S&P Global Ratings

Research

Vienna Insurance Group

Primary Credit Analyst:
Jean Paul Huby Klein, Frankfurt + 49 693 399 9198; jeanpaul.hubyklein@spglobal.com

Secondary Contact:
Johannes Bender, Frankfurt + 49 693 399 9196; johannes.bender@spglobal.com

Research Contributor:
Saurav Banerji, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Vienna Insurance Group

Anchor	a+	+	Modifiers	0	=	SACP	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

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

+

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
Leading market position in Austria and most of the Central and Eastern Europe (CEE) markets.	Higher capital sensitivity to interest rate movements after deconsolidation of social housing.
Excellent capital adequacy as per S&P Global Ratings' capital model.	Higher regional earnings concentration than higher-rated peers.
Well demonstrated access to capital markets.	

We believe Vienna Insurance Group (VIG) will remain the market leader in Austria and most of the CEE markets it operates in. We believe, the group will leverage its multibrand strategy, established distribution networks, and diverse insurance product offerings to maintain its competitive edge in the Austrian and CEE markets. Premiums increased by 2.4% in the first half of 2020, mainly from improvements in its property and health operations in Austria and Poland. However, COVID-19-related containment measures in the fourth quarter of 2020 are increasing uncertainties on full-year premium development. For 2020, we estimate premiums will increase by about 1% to €10.5 billion, recovering growth momentum in 2021 with premiums exceeding €10.9 billion.

VIG's technical performance remains resilient, but earnings are dampened by lower investment returns and goodwill depreciation. Based on half-year 2020 figures, the group continued to demonstrate a solid underwriting performance with a combined ratio (loss and expense) of 95.5% compared with 96.4% at half-year 2019. However, net earnings before noncontrolling interests declined by 29.5% in the first six months of 2020 to €133 million, mainly due to lower investment returns and goodwill impairments. For year-end 2020, we expect VIG will report a combined ratio of 96%-99% and a net investment yield of about 2.0%, leading to a net income of €180 million-€280 million.

Capitalization remains robust supported by sound earnings, despite high sensitivity to interest rates. We believe VIG's capitalization will continue to be one of the group's key strengths, after maintaining excellent levels in 2019, and that capital adequacy will be at least at the very strong level over our forecasting period through 2022, according to our risk-based capital model. From a regulatory solvency perspective, capitalization declined in the first six months of 2020 to 183% from 210% at year-end 2019, emphasizing the group's elevated sensitivity to capital market movements.

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, lower anticipated earnings in 2020 and dividend payments during the next 12-24 months.

Downside scenario

We could lower the ratings over the next 12-24 months 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 our 'AA' confidence level.

Key Assumptions

- Historic low long-term interest rates in the eurozone averaging -0.06% in 2020 and 0.07% in 2021.
- Real annual GDP contraction in the eurozone of 7.4% for 2020, followed by growth of 6.1% in 2021.
- The unemployment rate in the eurozone gradually increasing to 8.1% in 2020 and 9.1% in 2021, from 7.6% in 2019.
- Inflation in the eurozone to remain low at 0.2% in 2020 and 1.0% in 2021.

Key Metrics

Key Metrics

	2021f	2020f	2019	2018	2017
S&P Global Ratings' capital adequacy	At least very strong	At least very strong	Excellent	Excellent	Excellent
Gross premium written (mil. €)	>10,900	~10,500	10,399	9,657	9,386
Net income (mil. €)	300-400	180-280	413	368	373
Return on shareholders' equity (%)	>6.0	>3.5	7.49	6.19	6.34
Net investment yield (%)	1.9-2.2	~2	2.45	2.89	2.83
P/C: Net combined ratio (%)	95-97	96-99	95.37	96.01	96.68

Key Metrics (cont.)					
	2021f	**2020f**	**2019**	**2018**	**2017**
Reinsurance utilization (%)	N/A	N/A	9.41	8.76	8.53
P/C: Return on revenue (%)	N/A	N/A	9.11	10.13	7.86

f--S&P Global Ratings forecast. N/A--Not applicable. P/C--Property and casualty.

Business Risk Profile: Strong

VIG has a broad product portfolio, offering property and casualty (P/C), life, and health products in Austria and the CEE region. 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 in the coming years still-higher pressure in earnings than in P/C, mainly stemming from the ongoing low interest rates, 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 2020-2022.

