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Ratings

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Vienna Insurance Group AG Wiener Versicherung Gruppe

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Vienna Insurance Group AG Wiener Versicherung Gruppe

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

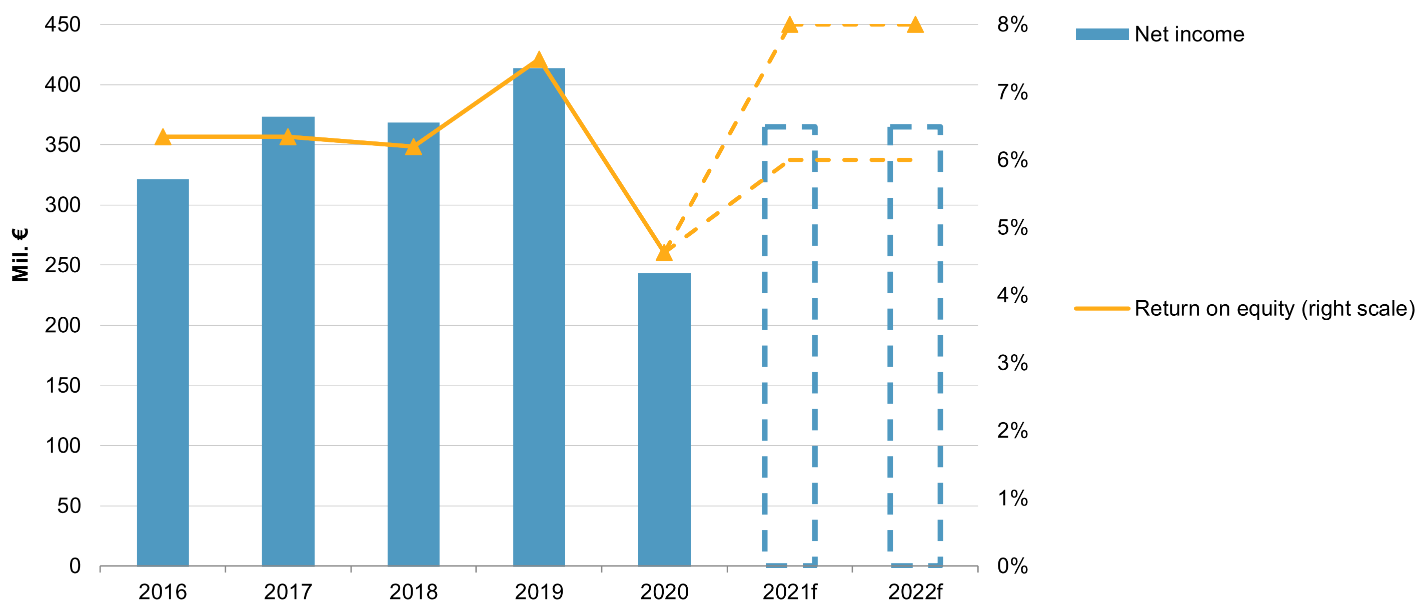
Strengths	Risks
Market leader in Austria and several Central and Eastern European (CEE) markets with a well-diversified insurance portfolio enhanced by strong distribution capabilities, which are amplified by an exclusive bancassurance contract with Erste Bank.	Relatively high capital sensitivity to market movements, in particular interest rates.
Sizable capital buffer at the 'AAA' level as per our risk-based capital model, supported by the group's underwriting discipline.	Exposure to comparably higher country risk in Poland and Hungary; high development risks in Romania, Turkey, and other developing markets; and somewhat higher earnings concentration than higher-rated peers.
Sound reinsurance protection that limits the group's natural catastrophe losses from diverse perils in Austria and CEE.	

Vienna Insurance Group (VIG) is the market leader in Austria and several CEE markets. S&P Global Ratings believe that VIG benefits from its diversified business and geographical mix across the region. This, combined with its very comfortable capitalization, supports our anchor. Currently, VIG is able to source good growth from an upswing in the property and commercial insurance market, with steadily rising pricing after years of heightened competition. In addition, its CEE operations continue to benefit from the region's ongoing convergence toward the EU average, which is gradually unlocking further organic growth. We believe the group is well positioned to tap new profitable growth in 2021-2023, as demonstrated by its 5.1% rise in gross premium written (GPW) in the first three quarters of 2021. At the same time, we expect that the group will continue to clarify possibilities for a positive conclusion of the acquisition of AEGON's CEE operations.

