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Credendo - Guarantees & Speciality Risks Outlook Revised To Positive; All Credendo Ratings Affirmed

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "**Insurer Risk-Based Capital Adequacy--Methodology And Assumptions**").
- The implementation of the revised criteria has no impact on our ratings on Delcredere/Ducroire (Credendo ECA) or its subsidiaries: Credendo - Short-Term EU Risks (Credendo STE), Credendo - Short-Term Non-EU Risks (Credendo STN), and Credendo-Guarantees & Speciality Risks (Credendo GSR).
- Credendo GSR enjoyed improved 2023 net results and therefore we have revised our outlook to positive from stable and affirmed the 'A-' financial strength rating.
- We affirmed our 'AA/A-1+' issuer credit ratings on Credendo ECA and the 'A' financial strength ratings on core subsidiaries Credendo STE and Credendo STN and maintained stable outlooks on all these ratings.
- The stable outlook on the holding company, Credendo ECA, mirrors that on Belgium (unsolicited; AA/Stable/A-1+).

PARIS (S&P Global Ratings) July 17, 2024--, S&P Global Ratings today revised its outlook on Credendo - Guarantees & Speciality Risks (Credendo GSR) to positive from stable and affirmed the 'A-' financial strength rating.

At the same time, we affirmed the 'AA/A-1+' issuer credit ratings on Delcredere/Ducroire (Credendo ECA), the group's holding company. We also affirmed the 'A' financial strength ratings on Credendo - Short-Term EU Risks (Credendo STE) and Credendo - Short-Term Non-EU Risks (Credendo STN). The outlook on all these ratings is stable.

- The implementation of our revised criteria for analyzing insurers' risk-based capital does not lead to any rating changes because Credendo ECA's capital adequacy remains healthily redundant at the highest stress level (i.e., at 99.99%).
- We've also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- Some of the increase in capital adequacy results from enhancing consistency in assessing liability-related risks by aligning the treatment of trade credit with other non-life business lines.

The stable outlook on Credendo ECA mirrors that on Belgium (unsolicited; AA/Stable/A-1+). Because we equalize our long-term rating on Credendo ECA with that on Belgium, any rating action on Belgium would result in a similar action on Credendo ECA.

Credendo GSR:The positive outlook reflects the improved results that are in line with the rest of the group.

Credendo STE and Credendo STN:The stable outlook on Credendo STN and Credendo STE reflects our view that the companies will experience a consistent level of support from the Credendo group over the next two years.

Downside scenario

We could lower our ratings on Credendo ECA if we were to lower our ratings on Belgium.

We could lower the ratings on Credendo STN, Credendo STE, and Credendo GSR over the next two years if the group were to show reduced willingness or capacity to support its subsidiaries.

Upside scenario

We would raise our ratings on Credendo ECA if we were to raise our ratings on Belgium.

We could raise our ratings on both Credendo STN and Credendo STE if we were to revise upward our assessment of the group's stand-alone profile.

Credendo GSR:An upgrade would hinge on a change in group status to core from highly strategically important, should the company stabilize its net income in the next two years in line with the group's risk appetite.

Credendo ECA is the parent company of Credendo (the group; not rated). We view Credendo ECA as having a critical role in supporting Belgium's trade policy. We therefore equalize our ratings on Credendo ECA with those on Belgium because we believe there is an almost certain likelihood of government support in the case of financial distress, thanks to the integral link with the Belgian government owing to its 100% ownership of the company.

We base our view of an almost certain likelihood of government support on our assessment of Credendo ECA's:

— Critical role in supporting Belgium's trade policy regarding countries with significant political, economic, and credit risk; and

— Integral link with the Belgian government, which fully owns the company, has representatives on its board, appoints its CEO, supervises its operations, and provides a legally binding guarantee for Credendo ECA's obligations.

