Moody's Investors Service

Global Credit Research
Credit Opinion
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Credit Opinion: Net Insurance SpA

Net Insurance SpA

Rome, Italy

Ratings

Category	Moody's Rating
Rating Outlook	STA
Insurance Financial Strength	Baa3

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Key Indicators

[1]
Net Insurance SpA

	2007	2006	2005	2004	2003
Total Assets (EUR Mil.)	**273**	**201**	**142**	**98**	**57**
Equity (EUR Mil.)	**33**	**23**	**11**	**8**	**6**
Net Income (EUR Mil.)	**10**	**4**	**3**	**2**	**1**
Gross Premiums Written (EUR Mil.)	**97**	**83**	**66**	**56**	**34**
Net Premiums Written (EUR Mil.)	**53**	**50**	**39**	**33**	**19**
Gross Underwriting Leverage	**9.6x**	**11.0x**	**19.1x**	**21.4x**	**21.7x**
Return on Equity (1 yr.)	**36.5%**	**25.4%**	**29.3%**	**29.6%**	**17.7%**
Sharpe Ratio of Growth in Net Income (5 yr.)	**65.5%**	**49.9%**	**-**	**-**	**-**
High Risk Assets % Invested Assets	**24.0%**	**23.0%**	**15.2%**	**3.7%**	**7.9%**
Reinsurance Recoverable % Equity	**295.6%**	**322.1%**	**630.0%**	**706.1%**	**785.3%**
Goodwill % Equity	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

[1] Information based on Italian 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 200 million in 2007. Moody's rating reflects Net's leading position in job loss segment (approximately 45% market share in 2007), 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 (96.8% of GWPs in 2007), 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 77.5% in 2007 (76.8% in FY 2006)

- Strong management team with considerable technical expertise

- Strong shareholder base, including Swiss Reinsurance Company (Aa2 IFSR, stable), FinecoBank (part of UniCredit SpA, Aa2 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 2007

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

- 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 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

In 2007 GWPs were EUR 96.8 million, representing an increase of +16.1% YoY; net income more than doubled to EUR 10.2 million, mostly due to an extraordinary gain on the sale of an equity stake in Presitalia S.p.A. for EUR 5.9 million. Total assets increased to EUR 273 million (+35.6% 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 45% market share in 2007. 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 access the private sector employee's severance indemnity (trattamento di fine rapporto "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

Net's high risk assets level is consistent with an A rating. However reinsurance recoverables (gross of Unearned Premium Reserves (UPR)) as a percentage of equity are about 296% 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

Net Insurance capital adequacy has increased in the past two years and is considered to be strong thanks to a capital increase of approximately EUR 7.5 million by Swiss Re and FinecoBank and strong retained earnings. Nevertheless Moody's continues to have 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 2007 the company reported outstanding 1-year and 5-year average ROEs of 36.5% and 27.7%, respectively. When excluding the exceptional gain from the sale of an equity stake in Presitalia S.p.A for EUR 5.9 million in 2007, ROR for 2007 declines to 15.0% which is still viewed as strong.

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 7 - 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.

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	**13.5%**						

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			**24.0%**				
Reinsurance Recoverable % Equity					**295.6%**		
Goodwill % Equity	**0.0%**						
Capital Adequacy (15%)						**Ba**	**A**
Gross Underwriting Leverage					**9.6x**		
Profitability (15%)						**Aa**	**A**
Return on Equity (5 yr. avg.)	**27.7%**						
Sharpe Ratio of Growth in Net Income (5 yr.)			**65.5%**				
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 Italian 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