

Research Update:

Global Multiline Insurer AXA Group's Core Subsidiaries Affirmed At 'AA-'; Outlook Stable

March 12, 2021

Overview

- AXA enjoys robust leading positions in many core insurance markets, supported by superior brand recognition and very wide business diversification.
- Despite a lower-than-expected 2020 net income, mostly due to COVID-19, we expect AXA will maintain very strong capitalization over 2020-2022.
- The group is still subject to earnings volatility due to its increased involvement in large commercial lines and reinsurance businesses but is less sensitive to financial market stress and has implemented its deleveraging plan in line with expectations.
- We are affirming our 'AA-' ratings on AXA's core subsidiaries.
- The stable outlook reflects our view that, over the next two years, AXA's profitability will recover, notably due to a material contribution from AXA-XL, and capital adequacy will remain very strong, according to our capital model.

Rating Action

On March 12, 2021, S&P Global Ratings affirmed its 'AA-' long-term insurer financial strength and issuer credit ratings on the core subsidiaries of France-domiciled AXA group (see the ratings list below for further details). The outlook is stable.

We also withdrew our ratings on X.L. America Inc. and XL Re Ltd. – UK Branch. The ratings on X.L. America Inc. are withdrawn at the issuer's request since this entity no longer has any debt outstanding. XL Re Ltd. – UK Branch no longer exists as a separate legal entity following its merger into XL Bermuda Ltd.

Rationale

The 'AA-' ratings on AXA's core operating subsidiaries reflect the group's large volumes, leading positions in various markets across the globe, strong brand and reputation, diverse product offerings, and fee income from asset management business, which further strengthen its

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Research Update: Global Multiline Insurer AXA Group's Core Subsidiaries Affirmed At 'AA-'; Outlook Stable

insurance operations. In particular, with the acquisition of the former XL Group, AXA has become a global leader in property/casualty (P/C) commercial lines insurance, which supports a high level of risk diversification. We continue to view AXA-XL entities as a core part of the AXA group, as demonstrated by the capital support recently provided as well as their successful integration into the group's internal capital model. However, AXA-XL's earnings have yet to reach their full potential because higher COVID-19-related claims have further subdued underwriting performance. We expect AXA-XL to benefit from continuous hardening of prices and contribute materially to the group's profitability going forward.

Moreover, the group's solvency ratio of 200% in 2020 benefited from the inclusion of AXA-XL's capital in AXA's internal model and exceeded its target capital range of 190%. AXA's successful completion of the sale of Equitable Holdings and full consolidation of AXA-XL reduced overall capital requirements related to market risk compared with those of peers. Capital requirements from life and non-life business are now balanced. In turn, AXA's profile has become close to global multiline insurer peers' such as Allianz, AIG, or Zurich.

AXA's capitalization, as per our capital model, recovered to very strong levels in 2019 and will remain so over our rating horizon, with an expanding margin through 2021-2022 after considering our net income projections of €5.8 billion-€5.9 billion, assuming a dividend payout ratio of 60%, and completion of several disposals including AXA Bank Belgium and the Middle East operations. We also acknowledge that the group will continue to focus on improving its scale and presence in select markets, particularly in the health, protection, and commercial lines in P/C.

Nonetheless, we consider that AXA's capital position remains somewhat 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 capital adequacy in cases of market stress.

Outlook

The stable outlook reflects our view that, over the next two years, AXA's profitability will recover, notably due to a material contribution from AXA-XL, and capital adequacy will remain very strong, according to our capital model.

Downside scenario

We could lower the ratings over the next two years if unexpected adverse market or catastrophe-related developments materially weaken AXA's capital adequacy prospects and depress its stand-alone profitability. Setbacks in tackling the underperformance of AXA-XL's profitability, including the repetition of negative one-off items, could also pressure the ratings.

Upside scenario

We see a potential upgrade of AXA as unlikely. It would hinge on material improvement in the group's profitability and capital adequacy.

Ratings Score Snapshot

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Business Risk Profile	Very Strong
Competitive position	Excellent
IICRA	Intermediate risk
Financial Risk Profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	aa-
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	AA-

*This is influenced by our view of AXA's leading position in many insurance markets, exceptional diversification, and superior brand recognition.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

Not Rated Action; CreditWatch/Outlook Action

	To	From
X.L. America, Inc.		
Issuer Credit Rating		
Local Currency	NR/--	A/Stable/--
XL Re Ltd. - U.K.		
Financial Strength Rating		
Local Currency	NR/--	AA-/Stable/--

Research Update: Global Multiline Insurer AXA Group's Core Subsidiaries Affirmed At 'AA-'; Outlook Stable

Ratings Affirmed

AXA

Issuer Credit Rating	A/Stable/A-1
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AXA Belgium

XL Specialty Insurance Co.

XL Select Insurance Co.

XL Reinsurance America Inc.

XL Re Europe SE

XL Insurance Co. of New York, Inc.

XL Insurance America Inc.

XL Catlin Insurance Co. UK Ltd.

XL Bermuda Ltd.

Indian Harbor Insurance Co.

Greenwich Insurance Co.

DBV Deutsche Beamten-Versicherung AG

Catlin Re Switzerland Ltd

AXA Versicherungen AG

AXA Versicherung AG

AXA Lebensversicherung AG

AXA Krankenversicherung AG

AXA Insurance U.K. PLC

AXA France Vie

AXA France IARD

AXA China Region Insurance Co. Ltd.

AXA China Region Insurance Co. (Bermuda) Ltd.

Issuer Credit Rating	
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Local Currency	AA-/Stable/--
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Financial Strength Rating	
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Local Currency	AA-/Stable/--
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AXA Insurance Co.

Financial Strength Rating	
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Local Currency	AA-/Stable/--
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Catlin Insurance Co. Inc.

XL Insurance Switzerland Ltd.

Catlin Specialty Insurance Co.

Issuer Credit Rating	
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Local Currency	A+/Stable/--
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Financial Strength Rating	
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Local Currency	A+/Stable/--
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XL Reinsurance (China) Co. Ltd.

Financial Strength Rating	
Local Currency	A+/Stable/--

XL Insurance Co. SE

Issuer Credit Rating	
Local Currency	AA-/Stable/--

XLIT Ltd.

Issuer Credit Rating	
	A/Stable/--

AXA

Senior Unsecured	A
Subordinated	BBB+
Junior Subordinated	BBB
Commercial Paper	A-1

XLIT Ltd.

Senior Unsecured	A
Subordinated	BBB+
Junior Subordinated	BBB+
Preferred Stock	BBB+
Preference Stock	BBB+

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