



RATING ACTION COMMENTARY

Fitch Affirms AXA at IFS 'AA-'; Outlook Stable

Tue 13 Oct, 2020 - 11:33 ET

Fitch Ratings - Paris - 13 Oct 2020: Fitch Ratings has affirmed AXA SA (AXA) entities' Insurer Financial Strength (IFS) Ratings at 'AA-' (Very Strong). Fitch has also affirmed AXA's Long-Term Issuer Default Rating (IDR) at 'A'. The Outlooks are Stable. A full list of rating actions is provided below.

KEY RATING DRIVERS

The affirmation reflects primarily AXA's very strong business profile and very strong capitalisation and leverage. We expect financial performance to weaken in 2020, due primarily to COVID-19 related losses on the commercial property and casualty (P&C) business, but to remain at a strong level and recover during 2021.

AXA is nearing the completion of its business transformation and deleveraging. Integration of XL Group (now AXA XL) is progressing well and the group has sold its remaining stake in AXA Equitable Holdings, Inc (EQH), in turn strengthening its capitalisation. With EQH's debt deconsolidated and early debt repayments made in 2019 and 2020, AXA has almost completed its debt-reduction plan.

The very strong business profile of AXA is due to its market-leading positions and its considerable geographical and business diversification, which mitigates, to a certain extent, the effects of the pandemic. AXA has also been successfully shifting its business mix towards P&C, health, and protection. Fitch ranks AXA's business profile as 'Most Favourable' compared with that of Europe-based multinational insurers.

Capitalisation, as measured by Fitch's Prism Factor-Based Capital Model (Prism FBM), improved to 'Very Strong' at end-2019 from 'Strong' at end-2018 due to a reduction in AXA's exposure to market risk following the full sell-down of EQH. We believe AXA's Prism FBM score will remain 'Very Strong' at end-2020 and we do not foresee a material weakening of AXA's capital strength in the medium term due to sufficient capital headroom. This is further supported by the group's announced suspension of dividend distributions in 2020.

The Solvency II (S2) ratio was 180% at end-June 2020 (end-2019: 198%; target range of 170%-220%) and should benefit in 2H20 from the integration of XL Group into the group's internal model (+5 to 10 points) as well as announced disposals (+6 points). This will partially be offset by the negative effect of subordinated debt repayment (-1 point) and market movements on the group's own funds.

The financial leverage ratio (FLR) improved to 25.3% at end-2019 from 29.2% at end-2018 due to substantial deleveraging. We expect FLR to return to a pre-XL Group acquisition level of around 25% by 2020.

AXA showed resilience to COVID-19-related losses in 1H20. Underlying earnings were EUR1.9 billion, down 48% versus 1H19, due primarily to a EUR1.5 billion COVID-19 related loss affecting mainly its commercial P&C businesses (AXA XL). Its combined ratio increased to 101.7% (95.1% excluding-COVID-19 effects, unchanged on 1H19). We anticipate the group will rebuild its performance metrics within the next year and continue to generate strong operating earnings, driven by technical profitability in the P&C, health, and protection segments.

AXA's operating profitability continued to improve in 2019, with underlying earnings rising steadily to EUR6.5 billion (+2%). Net income return on equity (ROE) improved to 5.8% at end-2019 (2018: 3.2%) but remains low for the rating category, due to the cost of disposals over the past two years.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-- A material adverse change in Fitch's rating assumptions with respect to the coronavirus impact.

-- FLR weakening to over 30%.

-- Prism FBM score deteriorating to 'Strong' on a sustained basis.

-- Fixed charge coverage ratio below 9x for a sustained period.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profiles of AXA.

--Prism FBM score at the high end of the 'Very Strong' category and FLR improving to below 25%.

-- P&C's combined ratio falling to or below 95% on a sustained basis.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [\[https://www.fitchratings.com/site/re/10111579\]](https://www.fitchratings.com/site/re/10111579)

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
AXA Belgium SA	Ins Fin Str	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
AXA China Region Insurance Company (Bermuda) Limited	Ins Fin Str	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
Indian Harbor Insurance Company	Ins Fin Str	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
AXA Insurance Company (US)	Ins Fin Str	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
AXA Insurance Pte.	Ins	AA- Rating Outlook Stable	Affirmed	AA- Rating

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 25 Aug 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.1 (1)

ADDITIONAL DISCLOSURES

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AXA Belgium SA	EU Issued
AXA China Region Insurance Company (Bermuda) Limited	EU Issued
AXA France IARD	EU Issued
AXA France Vie	EU Issued
AXA General Insurance Hong Kong Limited	EU Issued
AXA Global Re	EU Issued
AXA Insurance Company (US)	EU Issued
AXA Insurance Pte. Ltd.	EU Issued
AXA Insurance UK plc	EU Issued
AXA Krankenversicherung AG	EU Issued
AXA Lebensversicherung AG	EU Issued
AXA Life Ltd	EU Issued
AXA PPP healthcare limited	EU Issued
AXA SA	EU Issued
AXA Versicherung (Germany) AG	EU Issued
AXA Versicherung AG	EU Issued
Deutsche Ärzteversicherung Aktiengesellschaft	EU Issued
Indian Harbor Insurance Company	EU Issued

XL Bermuda Ltd
XLIT Ltd.

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