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Vienna Insurance Group

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Vienna Insurance Group

SACP* Assessments				SACP*		Support		Ratings
Anchor	aa-	Modifiers	-1	a+		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A+/Stable/--
Very Strong								
Financial Risk		Holistic Analysis	-1	Sovereign Risk	0	Gov't Support	0	
Very Strong								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Very Strong

- The group has sound diversification by business line and a well-established multichannel distribution strategy including exclusive distribution with Austrian bank Erste Group.
- Standard & Poor's Ratings Services views the group's competitive position as very strong, based on leading market positions in Austria and Central and Eastern Europe.
- We think earnings will remain sustainably strong, with net income exceeding €400 million per year in 2015-2017.

Financial Risk Profile: Very Strong

- Capital adequacy is excellent, exceeding our benchmark for the 'AAA' level in 2014.
- We anticipate that capital will remain at least very strong in 2015-2017, based on strong earnings that will be sufficient to finance growth and dividend expectations.
- We assess the risk position as intermediate, based on the group's conservative investment portfolio and comprehensive reinsurance coverage.

Other Factors

- Our view of Vienna Insurance Group's (VIG's) business risk and financial risk profiles leads to an anchor of 'aa-'. The ratings are one notch lower than the anchor, however, because we factor in a negative adjustment for our holistic analysis. This reflects our view of VIG's somewhat limited geographic earnings diversification compared with that of higher-rated European peers.

Factors Specific to the Holding Company

- Vienna Insurance Group AG Wiener Versicherung Gruppe is the ultimate holding company of VIG's operating entities, and it also writes internal reinsurance and international corporate and large customer business. Based on our assessment of the company as an operating holding company with sizable excess capital, sound revenues from its own activities like internal reinsurance and corporate business, and comparatively low financial leverage, we equalize the rating on the holding company with that on the group's core operating subsidiary.

Outlook: Stable

The stable outlook on Austrian multiline insurer Vienna Insurance Group AG (VIG) reflects our view that the group will sustain its very strong competitive position in its home market and its leading market position in Central and Eastern Europe (CEE). We think VIG will achieve strong earnings that support at least very strong capital adequacy, despite needs arising from business growth and dividend payments.

Downside scenario

We could take a negative rating action if VIG's:

- Competitive position deteriorated in its domestic market or in CEE;
- Operating performance did not meet our base-case earnings assumptions of continuous material outperformance compared with peers'; and
- Capital adequacy fell below very strong levels for a prolonged period, possibly as a result of deteriorating credit conditions in CEE.

Upside scenario

We see limited rating upside in the next 18-24 months. However, we could take a positive rating action if:

- VIG further diversified its geographic earnings base, significantly and sustainably;
- Operating performance remained consistently at the higher end of our expectations, with no unexpected large one-time losses; or
- Capital adequacy sustainably exceeded the 'AAA' level.

Base-Case Scenario

Macroeconomic Assumptions

- 10-year government bond yields will remain relatively low in the eurozone at about 1.3% on average in 2015, before inching upward to 1.7% in 2016 and 2.2% in 2017.
- Credit market conditions in the eurozone will moderately improve on the back of stabilizing economic growth, with real GDP growth of 1.6% in 2015, 1.9% in 2016, and 1.7% in 2017 (see "Credit Conditions: Despite The Turmoil In Greece, Europe's Fragile Growth Continues," published July 14, 2015, on RatingsDirect).
- We expect muted economic growth for Austria in 2015, with real GDP growth at 0.6%, followed by 1.3% in 2016. In the CEE region, we expect GDP growth to accelerate faster than in Austria, leading to good organic growth opportunities for VIG.

Company-Specific Assumptions

- Capital adequacy should remain at least in the 'AA' range in 2015-2017.
- Net income will likely exceed €400 million in 2016-2017, with the return on equity at 7%-9%.
- We think VIG will maintain its leading market positions in Austria and key CEE markets. We anticipate a net combined ratio (costs and claims divided by premiums) in the 95%-98% range in 2015-2017.
- A life/health new business margin of 3.0%-3.5%.
- Fixed-charge coverage of 7x-9x and financial leverage at less than 20% in 2015-2017.

