



RATING ACTION COMMENTARY

Fitch Upgrades AXA SA's IDR to 'A+'; Affirms Op. Entities at IFS 'AA-'

Mon 16 May, 2022 - 04:26 ET

Fitch Ratings - Paris - 16 May 2022: Fitch Ratings has upgraded AXA SA's and XL Group Ltd's Long-Term Issuer Default Ratings (IDR) to 'A+' from 'A' and removed them from Rating Watch Positive (RWP).

Fitch also assigned AXA SA a 'AA-' Insurer Financial Strength (IFS) Rating and affirmed the core operating entities of the AXA group's IFS Ratings at 'AA-'. The Outlooks are Positive.

A full list of rating actions is detailed below.

KEY RATING DRIVERS

The rating actions follow AXA SA's obtainment of a reinsurance license from French supervisor ACPR on 10 May 2022. AXA shareholders had previously approved on 28 April 2022 the planned transformation of AXA SA into the internal reinsurer of the group, while remaining the holding company.

Following the transformation, we now view AXA SA as a regulated operating insurance company and consequently we have upgraded AXA SA's and XL Group Ltd's IDRs by one notch to reflect this new status.

We have also upgraded AXA SA and XL Group Ltd's long-term debt ratings by two notches to reflect more favourable recovery assumptions for notes issued by AXA SA as

an operating entity. This results in the unsecured senior debt being at the same level as the IDR at 'A+', the subordinated debt one notch below the IDR at 'A' and the Solvency 2 Tier 2 and other hybrids at 'A-', two notches below the IDR.

We have affirmed all other ratings as they are not directly affected by AXA SA becoming the group's internal reinsurer. The affirmation reflects AXA group's very strong business profile, very strong capitalisation and leverage and strong profitability.

The Positive Outlooks on all AXA entities reflect the group's improving property and casualty (P&C) combined ratio (CR), mainly driven by improving technical results at AXA XL, alongside the achievement of its business transformation targets, strengthened capitalisation and reduced Fitch-calculated financial leverage ratio (FLR) to a pre-XL acquisition level of around 25%.

AXA's very strong business profile reflects considerable geographical and business diversification and leading positions in many of its core markets. AXA has successfully shifted its business mix towards P&C, health and protection, thereby significantly reducing market-risk exposure. Fitch ranks AXA's business profile as 'Most Favourable' compared with that of Europe-based multinational insurers.

AXA's capitalisation, as measured by Fitch's Prism Factor-Based Capital Model (Prism FBM), remained at the high end of the 'Very Strong' category at end-2021. Its Solvency II ratio was 224% at end-March 2022 (end-2021: 217%) versus a target of 190%. We expect the group's ample capital headroom to support its capital position at the 'aa' level in the next 12 to 24 months.

The Fitch-calculated FLR decreased to 22.8% at end-2021 (2020: 24.1%), which is just within Fitch's benchmark range of 10%-23% for the 'aa' rating category. The company has completed its debt-reduction plan (FLR peaked at 29.2% at end-2018) and we expect leverage to be maintained at the current level.

Net income return on equity (ROE), as calculated by Fitch, rose to 10.2% at end-2021 from 4.5% in 2020, driven by a sharp increase in underlying earnings to above 2019 pre-pandemic levels. Reported all-year P&C CR improved to 94.6% (2020: 99.5%), led by a strong recovery of commercial P&C lines at AXA XL, despite larger natural catastrophe losses.

We expect P&C CR to trend towards the group's 93% target by end-2023 and ROE to be above 8% in 2022, which would be consistent with financial performance at the upper-end of the 'a' category. The main risk to our expectations stems from uncertainties on losses arising from the war in Ukraine, heightened economic risk and natural catastrophes.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade of AXA and its core operating subsidiaries:

-- P&C CR remaining at or below 95% on a sustained basis, while Prism FBM score remains at the high end of the 'Very Strong' category and FLR below 26%

Factors that could, individually or collectively, lead to negative rating action/downgrade of AXA and its core operating subsidiaries:

-- The Outlook could be revised to Stable if the P&C CR is above 95% in 2022

-- FLR weakening to over 32% on a sustained basis could lead to a downgrade

-- Prism FBM score deteriorating to 'Strong' on a sustained basis could lead to a downgrade

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>

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 Positive	AA- Rating Outlook Positive
	Affirmed		
AXA China Region Insurance Company (Bermuda) Limited	Ins Fin Str	AA- Rating Outlook Positive	AA- Rating Outlook Positive
	Affirmed		
Indian Harbor Insurance Company	Ins Fin Str	AA- Rating Outlook Positive	AA- Rating Outlook Positive
	Affirmed		
AXA Insurance Company (US)	Ins Fin Str	AA- Rating Outlook Positive	AA- Rating Outlook Positive
	Affirmed		
AXA PPP healthcare limited	Ins Fin Str	AA- Rating Outlook Positive	AA- Rating Outlook Positive
	Affirmed		
AXA Insurance UK plc	Ins Fin Str	AA- Rating Outlook Positive	AA- Rating Outlook Positive
	Affirmed		
XL Group Ltd	LT IDR	A+ Rating Outlook Positive	A Rating Watch Positive
	Upgrade		
senior unsecured	LT	A+ Upgrade	A- Rating Watch Positive

subordinated	LT	A-	Upgrade	BBB Rating Watch Positive
AXA General Insurance Hong Kong Limited	Ins Fin Str		AA- Rating Outlook Positive	AA- Rating Outlook Positive
	Affirmed			

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Factor-Based Capital Model, v1.7.2 ([1](#))

ADDITIONAL DISCLOSURES

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AXA France IARD	EU Issued, UK Endorsed
AXA France Vie	EU Issued, UK Endorsed
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AXA Insurance Pte. Ltd.	EU Issued, UK Endorsed
AXA Insurance UK plc	EU Issued, UK Endorsed
AXA Krankenversicherung AG	EU Issued, UK Endorsed
AXA Lebensversicherung AG	EU Issued, UK Endorsed
AXA Life Ltd	EU Issued, UK Endorsed
AXA PPP healthcare limited	EU Issued, UK Endorsed
AXA SA	EU Issued, UK Endorsed
AXA Versicherung (Germany) AG	EU Issued, UK Endorsed
AXA Versicherungen AG	EU Issued, UK Endorsed
Deutsche Ärzteversicherung Aktiengesellschaft	EU Issued, UK Endorsed
Indian Harbor Insurance Company	EU Issued, UK Endorsed
XL Bermuda Ltd	EU Issued, UK Endorsed
XL Group Ltd	EU Issued, UK Endorsed
XLIT Ltd.	EU Issued, UK Endorsed

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