Moody's Investors Service

Credit Opinion: Net Insurance SpA

Global Credit Research - 23 Sep 2009

Rome, Italy

Ratings

Category	**Moody's Rating**
Rating Outlook	NEG
Insurance Financial Strength	Baa3

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Key Indicators

[1][2]**Net Insurance SpA**
EUR Mil.

	2008	**2007**	**2006**	**2005**	**2004**
Total Assets	**303**	**276**	**201**	**142**	**98**
Equity	**34**	**35**	**23**	**11**	**8**
Net Income	**2**	**11**	**4**	**3**	**2**
Gross Premiums Written	**68**	**59**	**83**	**66**	**56**
Net Premiums Written	**37**	**34**	**50**	**39**	**33**
Gross Underwriting Leverage	**9.4x**	**7.9x**	**11.0x**	**19.1x**	**21.4x**
Return on Equity (1 yr.)	**5.3%**	**34.0%**	**25.4%**	**29.3%**	**29.6%**
Sharpe Ratio of Growth in Net Income (5 yr.)	**61.4%**	**67.4%**	**49.9%**	**-**	**-**
High Risk Assets % Invested Assets	**16.5%**	**14.3%**	**23.0%**	**15.2%**	**3.7%**
Reinsurance Recoverable % Equity	**322.2%**	**280.1%**	**322.1%**	**630.0%**	**706.1%**
Goodwill % Equity	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

[1] 2008 and 2007 information based on consolidated financial statements under IFRS [2] 2006 to 2004 information based on Italian GAAP financial statements

Opinion

SUMMARY RATING RATIONALE

Net Insurance S.p.A. - "Net", Baa3 insurance financial strength rating (IFSR), negative outlook - is a non-life company specialised in job loss insurance in Italy, a niche line with a market Gross Written Premiums (GWPs) of approximately EUR185 million in 2008. Moody's rating reflects Net's leading position in job loss segment - approximately 46% market share in 2008 -, its high level of technical expertise and Moody's expectation with regards to the company's maintenance of its conservative reinsurance programme and capital management policy in the medium term. At the same time, the rating is influenced by Net's small size and mono-line nature as well as its limited track record.

Moody's also notes Net's exposure to regulatory/legal risk, given the company's focus on the job loss market - 92% of consolidated GWPs in 2008 -, which is based on a very specific legal framework. In particular job loss insurance products in Italy protect the retail lender against the inability of the borrower to repay the loan upon occurrence of specific events (e.g. job loss, death). Purchase of this protection product is compulsory for anyone taking out a personal loan guaranteed by their salary in Italy. As per the Italian law governing the Cessione del Quinto (CDQ) and Delegazione di Pagamento (DP) products, these loans are secured by a preferential claim of 20% on the policyholder's salary. Furthermore, the amounts to repay the loans are debited directly by the bank from the borrower's salary on a monthly basis. The CDQ and DP are the most senior claims on the borrower. These factors also support the extremely low historical losses compared to other personal loan products in Italy and Europe.

Credit Strengths

- Leading position in the Italian job loss insurance market

- Conservative reinsurance programme and capital management

- Strong management team with considerable technical expertise

- Strong shareholder base, including Swiss Reinsurance Company (A1 IFSR, negative), Ucifin (part of UniCredit SpA, Aa3 LT bank deposits rating, stable) and Unione di Banche Italiane S.c.p.A. (A1 LT bank deposits rating, stable) with respectively 10.4%, 13.0% and 4.0% of shares at year-end 2008

Credit Challenges

- Small size and mono-line nature of Net's business

- Limited track record, especially in new lines of business

- Exposure to legal and regulatory changes in job loss insurance, which represent the majority of Net's business

Rating Outlook

The outlook of Net is negative. The negative outlook reflects the expectation of deteriorating economic environment in Italy which may contribute to higher level of combined ratio for the company in the future. In particular Moody's expects unemployment to likely rise to 9.2% in 2009 from 6.7% in 2008 and to further increase in 2010; this deterioration could continue to put pressure on the claims level arising from job loss insurance policies, the sector of the market where the majority of Net insurance's premiums are written.

What Could Change the Rating - Up

- Profitable diversification in new lines of business

- Conservative risk management and capital management policy

- Stable and sustained profitability

What Could Change the Rating - Down

- Any material deterioration in the operating performance - combined ratio close to 100% in the medium-term - and/or a material deterioration of Net's risk profile and capital structure that could compromise its fundamentals

- Any material regulatory change in the Italian Law governing the CDQ and DP products, as well as any very aggressive market entry by a major Italian financial institution in the money-loss sector which could erode significantly Net's current market position

- An increase in operating leverage

Recent Results

Under IFRS consolidated GWPs were EUR 67.8 million in 2008, representing an increase of +15.1% YoY; consolidated net income decreased to EUR 1.8 million in 2008 from EUR 11.5 million in 2007 due, among others, to assets impairments of EUR4.3 million - equally split between equities and bonds -, a deterioration in the combined ratio and, above all, to the exceptional gain of EUR5.7m recorded in 2007 from the sale of 20% stake in Prestiitalia S.p.A.. Consolidated total assets increased to EUR 302.9 million (+9.9% YoY).

