Groupama EUR500m sub comeback seals recovery

Groupama put the seal on its recovery on 17 September with its first wholly new money transaction since 2009 and its first since its sub debt was returned to investment grade by Fitch last year, in a EUR500m no-grow 10 year deal that attracted over EUR1.35bn of demand from more than 110 accounts. Groupama group CFO Cyril Roux *(pictured)* discussed the significance of the trade with *Bank+Insurance Hybrid Capital*.

Why did you approach the market with such a transaction at this time?

Cyril Roux, Groupama: The purpose of this new issue was to manage Groupama's capital structure, extend our maturity profile and improve our financial flexibility in a cost-efficient manner, taking into account our redemption profile.

As regards the timing, we anticipated, in line with our banking syndicate, more supply in the subordinated space after the summer and higher market volatility in the coming months.

Hence, we got everything ready to be able to launch the transaction as soon as we published our half-year results. We took advantage of a good earnings momentum and supportive market conditions.

What developments have there been since you last issued a subordinated transaction, in January 2017?

Cyril Roux, Groupama: Groupama has completed its financial recovery, which started a few years ago. The bottom line and profit margins have grown while our solvency ratio has returned to a very comfortable level broadly in line with our peers.

This recovery is reflected in our recent ratings history. In May 2017, Fitch Ratings upgraded our Insurer Financial Strength (IFS) rating from BBB+ to A-. Our subordinated debts thus became classified as investment grade instruments. Then in April 2018, Fitch revised the outlook associated with Groupama's rating to Positive from Stable. Fitch's decisions paved the way for the successful debt issuance we conducted this September.

Why did you choose the structure you used?

Cyril Roux, Groupama: In May 2014 and in January 2017, Groupama came to the market with two liability management transactions involving an exchange offer and some potential new money issuance.

'The bottom line and profit margins have grown'

Now that we are recognized as a bona fide investment grade issuer, there was no need for a liability management exercise. The transaction we conducted this September represented the first new money transaction from the group since 2009. We wanted it to be the most investor-friendly instrument, ergo, a plain vanilla 10 year bullet Tier 2 instrument. As the icing on the cake, this structure is also an inexpensive form of Tier 2 capital under Solvency II.

Insurance companies usually issue 30 non-call 10 or perp non-call 10 types of structure to comply with S&P or Moody's equity credit requirements. Since Groupama is rated by Fitch, we could issue a 10 year bullet; Fitch's methodology gives full equity credit for this type of instrument within their Prism model.

How satisfied were you with the demand and pricing that you achieved?

Cyril Roux, Groupama: All in all, it went very well and we are very satisfied with the outcome. We closed the deal with a final spread of mid-swaps plus 250bp and an order book more than three times oversubscribed. In addition to high demand, the book was of exceptional quality. There was little concession and there hasn't been subsequent tightening, which goes to show the keenness of the pricing achieved by our banking syndicate.

The success of the transaction fully validated our choices of a vanilla transaction and of a one day execution without a physical roadshow.

How do you feel about how you are now positioned in the market?

Cyril Roux, Groupama: The success of the transaction establishes Groupama as a dependable European investment grade financial institution and testifies to the strength of our position with investors. ●