MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades MACIF's restricted Tier 1 notes to Baa3(hyb)

21 April 2023

Paris, April 21, 2023

Moody's Investors Service (Moody's) today upgraded the EUR400 million perpetual restricted Tier 1 notes issued by MACIF (insurance financial strength rating (IFSR) A2, stable) to Baa3(hyb) from Ba1(hyb). The company's IFSR and outlook remain unaffected.

MACIF is a mutual Property and Casualty (P&C) insurer and is part of the larger Aéma Groupe, which also includes the activities of the health mutual insurance group Aesio Mutuelle. MACIF is subject to financial solidarity links with all mutual entities of Aéma Groupe.

RATINGS RATIONALE

Moody's upgrade of MACIF's restricted Tier 1 notes was driven by the increase of Aéma Groupe's reported Solvency II ratio to 188% at year-end 2022 from 155% at year-end 2021 and Moody's expectation that Aéma Groupe will maintain its Solvency II ratio sustainably above 170%. The group's Solvency II ratio target has also been recently increased to 200% by 2026 from 190% by 2024. This diminishes the probability of coupon cancellation and principal write down on the notes.

The majority of the increase of the Solvency II ratio in 2022 was due to higher interest rates (around 20 percentage points (ppts) out of 33 ppts), while a portion was linked to model optimization (5 ppts) and subordinated debt issuance (7 ppts), albeit to be largely reversed (-6 ppts) through the redemption of EU 400 million of Tier 2 debt on 8 March 2023.

The sensitivity of the Solvency II ratio to interest rate movements also substantially decreased in 2022 with a new impact of only +3/-3 ppts resulting from a 50 basis-point increase/decrease of interest rates (from +13/-17 ppts at year-end 2021). In addition, the Baa3(hyb) rating of the notes reflects: (1) their deeply subordinated status – the notes rank junior to all MACIF's dated subordinated and dated junior subordinated debt, (2) the risk of coupon cancellation on a non-cumulative basis – coupons can be cancelled at any time at the issuer's option and are mandatorily cancelled in case of breach of the solvency capital requirement (SCR) or minimum capital requirement (MCR) at the level of MACIF or Aéma Groupe or in case of regulatory intervention, and (3) the risk of principal write-down under certain circumstances. The notes will be fully written down if MACIF's or Aéma Groupe's own funds fall below 75% of the SCR or below their MCR. The notes will be partially written down if MACIF's or Aéma Groupe's own funds fall between 100% and 75% of the SCR for more than three months, as prescribed by the regulation.

Moody's assesses the probability of the write-down trigger (own funds below 100% of the group's SCR) being breached using an approach that is model-based. The outcome of the model is then supplemented by qualitative considerations which can be specific to the insurer or the jurisdiction.

The model takes into account MACIF's creditworthiness as captured by its A2 IFSR, Moody's expectation of Aéma Groupe's Solvency II ratio and its disclosed ratio sensitivities.

The restricted Tier 1 notes also allow for a conditional and discretionary principal reinstatement in the first ten years following a write-down. Such reinstatement would be possible if the group complies again with its SCR, is not subject to any administrative procedure and if such reinstatement was allowed by the regulation. The reinstatement would occur only on the basis of profits generated subsequent to the restoration of the SCR.

Moody's approach to rating such contingent capital securities is described in its cross-sector insurance rating methodology Assigning Instrument Ratings for Insurers Methodology (https://ratings.moodys.com/api/rmc-documents/183637) published in January 2022.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

The two key drivers of the rating of the restricted Tier 1 notes are (1) the level of Aéma Groupe’s Solvency II ratio and (2) MACIF’s IFSR. A downgrade of the notes could occur if Aéma Groupe's Solvency II ratio declined sustainably below 170% and/or if MACIF's A2 IFSR were downgraded. Conversely, an upgrade of the notes could occur if Aéma Groupe’s Solvency II ratio increased sustainably above 230% and/or if MACIF's A2 IFSR were upgraded.

PRINCIPAL METHODOLOGIES

The methodologies used in this rating were Life Insurers Methodology published in January 2023 and available at https://ratings.moodys.com/api/rmc-documents/397713, and Property and Casualty Insurers Methodology published in January 2023 and available at https://ratings.moodys.com/api/rmc-documents/397707. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody’s key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody’s Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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