S&P Global Ratings

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AXA Group

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Major Rating Factors

Strengths	Weaknesses
• Leading position in many core markets supported by superior brand recognition. • Very wide business and product diversification. • Robust and resilient profitability.	• Reliance on potentially volatile soft forms of capital. • Sensitivity to market stress in the deleveraging phase post-XL acquisition.

Rationale

S&P Global Ratings' 'AA-' issuer credit ratings on the core operating subsidiaries of AXA Group reflect the group's prominent business positions across significant insurance markets (France, the U.S., Germany, the U.K., Switzerland, Belgium, and Japan) and lines of business (property and casualty [P&C], health, life, asset management). AXA's operating profitability metrics in recent years demonstrate the group's competitive advantage due to its size, business and geographic diversification, brand recognition, and capacity to gradually shift its business mix away from financial market-sensitive products.

We consider the acquisition of the XL Insurance group to be strategic for AXA, because it transforms the insurance group into a global leader in commercial P&C lines, combining XL's specialty commercial business with AXA Corporate Solutions (ACS). The acquisition also provides a profit contribution from XL, with material revenue and cost synergies in both insurance and reinsurance. We also believe the XL acquisition and AXA's ongoing sale of its U.S. subsidiary AXA Equitable Holdings (AEH) are helping the group shift its exposure to insurance underwriting risk from financial risk, in line with its strategy. Based on this, AXA's profile is becoming closer to that of global multiline insurer (GMI) peers such as Allianz, AIG, and Zurich. Moreover, we consider integration challenges remain limited, since the former XL's management are in charge of the combined AXA-XL corporate P&C business, and XL's exposure to catastrophe risk is under strict control.

Although the XL acquisition weighed on AXA's capital in 2018, we believe the group's capital adequacy should recover to above the 'AA' level by 2019-2020, supported by the further reduction of AXA's stake in AEH. We also expect the AXA group will generate capital of close to €3.0 billion per year, assuming group profit exceeds €6.0 billion annually and the dividend payout ratio is about 50%.

Nonetheless, we consider that AXA group's capital position remains partially reliant on soft forms of capital, such as its life future profits, unrealized gains on investments, and hybrid debt instruments. The sensitivity of such forms of capital to market movements may increase the volatility of AXA's capitalization in cases of market stress.

Outlook: Stable

The stable outlook reflects our view that, over the next two years, AXA's and XL's combined profitability will continue to strengthen, AXA will reduce its stake in AEH, and its integration of XL will proceed smoothly.

Downside scenario

We could lower the ratings over the next two years if unexpected adverse market developments materially weakened AXA's capital adequacy prospects and depressed its stand-alone profitability. Setbacks in the integration of XL or a significant underperformance of XL's profit contribution could also put pressure on the ratings.

Upside scenario

A potential upgrade of AXA group is unlikely, in our view, and would hinge on further sustainable improvement in the group's profitability and capitalization.

Base-Case Scenario

Macroeconomic Assumptions

- Eurozone GDP growth of 1.6% in 2018 and 2019.
- Average 10-year government bond yields in the eurozone remain well below the historical average in 2019.
- U.S. GDP growth of 2.3% in 2019 and 1.8% in 2020.
- Average 10-year treasury yields in the U.S. no longer rise in 2019 and 2020.

Key Metrics

	2014	2015	2016	2017	2018	2019F	2020F
Gross premiums written (mil. €)	86,267	91,938	94,220	92,050	96,309	>80,000	>80,000
Net income before minorities (mil. €)	5,336	5,987	6,193	6,603	2,772	>6,000	>6,000
Return on shareholders' equity (%)	10.5	10.3	10.6	10.2	(0.6)	>9.0	>9.0
P&C net combined ratio (%)	98.5	96.4	97.4	96.2	96.1	95-97	95-97
Life new business margin (%)	3.4	3.3	3.9	4.3	3.9	>3.0	>3.0
S&P Global Ratings' capital adequacy	Moderately strong	Strong	Very strong	Very strong	Strong	Very strong	Very strong
Financial leverage	21.0	19.2	18.8	18.1	23.0	<25	<25
Fixed-charge coverage ratio	7.9	8.6	12.3	13.0	11.0	>10	>10

F--Forecast. Forecast data represent S&P Global Ratings' base-case assumptions. P&C--Property andc casualty. Note: Data are calculated according to our criteria and may differ from those reported by AXA group. *Excluding unrealized gains or losses.