DETAILED RATING CONSIDERATIONS

Moody's rates Net Insurance Baa3 for insurance financial strength, which is lower than the Baa2 rating indicated by the adjusted Moody's insurance financial strength rating scorecard. The lower Baa3 rating reflects the potential regulatory risk associated with the job loss insurance market, its concentration on a single line of business, as well as the company's level of risk management and corporate governance compared to higher rated peers.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

Factor 1 - Market Position, Brand and Distribution: Ba

Net is the leading player in job loss segment Italy with approximately 46% market share in 2008. Nonetheless, given the company's size and the small dimension of this market segment, on a global basis Net's franchise is more consistent with a Ba rating level.

Factor 2 - Product Focus and Diversification: Ba

In 2008 product diversification remained very limited, with 92% of the premiums generated by job loss, although Moody's understands that the company is actively diversifying in the life business in the course of 2009.

Job loss insurance business is considered to be relatively a low risk business line given the restricted conditions of these loans: (i) by law, the loan repayment is capped at 20% of the net monthly salary for CdQ and 50% for DP and is directly debited by the bank from the borrower's salary on a monthly basis; (ii) generally high job security in the public sector and high recovery rates in the private sector, and (iii) the ability of the insurer to access the private sector employee's severance indemnity - trattamento di fine rapporto, "TFR" - to offset any claim.

Factor 3 - Asset Quality: A

Net's high risk assets level is viewed in the Aa rating category on a consolidated level, thanks to a relatively moderate exposure to equities. However reinsurance recoverables - gross of Unearned Premium Reserves (UPR) - as a percentage of equity remain very high, at about 322% in 2008, more consistent with a Ba rating level. Despite the material credit risk and concentration associated with reinsurance companies, Moody's notes the good quality of Net's reinsurance programme which is led by Swiss Re. Overall, Moody's views Net's asset quality as good and scores it in the single A rating category.

Factor 4 - Capital Adequacy: A

In 2008 Net Insurance capital adequacy, although impacted by a negative AFS revaluation reserve for EUR2.9m, remains robust and solvency ratio was at 240% on a consolidated basis.

Factor 5 - Profitability: A

In 2008 Net reported good although weakening profitability: 1-year ROE was 5.3% compared to a 24.7% 5-year average ROE. The net combined ratio increased to 87.1% in 2008, from 77.5% based on statutory accounts, as a result of a worsening of the loss ratio and increasing general expenses, although it remains below 80% for the past 5 years.

Moody's notes that Net Insurance benefits from limited - although increasing - diversification from other business lines than job loss insurance. Moody's takes a conservative stance on profitability given that Net's profitability has not been tested over the cycle as well as Net's earnings dependence on one line of business.

Factor 6 - Reserve Adequacy: A

There is little or no evidence of net reserve deterioration over the past five years. Reserving practices are conservative in light of the nature of the business.

Factor 7 - Financial Flexibility: Baa

Despite the negligible usage of financial debt, Moody's regards Net's overall financial flexibility as adequate, sustained by some large minority shareholders. This mainly reflects the company's potential capital dependency from shareholders as well as the relatively low access to capital market as a non-listed and small company.

Rating Factors

Net Insurance SpA

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa	< Baa	Score	Adjusted Score
Business Profile						**Baa**	**Ba**
Market Position, Brand and Distribution (25%)						**Baa**	**Ba**
Market Share Ratio					**X**		
Relative Market Share Ratio					**X**		
Expense Ratio % NPW		**X**					
Product Focus and Diversification (10%)						**Baa**	**Ba**
Product Focus		**X**					
P&C Product Diversification					**X**		
Geographic Diversification					**X**		
Financial Profile						**A**	**Baa**
Asset Quality (5%)						**Baa**	**A**
High Risk Assets % Invested Assets		**16.5%**					
Reinsurance Recoverable % Equity					**322.2%**		
Goodwill % Equity	**0.0%**						
Capital Adequacy (15%)						**Ba**	**A**
Gross Underwriting Leverage					**9.4x**		
Profitability (15%)						**Aa**	**A**
Return on Equity (5 yr. avg.)	**24.7%**						
Sharpe Ratio of Growth in Net Income (5 yr.)			**61.4%**				
Reserve Adequacy (10%)						**Aaa**	**A**
Adv/(Fav) Reserve Dev. % Beg. Reserves (5 yr. avg.)	**-26.4%**						
A&E Net Funding Ratio (5 yr. avg.)							
Financial Flexibility (20%)						**Aaa**	**Baa**
Financial Leverage	**N/A**						

Earnings Coverage (5 yr. avg.)	**N/A**						
Cashflow Coverage (5 yr. avg.)	**N/A**						
Aggregate Profile						**A3**	**Baa2**

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