VIG's operating performance remained resilient in 2020 and improved in the first three quarters of 2021, with net income of €281.5 million. In our view, the company is benefiting from good organic growth and continued strict underwriting discipline, supported by conservative reinsurance protection, which limited losses from natural catastrophes in summer 2021. In our base-case scenario, we expect net income of €300 million-€430 million in 2021-2023, which would be comparable or above 2019 results. We expect continued stable underwriting profitability and resilient investments, with a return on equity (ROE) of 6%-8% in 2021-2023. On a consolidated basis, we consider that the non-life combined ratio (loss and expense) will remain sound at about 95% in 2021 and 2022. We also expect new life insurance business margins to remain strong.

Chart 1

Vienna Insurance Group's Performance Will Remain Resilient Going Forward



Source: S&P Global Ratings. f-Forecast.

In our view, VIG's excellent capital adequacy continues to be a relative ratings strength. At year-end 2020, VIG's balance sheet remained resilient and its capital position robust above the 'AAA' level, according to our risk-based capital model. Performance has also been stable to date in 2021. We expect VIG will safeguard its capital adequacy at excellent levels, based on our model, over 2021-2023. We adjust our capital and earnings assessment downward due to capital sensitivity to market movements, in particular interest rates. Overall, we expect that VIG will maintain its capital and earnings at least at a very strong level over the next two years, while it completes the AEGON CEE acquisition and pursues good organic growth opportunities.

Outlook: Stable

The stable outlook reflects our view that VIG will maintain its strong competitive position in Austria and CEE after the possible acquisition of AEGON's CEE operations, and that its capitalization will remain above the 'AAA' level, with only a moderate negative effect for the group's funding structure.

Downside scenario

We could lower the ratings over the next 12-24 months if:

- VIG's funding structure deteriorates with financial leverage sustainably above 40% or fixed-charge coverage below 4x;
- The company's capital adequacy sustainably deteriorates below the 'AAA' level over our forecast period; or
- Its operating performance does not meet our earnings expectations for a prolonged 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 increases its earnings diversity outside Austria and the Czech Republic;
- Earnings consistently exceed our base-case assumptions; and
- Capital adequacy remains in excess of the 'AAA' level based on our capital model.

Key Assumptions

- Low interest rates in the eurozone, with materially higher rates of 2%-4% in local currencies for non-eurozone EU members.
- After GDP contractions in 2020, Austria and the Czech Republic see growth of 2%-4% over 2021-2023.
- Unemployment in Austria and the Czech Republic remains at about 3%-5% through 2021-2023.
- Inflation in Austria of about 2% and in the Czech Republic of 2%-4% in 2021-2023.

Vienna Insurance Group--Key Metrics

	2022f	2021f	Q3 2021*	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (mil. €)	~11.4	~11.0	10,624.0	10,428.5	10,399.4	9,657.3	9,386.0
Net income (mil. €)	300-430	300-430	340.9	242.7	413.1	368.0	372.6
Return on shareholders' equity (%)	6-8	6-8	6.4	4.6	7.5	6.2	6.3
P/C: Net combined ratio (%)	~95	~95	95.2	95.0	95.4	96.0	96.7
Net investment yield (%)	1.6-2.0	1.6-2.0	N/A	1.6	2.4	2.9	2.8
Financial leverage	< 40	< 40	N/A	28.2	27.3	22.8	23.7

Vienna Insurance Group--Key Metrics (cont.)							
	2022f	**2021f**	**Q3 2021***	**2020**	**2019**	**2018**	**2017**
EBITDA fixed-charge coverage (x)	> 4	> 4	N/A	6.2	6.8	5.7	5.0

f--S&P Global Ratings forecast. N/A--Not applicable. P/C--Property/casualty. *Based on the rolling 12 months.

