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Summary:
Wiener Staedtische Versicherung AG Vienna Insurance Group

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Summary:

Wiener Staedtische Versicherung AG Vienna Insurance Group

	Local Currency
Credit Rating:	A+/Stable/--

Rationale

The ratings on Austria-based Wiener Städtische Versicherung AG Vienna Insurance Group (VIG) reflect the group's strong competitive position, a positive view of management and its strategic approach, strong operating performance in its key markets, and continued very strong group capitalization. Offsetting these strengths, the wider Central and Eastern European (CEE) expansion, besides Czech Republic and Slovakia, offers relatively limited earnings diversity in the foreseeable future. While a higher level of country and economic risk in the CEE region also currently limits further positive rating momentum, Standard & Poor's Ratings Services believes that management follows a conservative approach and has a solid reputation in successfully managing risks associated with its expansion strategy.

VIG benefits from a very strong competitive position domestically, reflecting sound diversification by line of business and excellent distribution capabilities, and a strong competitive profile in the CEE region. The achieved strong and profitable positions in the Czech Republic and Slovakia are positive examples of their development in the CEE region. More recently, VIG has expanded into strong positions in several other CEE markets and signed promising new joint ventures.

Standard & Poor's views VIG's management as a positive factor, exploiting its leading market position in Austria and following a clear risk-conscious strategic approach in the CEE region. CEE insurance markets are tapped early, but cautiously with moderate initial investment, thus limiting risks while positioning for high growth potential in future. The group aims to develop into a top-five player in each country through a combined organic and acquisitive growth strategy, closely managed by the group's board. The group already reached this target in seven CEE markets.

The group has shown a strong track record of enhanced profitability in recent years, significantly driven by generating sound technical profits. The non-life net combined ratio reached 98% in 2006 after 95% in 2005, despite some natural catastrophes, and the life new business margin stood at a strong 3.6% on a present value of new business premium (PVNBP) basis. The Czech and Slovakian businesses are already contributing significantly to group profits. Nevertheless, many CEE insurance markets are still in an early development phase and do not offer significant earnings diversification to the group in the foreseeable future.

VIG maintains very strong capitalization. The 2005 equity capital increase demonstrates its commitment to maintain excellent risk-based capital adequacy to fund the group's growth ambitions. The quality of capital is sound, supported by conservative reserving and reinsurance strategy.

A generally higher level of economic and country risk in the area of expansion that may adversely affect local insurance markets is recognized in the ratings. Although Standard & Poor's foresees some execution challenges deriving from rapid acquisitive expansion, we remain confident that VIG's management team will turn the more recently acquired CEE businesses into more material contributors to group earnings in the future.

Outlook

The stable outlook reflects Standard & Poor's expectation that VIG's management will continue to deliver strong operating results in its key markets and to successfully develop its CEE businesses, thereby underpinning VIG's high rating level. Net combined ratios for the group of about 97% and life new business margins higher than 3.5% should translate into an ROE well in excess of 10% in 2007 and beyond. Group capitalization is expected to remain very strong in the future. Non-Austrian operations are expected to contribute about 40% of group profits by 2007 and should become a dominant driver in the long run.

An outlook revision to negative is unlikely, but could emerge from significant unexpected adverse conditions in parts of the CEE region or substantial investments in the development of VIG's competitive profile that have the scale to represent a drain on the group's capitalization.

A positive rating development would require that management demonstrates sustained sound profitability while executing its CEE expansion, and turns some of its younger CEE businesses into significantly stronger profit contributors thereby achieving wider earnings diversity for the group.

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