VIG has a market leading position in Austria and the CEE region. This is underpinned by the group's well-known brands, diverse distribution capabilities, and broad geographic premium diversification. However, the group has a higher regional earnings concentration than higher-rated peers, with most of the profits before tax stemming from its Austrian and Czech operations.

The group disclosed a consolidated gross written premium growth of 2.4% in the first half of 2020, mainly underpinned by a growth in the property business (excluding motor) and the health operations. We assume in our forecast that year-end 2020 premiums will increase by about 1% to about €10.5 billion, weighed down by the current market uncertainties from pandemic-related containment measures. We expect premiums will further increase in 2021, reaching more than €10.9 billion at year-end.

Financial Risk Profile: Very Strong

As per our risk-based capital model, VIG maintained excellent capitalization in 2019. In our opinion, VIG's prudent underwriting standards and earnings generation capabilities will enable it to sustain capital buffers at least at very strong levels over our forecasting period. 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 hybrid capital or value-in-force. This volatility is also visible in the group's regulatory solvency ratio, which dropped to 183% in the first six months of 2020 from 210% at year-end 2019. Nevertheless, we see the group's regulatory capital as well within the group's target zone of 170%-230%.

VIG's P/C technical performance appears less susceptible to COVID-19-related losses than some peers'. The six-month 2020 combined ratio improved to 95.5% compared with 96.4% in the same period of 2019. The improvement is mainly the result of a benign loss ratio in the motor segment and a relatively low exposure to pandemic-sensitive lines like business interruption or event cancellation. Based on the current business uncertainties, we estimate a year-end 2020 combined ratio of 96%-99%, improving in 2021 to 95%-97%. We do not expect a major impact on the group's life or health operations from pandemic losses. We expect the group's investment returns will decline in 2020, mainly from the deconsolidation of the group's social housing investments, some investment depreciations, and ongoing low interest rates. Additionally, VIG's earnings have been hampered by a goodwill depreciation of €118 million from its Bulgarian, Georgian, and Croatian subsidiaries. Based on that, we estimate the group's net income will decline to €180million-€280 million at year-end 2020, improving to pre-pandemic levels in 2021.

VIG follows a conservative investment strategy with its investments having an average credit quality of 'A' based on half-year 2020 numbers. Investments in bonds represent 73.1% of total investments. After the deconsolidation of its social housing investments, real estate exposure declined to 7.2% of total invested assets. Riskier investments in equity are relatively limited at 3.8%. Overall, 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 2019, financial leverage was at 27.3% with coverage of 6.8x. We assume that leverage will remain well under 40% in 2020 and 2021. Due to the current earnings uncertainties, fixed-charge coverage will decline in 2020, but we expect it will remain above 4x over our forecasting period.

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.

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.

Vienna Insurance Group Credit Metrics History			
(Mil. €)	**2019**	**2018**	**2017**
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent
Total invested assets*	44,399	45,566	46,372
Total shareholder equity	5,191	5,836	6,044
Gross premiums written	10,399	9,657	9,386
Net premiums written	9,421	8,811	8,585
Net premiums earned	9,318	8,729	8,510
Reinsurance utilization (%)	9.4	8.8	8.5
EBIT	630.1	600.8	561.2
Net income (attributable to all shareholders)	413.1	368.0	372.6
Return on shareholders' equity (reported) (%)	7.49	6.19	6.34
P/C: net combined ratio (%)	95.37	96.01	96.68
P/C: net expense ratio (%)	31.68	31.28	30.41
P/C: return on revenue (%)	9.11	10.13	7.86
EBITDA fixed-charge coverage (x)	6.8	5.7	5.0
Financial obligations / EBITDA adjusted	2.6	2.6	3.2
Financial leverage (%)	27.34	22.81	23.69
Net investment yield (%)	2.45	2.89	2.83
Net investment yield including investment gains/(losses) (%)	2.67	2.66	2.48

*Including unit- and index-linked products. P/C--Property and casualty.

Related Criteria

- Insurers Rating Methodology, July 1, 2019
- Group Rating Methodology, July 1, 2019
- Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital: Methodology And Assumptions, July 1, 2019

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 25, 2020)*

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.