

Research Update:

# Austria-Based UNIQA Group Core Subsidiaries Affirmed At 'A'; Outlook Stable

September 19, 2019

## Overview

- UNIQA is maintaining its leading position in Austria's growing health insurance sector and its strong market position in the Austrian nonlife and life insurance sectors.
- The insurer is also expanding its franchise in Central and Eastern Europe.
- UNIQA's capital adequacy under our risk-based capital model is extremely strong, although the group's capitalization somewhat relies on market-sensitive items.
- We are affirming our 'A' ratings on UNIQA's core operating entities. We are also affirming our 'A-' ratings on UNIQA's operating holding company, UNIQA Insurance Group, and highly strategic subsidiary, UNIQA Versicherung AG.
- The stable outlook reflects our expectation that UNIQA will preserve its extremely strong capital adequacy and maintain its solid competitiveness.

## Rating Action

On Sept. 19, 2019, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on the core operating entities of Austria-based multiline insurance group UNIQA. We are also affirming our 'A-' long-term issuer credit and financial strength ratings on UNIQA's operating holding company and highly strategic subsidiary. The outlook on all entities remains stable.

## Outlook

The stable outlook reflects our expectation that the group will preserve its extremely strong capital adequacy, maintaining its strong competitiveness in its home market. Although we think the insurer will continue to strengthen its position in Central and Eastern Europe (CEE), the benefits from geographic business and income diversification are lower than at higher rated peers.

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## **Upside scenario**

Although we do not expect it over the next 12-24 months, we could raise our ratings on UNIQA if:

- The insurer retains a material capital buffer at extremely strong levels while at the same time showing materially superior profitability compared with domestic and international competitors; or
- Net income and geographic diversification of revenue materially and sustainably increase.

## **Downside scenario**

We do not expect to take a negative rating action over the next 12-24 months, but we could consider it if UNIQA's:

- Capital consistently weakened below the 'AA' range according to our capital model; or
- Funding structure were to deteriorate because of a drop of fixed-charge coverage below 4x for a prolonged period, as a result of lower earnings or higher refinancing costs than in our base case.

## **Rationale**

Our ratings on UNIQA reflect the group's strong position as the second largest insurance group in Austria, with some further expansion into CEE insurance markets. We also think the group benefits from well-established distribution capabilities and a diverse business portfolio of property/casualty, life, and health insurance products. This has allowed UNIQA to retain resilient operating performance despite the ongoing low interest rate environment. We expect UNIQA will continue to focus on prudent expansion of nonlife and health insurance with further gradual improvement in underwriting performance over 2019-2020.

UNIQA has a comfortable capital buffer at the 'AAA' level, according to our risk-based capital model. Moreover, the group maintained a strong Solvency II ratio of 248% for 2018, similar to the 250% ratio in 2017. Under our base-case scenario, we estimate that solid nonlife performance, with a nonlife combined ratio gradually reducing to 95%, will offset lower life business volumes and investment returns. This should safeguard net income at above €200 million over 2019-2020 and enable the group to post return on equity of about 8%, in line with the five-year average. We expect dividend and acquisition strategies to remain supportive to the capital position, with capitalization remaining above the 'AA' level over 2019-2020.

We continue to view UNIQA Insurance Group, the ultimate holding company of UNIQA's operating entities, as an operating holding company. UNIQA Insurance Group has sizable excess capital and significant revenue from its own investments. Although the holding company carries out some underwriting activities, its operational cash flows are comparably small. Therefore, the rating is one notch below the rating of the group's core operations.

## **Ratings Score Snapshot**

## UNIQA Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor*	a
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A

\* Reflects that UNIQA continues to have lower geographic diversification of revenues and net income than higher rated peers.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### Ratings Affirmed

#### UNIQA Insurance Group AG

Issuer Credit Rating	
Local Currency	A-/Stable/--
Financial Strength Rating	
Local Currency	A-/Stable/--
Junior Subordinated	BBB

#### UNIQA Versicherung AG

Issuer Credit Rating	
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**Ratings Affirmed**

Local Currency	A-/Stable/--
Financial Strength Rating	
Local Currency	A-/Stable/--

**UNIQA Oesterreich Versicherungen AG**

**UNIQA Re AG**

Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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