S&P Global Ratings

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Research Update:

Insurers Malakoff Humanis Prevoyance, Mutuelle Malakoff Humanis, And Quatrem Rated 'A+'; Outlook Stable

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Overview

- Malakoff Humanis Prevoyance, Mutuelle Malakoff Humanis, and Quatrem are core operating entities of the Malakoff Humanis group, the leader for workplace group health and protection insurance policies in France, with €6.5 billion gross written premiums in 2021.
- We expect the group's profitability will stabilize over the coming two years following last year's recovery from COVID-19 fallout in 2020 and the volatility due to the integration costs of Humanis in 2019.
- We believe the group's capital adequacy will remain comfortably above our 'AAA' capital model over the 2022-2024 outlook horizon, despite higher interest rates and lower equity markets.
- We assigned our 'A+' ratings to Malakoff Humanis Prevoyance, Mutuelle Malakoff Humanis, and Quatrem.
- The stable outlook reflects our expectation that the group will maintain its robust capital adequacy and stabilize its earnings pattern.

Rating Action

On July 18, 2022, S&P Global Ratings assigned its 'A+' long-term issuer credit and insurer financial strength ratings to Malakoff Humanis Prevoyance, Mutuelle Malakoff Humanis, and Quatrem, three core operating entities of France-based health and protection insurance group Malakoff Humanis (MH). The outlook is stable.

Rationale

The 'A+' ratings reflect MH's strong positioning on the French market. The group is particularly strong in group health and protection insurance, where it has a leading position, with €6.5 billion gross written premiums in 2021. According to French law, private-sector entities must offer group health and protection insurance for all their employees, and it covers accident, absence, and disability in the workplace. The group strengthened its market position in 2019 with the integration of Humanis. MH covers 10 million people, capturing roughly 40% of the private sector working population in France. Furthermore, the group plans to expand its franchise in employee and retirement savings business.

MH's profitability has been volatile over recent years due to the integration of Humanis and the impact of COVID-19 measures. According to our calculations, the group's average combined (loss and expenses) ratio was 104.2% over the past five years, which is higher than similarly rated peers. That said, we consider that MH's expense ratio is in line or better than competitors', and that the loss ratio is mainly driven by MH's goal to maximize policyholder benefits and does not indicate a weakness in underwriting. In fact, we view MH's reserving practices to be prudent and should allow the group to absorb potential negative claims deviation without incurring material losses. Although the strengthening of Humanis' technical reserves in 2019 weighed on the combined ratio and COVID-19-related measures set the group back in 2020, the 2021 earnings are more indicative of MH's competitive strengths.

Under our methodology, MH' capital adequacy will show resilience. We believe it will remain comfortably above the 'AAA' level over the next three years, even after considering the negative impact on asset valuations of the rise in interest rates and the decline in equity markets since January 2022. Although we expect the return on equity (ROE) to remain at about 3%-4%, in line with 2021 results, we believe the group's stable earnings, comfortable capital buffers, prudent reserving, minimal financial debt costs, and absence of a dividend requirement position the group to weather competitive and inflationary pressures. The group had a regulatory solvency II ratio of 210% at year-end 2021 using the standard formula and excluding transitional measures, and we expect this metric to remain above 200% over the coming years.

The equity portfolio represents nearly 20% of the total invested assets, which is above market average and could therefore generate earnings or capital volatility. Moreover, the group holds 10% of its overall investments in real estate and 6% in unrated bonds, leading us to consider that the group has a moderately high-risk exposure. This is mitigated, however, by the high credit quality of the core liquid fixed-income portfolio. We also consider unlikely that MH will materially increase its debt leverage or carry out sizable capital-dilutive acquisitions, suggesting that the group maintain a high quality of capital. We forecast that the group's capital adequacy and earnings will comfortably sustain excellent levels. This, alongside the group's clear leadership in group workplace health and protection leads us to derive an 'a+' anchor from our view of MH's strong business risk profile and very strong financial risk profile.

We consider Malakoff Humanis Prevoyance, Mutuelle Malakoff Humanis and Quatrem as core entities of MH. To meet the regulatory obligation linked to the Solvency II Directive, the providence institutions and mutual insurance companies of the group are linked within a prudential legal structure, while having no capital ties. This mechanism ensures financial solidarity between its members in case of need. In addition, we expect the group to bring financial support to its 100% owned subsidiaries if the need arises.

Outlook

The stable outlook reflects our view that, over the next 12-24 months, MH will maintain robust capital adequacy despite the currently volatile financial markets. We expect the group will also continue to post underwriting results in line with those of 2021 and a ROE of 3%-4%.

Downside scenario

We could lower the ratings on MH if we believe the group was unable to sustain its capital adequacy above S&P Global Ratings' 'AAA' level or if profitability materially weakened over a prolonged period. We could also lower the rating if the business or regulatory environment changed markedly and jeopardized the stability of the group's financial metrics.

Upside scenario

Although unlikely, we could raise the ratings on MH during the coming two years if the group significantly and sustainably improved its profitability metrics and successfully diversified its business lines and geographies. Such a rating action would also hinge on more conservative investments.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-1, G-2

Social factors are a positive consideration in our credit rating analysis of MH. We believe that the mutual non-profit status, core focus on providing accident, disability and long-term care coverage to French workers under mandatory group policies with a view to maximizing policyholder benefits, positively influence French society. French private-sector entities must extend both health and protection policies to all employees. Even though MH leads the French market, covering 10 million workers in France, the group maintains a social pricing, exhibiting a combined-ratio structurally higher than 100% and ROE below 5% indicative of its focus on maximizing policyholder benefits. Also, the group provides a digital tool to help client companies identify and address staff morale issues. Over the first four years following implementation, the companies using the tool noted a material drop in employees' absenteeism and compensated sick leave compared with reports from peers. We believe reduced absenteeism and sick leave indicate that MH contributes to improving working conditions in many French companies, going beyond its claims paying insurance activity. Furthermore, during the COVID-19-related lockdowns in 2020, the group provided voluntary financial compensations that went beyond its contractual commitments. Finally, we believe that the group's social pricing and human resources tools strengthen the brand and reputation, underpinning our assessment of a strong competitive position--which we see in the group's market leadership and customer loyalty, with an average contract duration of 10 years.

Environmental and governance factors have no material influence on our credit rating analysis of MH.

Ratings Score Snapshot

Financial strength rating	A+
Anchor*	a+
Business risk	Strong
IICRA	Low Risk

Competitive position	Strong
Financial risk	Very Strong
Capital and earnings	Excellent
Risk exposure	Moderately High
Funding structure	Neutral
Modifiers	0
Governance	0
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

*This is positively influenced by our view of MH's very robust and resilient capitalization. IICRA--Insurance Industry And Country Risk Assessment.

ESG credit indicators: E-2, S-1, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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

New Rating	
Malakoff Humanis Prevoyance	
Quatrem	
Mutuelle Malakoff Humanis	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--