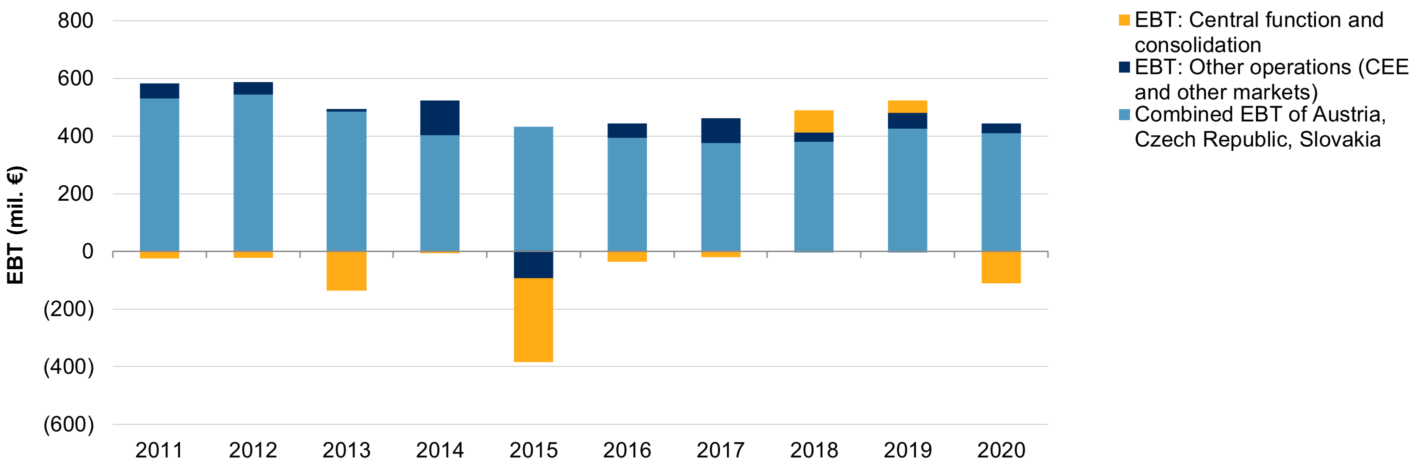
Business Risk Profile: Strong

VIG's market-leading position in Austria and CEE is underpinned by the group's broad geographical presence with a comprehensive range of product offerings and diverse distribution capabilities supplemented by its well-known local brands. Some further geographical and business diversification is provided by VIG Re (€578.9 million GPW in 2020), the group's reinsurance arm. Thanks to its widespread operations, we think it will continue to benefit from good geographical diversification. That said, VIG demonstrates somewhat higher earnings concentration compared to higher-rated peers, since most earnings are generated from Austria, the Czech Republic, and Slovakia.

VIG's leading positions in Austria, the Czech Republic, and Slovakia enable consistently stable and robust performance. Underpinning these leading positions are diversified and sizable distribution networks, a client-service focus, and successful sharing of best practices. In addition, VIG benefits, in our view, from its longstanding bancassurance cooperation with Erste Group Bank AG (A/Positive/A-1) in Austria and CEE. About 33% of VIG's operations are in markets that have higher country or industry risk than its three main markets. Most CEE countries have converged closer to the EU average over the past decade, which allowed VIG to source good growth in the region. In recent years, VIG also acquired several smaller insurers in Poland, the Baltic countries, and Serbia. This enabled the group to solidify its market positions in the respective markets. Risk from less developed markets remains material, but relatively balanced by the company's stable operations in its main three markets. However, we note that country and industry risk is higher than for Swiss, Nordic, or German peers and is more comparable to MAPFRE or Ageas.

Chart 2

VIG Has Very Stable And Profitable Operations In Austria, The Czech Republic, And Slovakia



Source: S&P Global Ratings. EBT--Earnings before tax. CEE--Central and Eastern Europe.