Key Metrics

	2016f	2015f	2014	2013	2012
Gross premiums written (mil. €)	about 9.300	about 9.200	9,146	9,219	9,646
Net income (mil. €)	>400	>400	391.4	256.3	444.9
Return on shareholders' equity (%)	7-9	7-9	7.6	4.8	8.3
Property/casualty net combined ratio (%)	95-98	95-98	95.4	99.3	93.9
Life/health new-business margin (%)	3.0-3.5	3.0-3.5	3.4	4.1	4.3
Net investment yield (%)	3.0-3.5	3.0-3.5	3.5	3.8	4.0
S&P capital adequacy	At least very strong	At least very strong	Extremely strong	Extremely strong	Extremely strong

f--Standard & Poor's forecast.

Company Description

VIG holds a market leading position in the Austrian insurance sector. It also holds leading positions in CEE, notably in Czech Republic, Slovakia, Poland, and Romania, writing life, non-life, and health business using different brands for different regions. Overall, the group reported gross premiums written of €9.1 billion in 2014, split between property/casualty, 50%; life, 46%; and health, 4%. Austria contributed 44% to total premium income in 2014, with the remaining 56% generated outside Austria, including 19% from Czech Republic, 11% from Poland, and 8% from Slovakia.

VIG's ultimate majority owner is mutual insurer WIENER STÄDTISCHE WECHSELSEITIGER VERSICHERUNGSVEREIN – VERMÖGENSVERWALTUNG – Vienna Insurance Group (Wiener SWVV; not rated), which currently owns about 70% of VIG. The remaining shares are in free float.

Business Risk Profile: Very Strong

Insurance industry and country risk: Intermediate based on diversified geographic presence

In our view, VIG faces intermediate industry and country risk, which reflects a blended assessment of the various insurance markets the company operates in. VIG has built up a diverse business portfolio by sectors and geography, including a leading market position in its domestic Austrian market.

We believe that VIG's insurance industry and country risk for the property/casualty (P/C) sector in Austria is low, mainly based on our view of low country risk and intermediate industry risk. We view Austria's life insurance industry risk as intermediate. We take into account the low interest rates in our negative view of product risk, given the market's asset-liability mismatch risk and comparably high policyholder guarantees in the book of inforce policies.

In Czech Republic, VIG faces intermediate risk in P/C and life, and in Poland, this risk is moderate. We believe our overall industry and country risk assessment for VIG will remain unchanged in 2015-2017.

That said, we believe insurance penetration will remain relatively low in CEE, visibly lagging the average in Western Europe. We therefore expect further growth potential for VIG to emanate from CEE rather than the domestic market.

Table 1

Vienna Insurance Group Industry And Country Risk Assessment (IICRA)

Insurance sector	IICRA	Business mix (%)
Austria life	Low	20
Austria property/casualty (P/C)	Low	24
Czech Republic life	Intermediate	9
Czech Republic P/C	Intermediate	10
Poland life	Moderate	5
Poland P/C	Moderate	6
Turkey P/C	Moderate	1
Germany P/C	Low	1
Germany life	Intermediate	1
Other markets	Moderate	23
Weighted-average IICRA	Intermediate	100

Competitive position: Very strong, based on leading positions in Austria and CEE

In our view, VIG has a very strong competitive position, mainly reflecting the group's leading positions in life and non-life insurance in Austria and CEE. We believe the group's multibrand strategy, multiple distribution capabilities, and broad geographic and business line diversity (P/C 50% of total premiums in 2014, life 46%, and health 4%) are strong market credentials. We also believe that VIG's exclusive bancassurance cooperation agreement with Erste Group Bank AG is a competitive advantage.

In 2014, VIG's operating results recovered significantly, with the ROE at 7.6% and net income at €391 million after 4.8% and €256 million in 2013. This was despite one-time write-offs in 2014 of about €79 million stemming from the group's bond exposure to HETA ASSET RESOLUTION AG (Heta; former Hypo Alpe Aria). VIG's 2013 results were significantly hampered by adverse developments at the group's Romanian and Italian businesses. We believe the bulk of these one-time losses were reported in 2013 and VIG has successfully turned these businesses around. This is reflected in positive pretax results in Romania in 2014 and the first quarter of 2015 after losses in 2011-2013.

Under our base-case scenario, we assume that VIG will be able to translate its very strong competitive position into strong operating performance with low volatility. We believe the group will be able to post net income exceeding €400 million, an ROE of 7%-9%, a combined ratio of 95-98%, and a life/health new-business margin of 3.0%-3.5% in 2015-2017. This is despite the continued low-interest-rate environment and our assumption that VIG's net investment yields will decline in the 3.0%-3.5% range over that period.

We expect VIG to defend its leading position in Austria and CEE in 2015-2017 by leveraging its existing operations and through potential mergers and acquisitions in CEE if opportunities arise.

Table 2

Vienna Insurance Group Competitive Position					
	--Year ended Dec. 31--				
	2014	**2013**	**2012**	**2011**	**2010**
Gross premiums written (GPW) (mil. €)	9,146	9,219	9,646	8,884	8,593
Change in GPW (%)	(1)	(4)	9	3	7
Net premiums written	8,337	8,445	8,935	8,145	7,871
Change in net premiums written (%)	(1)	(5)	10	3	8
Total assets under management*	38,785	36,419	36,571	34,047	33,915
Growth in assets under management (%)	7	(0)	7	0	10
Reinsurance utilization (%)	9	8	7	8	8
Business segment (% of GPW)					
Life	45.9	45.6	47.5	44.4	45.4
P/C	49.9	50.1	48.4	51.5	50.6
Health	4.2	4.3	4.1	4.1	3.9

*Excluding third parties.

Financial Risk Profile: Very Strong

Capital and earnings: Very strong

VIG's capital adequacy in 2014 exceeded our benchmark at the 'AAA' level, benefitting from stable premiums, a continued conservative investment strategy, and sound retained earnings. Dividend payments have increased moderately to €179.2 million in 2015, compared with €166.4 million in 2014, in line with improved bottom-line results.

We assume under our base case that VIG will at least maintain capital adequacy in excess of our benchmark for the 'AA' rating in 2015-2017, supported by earnings of more than €400 million, while financing growth and expected dividend outflows.

Table 3

Vienna Insurance Group Capital					
	--Year ended Dec. 31--				
(Mil. €)	**2014**	**2013**	**2012**	**2011**	**2010**
Common equity	5,283	4,967	5,689	5,050	5,030
Change in common equity (%)	6.4	(12.7)	12.7	0.4	8.7
Total capital (reported)	6,664	7,206	7,952	8,282	7,963
Change in total capital (reported) (%)	(7.5)	(9.4)	(4.0)	4.0	13.6

Table 4

Vienna Insurance Group Earnings					
	--Year ended Dec. 31--				
(Mil. €)	**2014**	**2013**	**2012**	**2011**	**2010**
Total revenues*	9,587	9,806	10,319	9,542	9,208
EBIT adjusted**	498	301	525	902	617
Net income	391	256	445	442	413
Return on shareholders' equity (reported) (%)	7.6	4.8	8.3	8.8	8.6
Property/casualty (P/C): Net expense ratio (%)	29.6	29.9	28.0	28.1	28.7
P/C: Net loss ratio (%)	65.3	69.0	65.3	65.5	66.1
P/C: Net combined ratio (%)	95.4	99.3	93.9	93.9	95.6
P/C: Return on revenue (%)	6.4	1.0	7.6	10.3	8.6
Life: Net expense ratio (%)	16.9	15.6	14.1	16.1	17.4
Life: Value of new business	150	159	204	195	193.9
Life: New business margin (%)	3.4	4.1	4.3	5.5	5.3
Operating earnings by segment					
Life & health	208.7	301.6	232.8	287.5	285.1
Non-life	309.6	53.6	330.9	271.5	222.7

Risk position: Intermediate

In our view, VIG's risk position is intermediate, owing to its conservative investment strategy and sufficient reinsurance cover, which offsets the group's natural catastrophe exposure in Austria and CEE. About 75% of VIG's investments comprise fixed-income securities with an average rating of 'A'. The group's exposure to Heta is not material, in our view, and does not affect our base-case earnings scenario. At year-end 2014, the group's remaining exposure after write-downs totaled about €25 million, and exposure to equity and alternative investments comprised about 6.8% of total investments, which is relatively low compared with peers', in our view.

Table 5

Vienna Insurance Group Risk Position					
	--Year ended Dec. 31--				
(Mil. €)	**2014**	**2013**	**2012**	**2011**	**2010**
Total invested assets	38,785	36,419	36,571	34,047	33,915
Net investment income	1,071	1,139	1,186	1,258	1,207

Table 5

Vienna Insurance Group Risk Position (cont.)					
Net investment yield (%)	3.5	3.8	4.0	4.4	4.4
Net investment yield including realized capital gains/(losses) (%)	4.2	4.5	4.7	4.7	4.9
Net investment yield including all gains/(losses) (%)	3.8	4.2	4.4	3.6	4.3
Investment portfolio composition (%)					
Cash and short-term investments	5.2	6.1	6.6	5.4	4.8
Bonds	72.6	69.3	66.9	58.4	56.8
Equity investments (including investment funds)	6.8	6.6	5.7	5.8	9.1
Real estate	6.0	9.0	10.7	15.5	14.3
Mortgages	1.8	1.4	1.3	1.3	1.3
Loans	3.9	4.5	5.0	10.6	10.6
Investments in affiliates	3.4	2.9	3.7	3.0	3.1
Other investments	0.2	0.1	0.1	0.0	0.1

Financial flexibility: Strong

VIG has strong financial flexibility, in our view, thanks to the group's proven access to capital markets and comparably low financial leverage.

This is backed by the successful issues of €400 million in hybrid debt in early 2015 and €500 million in 2013. We expect the majority shareholder Wiener SWVV to maintain at least 51% of VIG and secure the group's financial independence. We expect that in 2015-2017 the financial leverage ratio (debt plus hybrids to economic capital) will remain comparably low, at less than 20% in 2015-2017, and the fixed-charge coverage ratio at about 7x-9x.

Table 6

Vienna Insurance Group Financial Flexibility					
	--Year ended Dec. 31--				
	2014	**2013**	**2012**	**2011**	**2010**
Fixed-charge coverage (x)	9	7	8	9	8
Financial leverage (%)	19	17	16	16	15

Other Assessments

Enterprise risk management: Adequate with strong risk controls

VIG's enterprise risk management is adequate with strong risk controls, in our opinion. We do not expect the group to experience losses from traditional risk areas outside the normal range. We base our assessment on what we view as VIG's positive risk-management culture and positive risk controls for the group's major risks. We believe that VIG's strategic risk management is still neutral because a holistic approach, including economic capital and risk-and-return considerations in operational and strategic decision-making and performance assessment, is not yet in place.

Management and governance: Strong

VIG's management and governance are strong, in our view. This reflects the group's clear and credible strategic planning and its conservative financial management. Moreover, we believe the group has successfully restructured its underperforming markets in Romania and Italy, which in our view demonstrates the continued execution of its strategy. We believe VIG will continue its expansion in CEE via organic growth and acquisitions within the group's predefined risk tolerances.

Holistic analysis: Lower geographic earnings diversification compared with higher-rated peers'

The combination of our view of VIG's business risk and financial risk profiles leads to an anchor of 'aa-'. The ratings on the group are one notch lower than the anchor, however, based on our holistic analysis. This reflects our view of VIG's limited geographic earnings diversification than that of higher-rated European peers.

Although geographic diversification is improving, we believe earnings remain strongly dominated by the group's two largest markets Austria and Czech Republic. In 2014, these two markets contributed about 65% of VIG's pretax profits, whereas the remainder came from other CEE operations.

Liquidity: Exceptional

We regard VIG's liquidity as exceptional, owing to the strength of available liquidity sources--mainly premium income--and its liquid asset portfolio. There are no refinancing concerns, in our opinion. We think the group is capable of managing any unexpected large claims or any unexpected increase in life insurance policy lapses.

Accounting Considerations

VIG prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS). We base our analysis of the group's life profitability and risk exposures mainly on market-consistent embedded value disclosure. The group bases its calculation on year-end swap rates and includes liquidity premiums. A particular feature of VIG's IFRS accounting is the limited recognition of deferred acquisition costs in its balance sheet. This is because VIG channels most of its commissions directly through its profit and loss statement.

We base our assessment of VIG's capital adequacy on its reported shareholders' equity, which we adjust mainly to account for 50% of the life insurance value in force not included in the balance sheet, hybrid debt classified as carrying equity content according to our criteria, parts of the policyholder capital available to absorb losses, and off-balance-sheet asset-value reserves. We deduct the on-balance-sheet goodwill and intangible assets from capital.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Credit Conditions: Despite The Turmoil In Greece, Europe's Fragile Growth Continues, July 14, 2015

Ratings Detail (As Of July 30, 2015)	
Operating Companies Covered By This Report	
Vienna Insurance Group AG Wiener Versicherung Gruppe	
Financial Strength Rating	
Local Currency	A+/Stable/--
Counterparty Credit Rating	
Local Currency	A+/Stable/--
Junior Subordinated	A-
VIG RE zajist'ovna a.s.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Domicile	Austria

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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