020 in comparison to last year of about €15 million. We expect CESCE may face adverse conditions in 2021, and project net income will be close to breakeven, affected technical results being offset by the fees received from the state, and dividends received from the information services business. While we expect the number of claims will be contained in 2020, an increase in default in 2021 could deteriorate the claim ratio.

CESCE has in place adequate risk controls for all its major risks, with a strong track record of disciplined underwriting. It has demonstrated its ability to increase or cut exposures to countries, sectors, and counterparties quickly via centralized underwriting systems. It has again demonstrated this ability to control risks in 2020 context of the pandemic.

The insurer's investment strategy has historically focused on liquid investments. CESCE's investments are concentrated in Spain (above 80% of the portfolio), mostly in government bonds, meaning the average credit quality of its portfolio is in the 'A' category. We do not expect major changes in CESCE's investment policy or risk appetite that could impact its risk position.

CESCE has no debt, and we consider its need for extraordinary additional funds to be modest given the capital

adequacy, which should be enough to absorb shocks from heightened volatility, as well as growth aspirations.

Other Key Credit Considerations

Governance

The insurer demonstrates a sound risk culture, having maintained strong underwriting in tough market conditions and under different management. We see the strategic planning process as consistent with the insurer's capabilities and market conditions.

Liquidity

CESCE benefits from exceptional liquidity, holding its investments mostly in sovereign bonds and bank deposits.

Government support

We regard CESCE as a GRE that is not insulated from potential intervention by the Spanish government. As such, our ratings on the group cannot be higher than those on Spain.

We think there is a moderately high likelihood of extraordinary government support. Our assessment is based on:

- CESCE's important role for the government, owing to its exclusive remit to support the expansion of Spain's export business with guarantees from the Spanish government; the importance of the credit insurance business to the Spanish economy; the state's record of supporting the credit insurance sector (both domestic and export business) in 2009 via the Consorcio; and the state's support of the economy thanks to credit lines offered via CESCE in the context of the pandemic; and
- CESCE's strong link with the government, following the state's confirmation of intentions to maintain its majority ownership in CESCE (50.25% of shares).

Accounting considerations

In evaluating the property and casualty net combined ratio, we only consider the activities conduct by the CESCE group for its own account on the trade credit and surety business.

Overall profitability and performance also consider revenues generated by CESCE from its other activities, mainly for the role the group plays as exclusive agent for the Spanish state, and data provider.

Ratings Score Snapshot

Business Risk Profile	Satisfactory
Competitive position	Satisfactory
IICRA	Intermediate risk
Financial Risk Profile	Very strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	a-
Modifiers	

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Government support	0
Financial strength rating	A-

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Rated Spanish Insurers To Remain Resilient Despite Challenging Conditions, Sept. 21, 2020

Appendix

CESCE Credit Metrics History			
(Mil. €)	2019	2018	2017
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent
Total shareholder equity	426	431	431
Gross premiums written	165	161	156
Net premiums written	111	101	90
Net premiums earned	105	93	89
Reinsurance utilization (%)	33	38	42
EBIT	33	44	30
Net income (attributable to all shareholders)	24	35	22
Return on revenue (%)	12.4	15.6	10.4
Return on shareholders' equity (reported) (%)	5.5	8.2	5.1
P/C: net combined ratio (%)	122.6	125.9	125.8

CESCE Credit Metrics History (cont.)

(Mil. €)	2019	2018	2017
P/C: net loss ratio (%)	78.2	73.1	67.2
P/C: net expense ratio (%)	44.4	52.8	58.6
P/C: return on revenue (%)	(6.8)	2.2	3.4
EBIT fixed-charge coverage (x)	N.M	N.M	N.M.
Financial leverage including pension deficit as debt (%)	0.0	0.0	0.0
Net investment yield (%)	2.7	5.0	5.0
Net investment yield including investment gains/(losses) (%)	2.8	5.3	5.9

N.M.--Not meaningful.

Ratings Detail (As Of January 18, 2021)***Operating Company Covered By This Report****Compania Espanola de Seguros de Credito a la Exportacion S.A.**

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/A-1

Domicile

Spain

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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