Business Risk Profile: Very Strong

Our intermediate insurance industry and country risk assessment reflects the group's diversified franchise, but with a large bias toward advanced economies. Most of AXA's business is in large, stable economies where we perceive low industry and country risk, such as France (life and P&C), Switzerland (life and P&C), and Germany (P&C). Activities in weaker economies, represented by various emerging markets that we consider to have moderate insurance industry and country risk, only make up 10% of group premiums.

AXA's robust competitive position stems from its strong brand and market position, and its broadly diverse country and industry risk exposures. The group compares favorably with its GMI peers in terms of volumes, geographic reach, and business mix. With €102 billion of total revenue and €930 billion in total assets in 2018, AXA ranks among the largest GMIs. The group's combination of life and P&C insurance businesses, with more stable fee-based income in asset management, reinforces our view.

The group has built its geographic footprint through both organic growth and opportunistic acquisitions. Within the Ambition 2020 strategic plan, the group has specific targets for its Asian business, highlighting the importance of this part of its global strategy.

AXA's acquisitions and disposals have been largely supportive of its goals of moving toward less-capital-intensive products as well as exiting small countries or businesses that have limited scope for material contribution to the group's growth and profitability. The group's 2018 acquisition of the remaining 50% stake in AXA Tianping and sale of the AXA Life Europe variable annuity product carrier were consistent with the group's long-term strategy.

Similar to most GMI peers, AXA group has a comprehensive mix of distribution channels, ranging from proprietary agents to bank insurance joint ventures, and direct capabilities. These enable the group to reach a broadly diverse customer base, with two-thirds of business from retail clients and one-third from the corporate segment.

We consider AXA group's operating performance to be comparable with its closest GMI peers. Under its Ambition 2020 plan, the group anticipates improvements in these metrics through efficiency gains, for instance, by harnessing big data to produce better underwriting results. The group has a track record of delivering on targeted efficiencies, and we believe this is likely to continue.

Financial Risk Profile: Strong

We consider AXA's capital and earnings to be strong based on the expected recovery in its capital position through to end-2020, as well as the relative weakness in the quality of capital. This assessment is slightly less favorable than for most GMI peers, which are scored very strong.

We have seen an improvement in the group's capital position, based on our capital model at end-2017, thanks to a good level of retained earnings relative to capital requirements. After a forecast drop due to the consolidation of XL at end-2018, we believe AXA's capital adequacy will recover to above the 'AA' level by 2019-2020, supported by the further reduction of its stake in AEH. We also expect AXA will internally generate capital of close to €3.0 billion per year, assuming group profits exceed €6.0 billion annually and the dividend payout ratio is at about 50%. Our review of AXA's loss reserves has also prompted us to add credit for reserve surpluses.

Over the next two years, we forecast that AXA will further reduce its investment in AEH, which already stands below 50%.

Given that XL's balance sheet is more than €100 billion smaller than AEH's, we forecast XL will have lower capital requirements, resulting in a net benefit for the group's capital adequacy. We also expect growth in XL's capital requirements to be contained by the controlled appetite for catastrophe risk at the group level.

Nonetheless, we believe the group's capital position remains partially reliant on soft forms of capital such as future profits, unrealized gains on investments, and hybrid debt instruments. The sensitivity of these forms of capital to market movements may increase the volatility of AXA's capitalization in case of market stress.

Our assessment of the group's risk position as intermediate is in line with that of GMI peers. The improvement in AXA's capital adequacy since 2014 has reduced its exposure to what we consider high-risk assets, relative to its capital base. However, the group's exposure to these assets, relative to its capital base, remains higher than some of its peers'. We believe that XL will integrate more easily than AEH into AXA's risk management framework. This is because Bermuda's solvency regulation is more closely aligned with the EU's Solvency II directive, which dictates the amount of capital that insurance firms must hold to reduce the risk of insolvency, than the U.S. regime. This eases the prospective use of AXA's internal model to calibrate the risk appetite of XL within AXA.

AXA's financial flexibility is strong, with a long and successful track record of tapping the markets. The group's flexibility is further enhanced by a well-spread debt repayment schedule over the next five years. The group's financial leverage did significantly increase in 2018 following the acquisition of XL and consolidation of XL's debt, but remains slightly below 25% in light of the group's large capital base. Following the repayment of about €2.0 billion in 2018, management intends to further reduce financial leverage by €3.0 billion by 2020. We forecast the fixed-charge coverage ratios will remain above 10x over 2019-2020, which compares favorably with those of other GMIs.

