

DBRS Morningstar Confirms the Rating of Siat Societa Italiana Assicurazioni e Riassicurazioni p.A. at A (high); Trend Remains Stable

INSURANCE ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed Siat Societa Italiana di Assicurazioni e Riassicurazioni p.A. (Siat or the Company)'s Financial Strength Rating at A (high) with Stable trend.

KEY RATING CONSIDERATIONS

As a wholly owned and strategically important subsidiary of UnipolSai Assicurazioni S.p.A. (UnipolSai; rated A (high) with a Stable Trend by DBRS Morningstar), Siat's ratings are primarily driven by its parent's rating. As per DBRS Morningstar's "Global Methodology for Rating Insurance Companies and Insurance Organizations," the equalization of Siat's Financial Strength Rating with that of UnipolSai reflects the expectation of support from the parent for this subsidiary, given the Company's strategic and financial importance to the parent.

Thanks to its meaningful presence in the marine insurance business, Siat is considered to be a strategically important subsidiary for UnipolSai and is well integrated with its parent company, which provides many operational functions, including asset portfolio management, risk management, audit, information technology, and actuarial services. On a stand-alone basis, DBRS Morningstar takes into consideration Siat's strong market position in the hull and cargo markets in Italy as well as its small but growing aviation business and international presence, which provide additional diversification. We also note that Siat's profitability rebounded in 2020 after large claims and adverse market conditions led to very low profitability levels in 2018–19. Underwriting risk is mitigated by the extensive use of outward reinsurance. Siat's investment portfolio management strategy is considered conservative, while capitalization is sound with solid capital cushion above minimum requirements.

RATING DRIVERS

As Siat's rating primarily reflects the rating of UnipolSai, an upgrade of UnipolSai's Financial Strength Rating would result in an upgrade of Siat's rating.

A downgrade of UnipolSai's rating would result in Siat rating downgrade. In addition, any indication of UnipolSai's reduced ability or willingness to support Siat would result in a rating downgrade.

RATING RATIONALE

Founded in 1967, Siat specializes in the marine insurance business with strong market positions in the hull and cargo sectors, its primary businesses. The Company ranks third in the Italian hull market with a market share of 25.1% (vs. 29.6% in 2020) and third in the cargo market with a market share of 13.0% (vs. 12.2% in 2020) (all market shares and rankings include Siat and other Unipol Gruppo companies). Siat also has a relatively new but growing aviation business, which contributes to revenue diversification. In 2021, domestic business contributed to 57% of total premiums, significantly up compared with 45% in 2020. In terms of distribution channels, Siat relies mainly on brokers, which generated 79% of premiums in 2021. Siat's indirect business consists mainly of premiums ceded by Siat's parent company, UnipolSai. In turn, Siat cedes a substantial amount of its premiums to a number of reinsurance counterparties (68% in 2021).

Siat has well-developed and efficient internal controls and risk management systems, which are integrated into those of its parent. The product suite is composed of products that have historically generated good underwriting profits; however, in some years, large claims and adverse market conditions have led to weaker profitability. Siat mitigates a substantial part of its underwriting risk by using outward reinsurance. Siat investment management strategy is considered conservative with very limited trading activity. The credit quality of Siat's bond portfolio is constrained by a relatively high weight of BBB-rated bonds (around 70% in 2021) consisting mainly of Italian sovereign exposure. On the other hand, Siat has no noninvestment grade bonds exposure, and its holdings of shares and funds in the portfolio are negligible. The Company has some exposure to real estate; however, this is solely related to the office building, which is also the company's headquarters and main operating office.

Siat's revenue generation capacity is supported by its strong market position within the hull and cargo segments in Italy. Concurrently, the growing aviation business as well as the Company's international presence provide additional revenue diversification. Between 2018 and 2019, high claim rates and inadequate pricing in the hull market had a negative impact on the bottom-line profitability, which turned onto a recovering path since 2020, also supported by higher contribution from the cargo business and more favourable market conditions. An extensive review of the hull portfolio, which led to exiting most of the unprofitable business, contributed to higher underwriting results and improved combined ratio compared with 2019.

The nature of Siat's business exposes it to some claims volatility. The Company could be also affected by catastrophic risk events and potentially large insured claims losses. However, these risks are mitigated in part by Siat's comprehensive reinsurance programme. The Company's liquidity profile is enhanced by substantial holdings of liquid fixed income securities.

Siat capitalisation is sound and in line with the Company risk profile. Albeit slightly declining in 2021, Siat maintained a solid capital buffer against the minimum requirement as well as internal risk appetite levels which provides comfort against possible stress scenarios in the operating environment. The Company's Solvency II ratio decreased to 168% in 2021, compared with 174% in 2020. The reduction is mostly attributable to the increase of the minimum solvency requirement (SCR), partially offset by an increase of own funds driven by internal capital generation. The use of reinsurance helps reduce some of the demands of required regulatory capital, particularly the amount of capital to be held for catastrophic risks. The ownership by UnipolSai provides some flexibility in the timing and frequency of dividend payments.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Rating actions on UnipolSai Assicurazioni S.p.A. are likely to have an impact on this rating. ESG factors that have a significant or relevant effect on the credit analysis of UnipolSai Assicurazioni S.p.A. are discussed separately at <https://www.dbrsmorningstar.com/issuers/24728>.

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/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>. (17 May 2022).

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is Global Methodology for Rating Insurance Companies and Insurance Organizations <https://www.dbrsmorningstar.com/research/402220> (31 August 2022). Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings <https://www.dbrsmorningstar.com/research/396929> (17 May 2022).

The sources of information used for this rating include UnipolSai Consolidated Interim Financial Report at 30 June 2022, UnipolSai 2021 Solvency and Financial Condition Report, UnipolSai 2021 Consolidated Financial Statements, UnipolSai 2021 Annual Report, UnipolSai Sustainability Report 2020, Unipol Gruppo 1H22 Consolidated Interim Financial Report, Unipol Gruppo 2021 Solvency and Financial Condition Report, Unipol Gruppo 2021 Integrated Consolidated Financial Statements, Unipol Gruppo 2021 Annual Report, Siat Relazione Sulla Solvibilità e Condizione Finanziaria 2021, and Siat 2021 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.

The conditions that lead to the assignment of a Negative or Positive trend are generally 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: <https://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/403586>.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: October 8, 2020

Last Rating Date: November 5, 2021

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Siat Societa Italiana di Assicurazioni e Riassicurazioni p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
04-Oct-22	Financial Strength Rating	Confirmed	A (high)	Stb	EU U

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