We believe the likelihood of government support will not change. The Belgian government established Credendo ECA in 1935 with a mandate to support exports and investments abroad. It fully owns the company, and we expect this ownership structure will continue, particularly because it complies with EU competition rules on state aid. The government has a track record of providing financial support to Credendo ECA, mainly through capital increases in the 1980s following sovereign debt crises in Africa, Latin America, and Asia. The COVID-19 pandemic recently further highlighted Credendo ECA's importance to the government. During the pandemic, the government gave new mandates to the company as part of its strategy to support the Belgian economy. Moreover, given the government's low level of contingent liabilities, we believe it has the capacity and willingness to support Credendo ECA in a timely manner if needed. More generally, we do not consider the Belgian government's propensity to support government-related entities in doubt.

In light of its status as a federal institution of public interest (class 'C' public institution), Credendo ECA is a not-for-profit company under the direct supervision of the Belgian government. The company acts either on behalf of the state (with a specific trustee mandate), or on its own account with the state's guarantee. By law, the Minister of Finance must approve all decisions taken by Credendo ECA on behalf of the state, and the Minister of the Economy has the power to veto decisions that carry a government guarantee. Owing to national and European regulations, this guarantee only applies to Credendo ECA, and not its private subsidiaries, Credendo STE, Credendo STN, and Credendo GSR. Although the company is debt free, any debt issuance would automatically carry a government guarantee according to the legal framework.

We regard Credendo STN (financial strength rating A/Stable/--) and Credendo STE (financial strength rating A/Stable/--) as core subsidiaries of Credendo ECA. We view Credendo GSR (financial strength rating A-/Positive/--) as highly strategically important to the group. These entities operate as dedicated entities selling short-term trade credit insurance policies covering risks in emerging and developing markets and in European markets. In the context of long-lasting budgetary consolidation, we understand the Belgian government, which actively participates in forming the group's strategy and goals, fully supports this diversification strategy. Credendo GSR's net income has been volatile and negatively affecting the group's technical and financial profitability. A change in group status to core from highly strategically important will hinge on a stabilization of the company's net income in line with group's risk appetite. The surpluses from the company's market window activities and the operations of its subsidiaries are intended to contribute to the group's performance.

Although Credendo ECA does not have a regulatory need to abide by the Solvency II framework, the company demonstrates an excellent level of capital adequacy based on the revised S&P Global Ratings' risk-based capital model. At year-end 2023, the consolidated balance sheet totaled €3.76 billion, including €2.8 billion of equity. As the company's credit insurance activity is inherently volatile due to exposures to political risks and economic cycles, its public-sector nature means that bottom-line results are less important, as shown by the fluctuations in its profitability. This further demonstrates that Credendo ECA carries out a strategic mission for the Belgian government that a private-sector entity could not readily undertake.

The impact of our revised capital model criteria on Credendo ECA is not material. The capital adequacy remains consistent with the previous year. Some of the increase in capital adequacy results from enhancing consistency in assessing liability-related risks by aligning the treatment of trade credit with other non-life business lines. This translates into a decrease in liability risk charges in addition to the application of premium and reserve risk charges under the new model. This is partially offset by higher asset risk charges leading to a similar redundancy above the highest stress level in our capital model at 99.99%. Furthermore, under the new model, trade credit insurers overall take advantage of an increase in the diversification benefit.

Credendo ECA reported a net income of €130 million for 2023, with a combined ratio (loss and expense) of 70.8% under International Financial Reporting Standard (IFRS) 4. These figures are unaudited because the company intends to publish its 2023 annual report under IFRS 17 by the fourth quarter of 2024.

Environmental, social, and governance (ESG)

Environmental, social and governance credit factors have no material impact on our analysis of Credendo ECA.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Regulatory Disclosures For Each Credit Rating Including Ratings List Table

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- Key Elements Underlying The Credit Rating
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- Analysts Primarily Responsible For The Credit Rating
- Office Responsible For The Credit Rating
- Materials Used In The Credit Rating Process
- Criteria Applied
- Models Applied, Loss, And Cash Flow Analysis Performed
- Scenario Analysis
- Sensitivity Analysis
- Risk Warning, Understanding Credit Rating Categorizations, And Criteria
- Rated Entity Notification
- Ancillary And Additional Services
- Attributes And Limitations Of The Credit Rating
- Information Specific To Structured Finance And Securitization Instruments

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