Other Assessments

We consider AXA's enterprise risk management (ERM) framework to be adequate, with strong internal risk controls, enabling it to monitor and control risk exposures within risk tolerance levels. Although the group is managed on a consistent basis with notably public Solvency II target metrics, the pre-eminence of Solvency II metrics over economic model valuation may generate conflicting views of risk-taking within individual business units. We believe AXA has strong risk controls based on our review of its extensive analysis and monitoring of credit risk and underwriting risk. The group maintains a material prudential buffer on its P&C loss reserves, which reinforces our opinion. AXA's extensive track record in acquiring and divesting entities on a timely basis, in line with its strategic objectives, testifies to its strategic risk-management capabilities.

AXA group's management and governance is strong, notably due to its strong track record of strategic planning and execution.

The Ambition 2020 plan focuses on sustainable growth in earnings and free operating cash flow in mature markets, fostering expansion in high-growth markets, managing legacy issues, and turning around the asset management business.

The group is increasingly focusing on capital and cost efficiency, cash flow generation, and the internal rate of return. It has a comprehensive set of risk tolerance indicators and financial standards. However, AXA displays a higher appetite for credit and market risk than other GMIs.

Liquidity

AXA's liquidity is exceptional, owing to the strength and variety of available liquidity resources, and factoring in minimal risk from collateral posting and confidence-sensitive liabilities.

Factors Specific To The Holding Company

The long-term rating on the group's top nonoperating holding company, AXA, reflects our standard two-notch differential from the financial strength rating on the core entities, based on the subordination of AXA creditors to the core entities' policyholders. The outlook on AXA mirrors that on the group's core operating entities.

AXA is the group's debt-issuing vehicle, the central body in terms of corporate, capital, and debt management, and plays a major role in the group's capital fungibility.

Ratings Score Snapshot

Ratings Score Snapshot	
Financial strength rating	AA-/Stable/--
Group credit profile	aa-
Anchor	aa-
Business risk profile	Very strong
IICRA*	Intermediate risk
Competitive position	Extremely strong
Financial risk profile	Strong
Capital & earnings	Strong
Risk position	Intermediate risk
Financial flexibility	Strong
Modifiers	0
Erm and management & governance	0
Enterprise risk management	Adequate, with strong risk controls
Management & governance	Strong
Holistic analysis	0
Liquidity	Exceptional
Support	0
Group support	0
Government support	0

*Insurance Industry and Country Risk Assessment

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Insurance | General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage, Oct. 31, 2014
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of June 18, 2019)*	
AXA	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	A-1
Junior Subordinated	BBB
Senior Unsecured	A
Subordinated	BBB+
Related Entities	
AXA Bank Belgium	
Issuer Credit Rating	A+/Stable/A-1
AXA Banque	
Issuer Credit Rating	A+/Stable/A-1+
AXA Belgium	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA China Region Insurance Co. (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA China Region Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Corporate Solutions Assurance	
Financial Strength Rating	
Local Currency	AA-/Stable/--
AXA France IARD	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--

Ratings Detail (As Of June 18, 2019)*(cont.)	
AXA France Vie	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
AXA Insurance U.K. PLC	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Krankenversicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Lebensversicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Salud SA de CV	
Financial Strength Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/--
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/--
AXA Seguros S.A. de C.V.	
Financial Strength Rating	
Local Currency	A-/Negative/--
CaVal (Mexico) National Scale	mxAAA/Stable/--
Issuer Credit Rating	
Local Currency	A-/Negative/--
CaVal (Mexico) National Scale	mxAAA/Stable/--
AXA Versicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Versicherungen AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--

Ratings Detail (As Of June 18, 2019)*(cont.)	
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Catlin Insurance Co. Inc.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Catlin Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Preferred Stock	A-
Catlin Re Switzerland Ltd	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Catlin Specialty Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
DBV Deutsche Beamten-Versicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Greenwich Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Indian Harbor Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
X.L. America, Inc.	
Issuer Credit Rating	
Local Currency	A/Stable/--
XL Bermuda Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--

Ratings Detail (As Of June 18, 2019)*(cont.)	
Issuer Credit Rating	
Local Currency	AA-/Stable/--
XL Catlin Insurance Company UK Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
XL Insurance America Inc.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
XL Insurance Company SE	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/NR
XL Insurance Co. of New York, Inc.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
XL Insurance Switzerland Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
XLIT Ltd.	
Issuer Credit Rating	A/Stable/--
Junior Subordinated	BBB+
Preference Stock	BBB+
Preferred Stock	BBB+
Senior Unsecured	A
Subordinated	BBB+
XL Re Europe SE	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
XL Reinsurance America Inc.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--

Ratings Detail (As Of June 18, 2019)*(cont.)	
XL Re Ltd. - U.K.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
XL Select Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
XL Specialty Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Domicile	France

*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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