Credit Opinion: Net Insurance SpA

Net Insurance SpA

Rome, Italy

Ratings

Category	Moody's Rating
Outlook	Stable
Insurance Financial Strength	Baa3

Contacts

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Key Indicators

[1]
Net Insurance SpA

	2006	2005	2004	2003	2002
Total Assets (EUR Mil.)	201	142	98	57	28
Equity (EUR Mil.)	23	11	8	6	4
Net Income (EUR Mil.)	4	3	2	1	0
Gross Premiums Written (EUR Mil.)	83	66	56	34	22
Net Premiums Written (EUR Mil.)	50	39	33	19	15
Gross Underwriting Leverage	11.0x	19.1x	21.4x	21.7x	23.7x
Return on Equity (1 yr.)	25.4%	29.3%	29.6%	17.7%	2.0%
Sharpe Ratio of Growth in Net Income (5 yr.)	49.9%	-	-	-	-
High Risk Assets % Invested Assets	23.0%	15.2%	3.7%	7.9%	3.0%
Reinsurance Recoverable % Equity	322.1%	630.0%	706.1%	785.3%	898.5%
Goodwill % Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Adv/(Fav) Dev. % Beg. Reserves (1 yr.)	-83.4%	-	-	-	-

[1] Information based on GAAP financial statements

Opinion

SUMMARY RATING RATIONALE

Net Insurance SpA (Net, Baa3 insurance financial strength rating (IFSR) - stable 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 EUR 180 million in 2006. Moody's rating reflects Net's leading position in job loss segment (approximately 46% market share in 2006), its high level of technical expertise and good profitability, as well as 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 (96% of gross premiums in 2006), which is based on a very particular legal framework. 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

- Good profitability: combined ratio 76.8% in 2006 (74.1% in FY 2005)

- Strong management team with considerable technical expertise

- Strong Shareholder base, including Swiss Reinsurance Company (Aa2 IFSR, stable), FinecoBank (part of UniCredito Italiano SpA, Aa2 LT bank deposits rating, stable) and Unione di Banche Italiane (A1 LT bank deposits rating, positive) with 10.4%, 13.0% and 4.0% of shares respectively

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

Rating outlook is stable

What Could Change the Rating - Up

- Stable and sustained profitability through out 2007, consistent with previous years' results

- Conservative risk management and capital management policy

- Further improvement of Net's market position in the job- and money-loss sector, and positive results in new lines of business

What Could Change the Rating - Down

- 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 that could erode significantly Net's current market position

- A slowdown in capital building either due to lower operating earnings or a higher dividend payout ratio

- An increase in operating leverage

Recent Results

Besides the above-mentioned shareholders' capital increase, in 2006 GWPs increased to EUR 83.4 million (+26.2% YoY), Total Assets increased to EUR 201.3 million (+41.5% YoY) and Net Income increased from EUR 2.8 million to EUR 4.3 million.

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 Ba1 rating is driven by the underlying credit fundamentals of the company, as well as other qualitative considerations in a global perspective. Particularly, Net's rating reflects the potential regulatory risk associated with the job loss insurance market 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 2006. Nonetheless, given the company's size, in a global context Net's franchise is more consistent with a Ba rating level.

Factor 2 - Product Focus and Diversification: Ba

Job loss insurance business is considered to be relatively low risk, due to the high job security in the public sector and high recovery rates in the private sector, as well as the restricted conditions of these loans and the ability of the insurer to apply the private sector employee's severance indemnity (trattamento di fine rapporto or TFR) to offset any claim. However, due to the mono-line nature of the company and low level of geographic diversification, this is rating factor is more consistent with Ba level in a global perspective.

Factor 3 - Asset Quality: A

On the one hand, Net's high risk assets level is consistent with an A rating, while, on the other hand, reinsurance recoverables (gross of Unearned Premium Reserves (UPR)) as a percentage of equity are about 322% and is consistent with a Ba rating level. Despite the material credit risk and concentration associated with reinsurance companies, Moody's notes the high quality of Net's reinsurance programme which is led by Swiss Re. Overall, Moody's views Net's asset quality as good.

Factor 4 - Capital Adequacy: A

In 2006, Net Insurance reported an exceptional growth of shareholder equity of 109%, due to the capital increase of approximately EUR 7.5 million by Swiss Re and FinecoBank. Moody's considers Net Insurance's capital adequacy as strong, as confirmed by a gross underwriting leverage consistent with an A rating level. However, as mentioned, Moody's has some concerns over potential funding or dividend requirements associated with the company's owners which may exert downward pressure to Net's rating.

Factor 5 - Profitability: A

In 2006 the company reported outstanding 1-year and 5-year average ROEs of 25.4% and 20.8%, respectively. The company's high profitability is confirmed by the combined ratio, which remained constantly below 80% for the past 5 years. Despite this profitable growth, Moody's takes a conservative stance on this particular metric 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 9 - Financial Flexibility: Baa

Despite the negligible usage of financial debt, Moody's regards Net's overall financial flexibility as adequate, albeit improving in light of the new shareholders' structure. 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.

Other Considerations

Net's Ba1 IFSR rating is driven by the above-mentioned rating factors, as well as other qualitative considerations. Thus, despite the afore-mentioned improvements, Net's rating also reflects Moody's opinion on regulatory risk associated with job loss insurance, low barriers of entry, the current level of corporate governance and risk management of the company compared to higher rated peers.

Rating Factors

Net Insurance SpA

Financial Strength Rating Scorecard [1]	**Aaa**	**Aa**	**A**	**Baa**	**< Baa**	**Score**	[2]**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	**6.3%**						
Product Focus and Diversification (10%)						**Baa**	**Ba**
Product Focus		**X**					
P&C Product Diversification					**X**		
Geographic Diversification					**X**		
Financial Profile						**A**	**A**
Asset Quality (5%)						**Baa**	**A**
High Risk Assets % Invested Assets			**23.0%**				
Reinsurance Recoverable % Equity					**322.1%**		
Goodwill % Equity	**0.0%**						
Capital Adequacy (15%)						**Ba**	**A**
Gross Underwriting Leverage					**11.0x**		
Profitability (15%)						**Aa**	**A**
Return on Equity (5 yr. avg.)	**20.8%**						
Sharpe Ratio of Growth in Net Income (5 yr.)			**49.9%**				
Reserve Adequacy (10%)						**A**	**A**
Adv/(Fav) Reserve Dev. % Beg. Reserves (5 yr. avg.)			**X**				
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**

[1] Information based on GAAP financial statements [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis