S&P Global Ratings

RatingsDirect®

Vienna Insurance Group

Primary Credit Analyst:
Jean Paul Huby Klein, Frankfurt (49) 69-33-999-198; jeanpaul.hubyklein@spglobal.com

Secondary Contact:
Johannes Bender, Frankfurt (49) 69-33-999-196; johannes.bender@spglobal.com

Research Contributor:
Saurav Banerji, Mumbai + 91(22)33423000; Saurav.Banerji@spglobal.com

Table Of Contents

Vienna Insurance Group

Anchor	a+
Business Risk	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk	Very Strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+

+

Support	0
Group support	0
Government support	0

=

A+/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Market leading position in Austria and in most Central and Eastern Europe (CEE) insurance markets.	Capitalization relies slightly more on market-sensitive items than peers with similar capital adequacy.
Excellent capital adequacy according to our risk-based capital model, with a very solid regulatory solvency ratio.	Somewhat higher earnings concentration in regions compared to higher rated peers.
Proven access to the bond and equity markets.	

We expect that Vienna Insurance Group will maintain its position as market leader in Austria and most of the Central and Eastern Europe (CEE) markets it operates in. The Vienna Insurance Group's (VIG's) multibrand strategy, multiple distribution capabilities, and broad geographic and business line diversity by premium are strong market credentials. Furthermore, the group finalized its internal process to merge some local companies, streamlining its operational capabilities and enhancing its bancassurance operations.

VIG has historically demonstrated consistent operating performance compared with peers operating in similar businesses and geographies. Based on nine months 2019 figures, the group disclosed a combined ratio of 96.4%, which is in line with the results disclosed in the same period of 2018. The stable technical performance has been able to offset low income from investments, resulting in an improvement in profit before tax of 6.8%--to €376.2 million. In 2019-2021, we expect the group to generate a net income of €350 million-€450 million, with a combined ratio of 95%-97% and a net investment yield of 2.4%-2.8%.

Capitalization remains robust, supported by sound retained earnings. VIG has a comfortable capital adequacy with a buffer at the 'AAA' level based on our risk-based capital model. We believe that capitalization will remain at similar levels over 2019-2021, supported by strong retained earnings. Furthermore, the group's regulatory solvency ratio is also robust, with a reported Solvency II ratio of 239% for 2018 compared with 220% in 2017. However, we believe that capital adequacy remains somewhat exposed to market volatility due to the presence of softer forms of capital, namely unrealized gains on investments and value-in-force.

Outlook: Stable

The stable outlook reflects VIG's leading market position in Austria and CEE, as well as our expectation that earnings will continue supporting at least very strong capital adequacy, despite needs arising from organic or external growth and dividend payments during the next 12-24 months.

Downside scenario

We regard the possibility of a downgrade as limited over the next 12-24 months, but we could lower the ratings if:

- VIG's market position deteriorated in Austria and CEE;
- Its operating performance did not meet our earnings expectations for a prolonged period; or
- Its capital adequacy fell below our risk-based-capital model's very strong level for an extended period.

Upside scenario

We see limited rating upside in the next 12-24 months. However, we could raise the ratings if:

- VIG significantly and sustainably increased its earnings diversity outside Austria and the Czech Republic;
- Earnings consistently exceeded our base-case assumptions; and
- Capital adequacy sustainably exceeded the 'AA' confidence level.

Key Assumptions

- Historic low interest rates in the eurozone, with 10-year government bonds further declining on average per year to 0.3% in 2019 and 0.0% in 2020 from 1.1% in 2018.
- Real GDP growth in the eurozone declining to 1.2% in 2019 and 1.1% in 2020 from 1.9% in 2018.
- The unemployment rate in the eurozone reducing to 7.6% in 2019 and 7.5% in 2020, from 8.2% in 2018.
- Inflation in the eurozone expected to reduce to 1.3% in 2019 and 1.1% in 2020 from 1.8% in 2018.

Key Metrics

	2020f	2019f	2018	2017	2016
S&P Global Ratings capital adequacy	at least very strong	at least very strong	Excellent	Excellent	Excellent
Gross premium written (mil. €)	>10000	~9900	9657	9386	9051
Net income (mil. €)	350-450	350-450	368	373	321
Return on shareholders' equity (%)	>6	>6	6.19	6.34	6.34
Net investment yield (%)	2.4-2.7	2.6-2.8	2.89	2.83	3.08
P/C: net combined ratio (%)	95-97	95-97	96.0	96.7	97.3

Key Metrics (cont.)	2020f	2019f	2018	2017	2016
Reinsurance utilization (%)	N/A	N/A	8.76	8.53	8.96
P/C: return on revenue (%)	N/A	N/A	10.13	7.86	6.75

f--S&P Global Ratings forecast. N/A--Not Applicable.

Business Risk Profile: Strong

VIG has a broad portfolio offering in P/C, life, and health products in Austria and the CEE markets. In the Austrian P/C sector, the group is exposed to some natural catastrophe events, like heavy snow, storms, and rain. However, the sector has historically shown a track record of resilient and stable performance through adequate pricing, as well as risk-mitigation initiatives, such as reinsurance. In the life market, we see still higher pressure in earnings than in P/C, mainly stemming from the ongoing low-interest-rate environment, asset-liability management, and comparable high policyholder guarantees in existing in-force policies.

In some of its CEE market, VIG faces somewhat higher political, regulatory, and economic risk than in Austria. We think that our overall industry and country risk assessment for VIG will remain unchanged during 2019-2021.

VIG maintains a market leading position in Austria and most of the CEE markets it operates, notably in the Czech Republic, Slovakia, Poland, and Romania. In our opinion, the group's operations across multiple brands, diverse distribution capabilities, and a broad geographic premium diversification are solid market credentials. However, the group has a somewhat higher regional earning concentration than higher-rated peers, with about 70% of profit before tax stemming from its Austrian and Czech operations, based on nine-months 2019 figures.

In 2019, VIG finalized its internal process to merge local companies in Austria and some CEE countries, streamlining its operational capabilities and enhancing its bancassurance operations. We expect premium growth of about 3% over 2019 and 2020, driven by a sound development in the Austrian P/C business as well as CEE operations benefiting from solid economic growth.

Financial Risk Profile: Very Strong

As per our risk-based capital model, VIG has a comfortable capital buffer at the 'AAA' level. The group's regulatory solvency ratio is robust, with a reported Solvency II ratio of 239% for 2018 compared with 220% in 2017. We believe that VIG will maintain capitalization at similar levels over 2019-2021 supported by strong retained earnings. However, we believe that capital adequacy remains somewhat more exposed to market volatility than that of companies with similar levels of capital adequacy. This results from the presence of softer forms of capital like unrealized gains on investments or value-in-force. In our opinion, VIG will continue to maintain underwriting discipline with a combined ratio of 95% to 97% over 2019-2021 leading to an after-tax profit of €350 million-€450 million. We expect that strong retained earnings will continue to support the group's capital adequacy, while financing organic and inorganic growth and expected dividend payouts of about 30%-50% of net income.

VIG currently follows a conservative investment strategy with its investments having an average credit quality of 'A'. However, the group's exposure to real estate of around 16% (including social housing) appears to be high compared with the European average. However, the performance has been historically strong with comparably low volatility. In November 2019, the company announced the deconsolidation of its social housing investments. With that, the amount of real estate in the group's balance-sheet reduced to 6.3% based on nine-months 2019 figures. Riskier investments in equities are relatively limited at 4.6%. In our view, VIG's investment portfolio is diverse, with no material segment or obligor concentration.

VIG has historically demonstrated access to capital markets, and we expect this to continue whenever needed. At year-end 2018, financial leverage was about 22% with coverage of 5x. We assume these metrics will improve over 2019-2021 following potentially higher earnings.

Other Key Credit Considerations

Governance

We do not foresee any material governance issues that could affect the ratings. We think that the management team has a consistent and successful track record of strategic planning, strong execution, and transparent, demanding, and sophisticated financial management.

Liquidity

VIG's liquidity profile is sound and stable, thanks to the availability of liquid sources at its disposal, such as premium income and a highly liquid asset portfolio. We do not foresee any refinancing concerns for the group going forward.

Factors specific to the holding company

Vienna Insurance Group AG Wiener Versicherung Gruppe, the ultimate holding company of VIG's operating entities, writes internal reinsurance and international corporate and large customer business. Because we view the company as an operating holding company with sizable excess capital and sound revenue from its own investments and underwriting activities, we equalize the ratings on the holding company with those on the group's core operations.

Accounting considerations

VIG prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS). 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.

Starting in 2016, VIG fully consolidates asset and liabilities from its social housing participations. We do not include the additional minority interest in our capital calculation, because we think that these minorities are not fungible to absorb losses related to its insurance business. The social housing buildings are partly financed through banking loans, which we view as operational debt rather than financial debt. As a consequence, the financial leverage ratio does not include loans from social housing. In November 2019, the group announced the deconsolidation of its social housing investments from July 31, 2019 due to an amendment in the Austrian non-profit housing act that restricts the exercise of ownership and control rights over those investments.

Vienna Insurance Group Credit Metrics History		
Ratio/Metric	**2018**	**2017**
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets*	45566.2	46372.1
Total shareholder equity	5835.7	6043.9
Gross premiums written	9657.3	9386.0
Net premiums written	8811.1	8585.3
Net premiums earned	8729.4	8509.6
Reinsurance utilization (%)	8.8	8.5
EBIT	600.8	561.2
Net income (attributable to all shareholders)	368.0	372.6
Return on shareholders' equity (reported) (%)	6.2	6.3
P/C: net combined ratio (%)	96.0	96.7
P/C: net expense ratio (%)	31.3	30.4
P/C: return on revenue (%)	10.1	7.9
EBITDA fixed-charge coverage (x)	5.2	4.7
Financial obligations/EBITDA adjusted (x)	2.9	3.3
Financial leverage including pension deficit as debt (%)	22.8	23.7
Net investment yield (%)	2.9	2.8
Net investment yield including investment gains/(losses) (%)	2.7	2.5

*Including unit- and index-linked products.

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

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	**a+/a**	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of November 29, 2019)*

Operating Companies Covered By This Report	
Vienna Insurance Group AG Wiener Versicherung Gruppe	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer 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. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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.