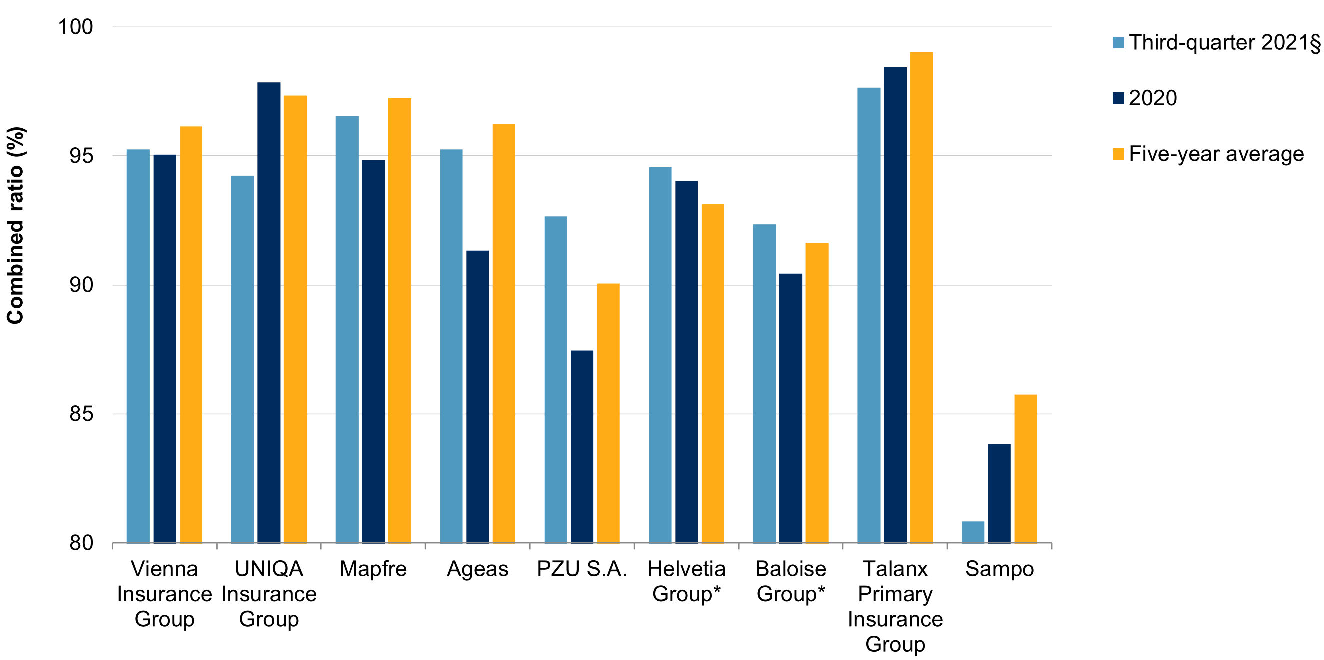
VIG's underwriting performance in non-life and life was resilient in 2020. In our view, this was due to its prudent underwriting and portfolio diversity. The group's operating performance was affected by a goodwill write off for some of its CEE businesses but remained in line with other 'A+' peers. We note that operating performance in Austria, the Czech Republic, and Slovakia remained good, in the latter two it further improved by lower claims frequencies in motor lines. Margins in its Austrian life business remained under pressure, due to lower-for-longer interest rates. However, this was offset by a stable and very profitable CEE life portfolio of risk protection and unit-linked products. In 2020, VIG posted a new business margin for its entire life and health business of 2.2%. During the first three quarters of 2021, underwriting performance in non-life remained sound at 95.2%, which was comparable with VIG's main peers. Notably, the group benefited from continued prudent underwriting with no material non-life COVID-19 claims, favorable development in commercial lines, still some lockdown-related frequency benefits in some retail lines, and good reinsurance protection that limited catastrophe losses in Austria and the Czech Republic. We expect VIG will maintain prudent non-life and life underwriting, good reinsurance protection, and good cost control in 2021-2023. This will enable a non-life combined ratio of around 95% and life and health new business margins of above 2% in 2021-2023.

Despite the challenging external environment in 2020, the group's consolidated GPW remained stable at €10.4 billion. We note that non-life premium remained relatively stable due to good development in property lines. These trends continued in the first three quarters of 2021, when VIG reported growth of 5.1%, supported by moderate price increases in property lines and comprehensive motor line business, as well as continued growth in obligatory motor and health insurance. We do not expect any large impact on the pace of growth in 2021 following a material increase in COVID-19 cases in Austria and CEE last month. Going forward, we believe, VIG's business growth will remain resilient, in line with the region's GDP development. We note that about 30% of VIG's GPW comes from commercial and retail property. In our view, this should support continued growth from future cyclical price increases, as well as new risk additions in CEE following continued regional convergence with the EU average. Although retail motor lines may see more challenging conditions than 2016-2019, we consider VIG well prepared. In particular, the company could tap growth and protect its margins through digital offers as policyholders shift toward online engagement.

At year-end 2020, VIG announced the acquisition of AEGON's CEE operations. The acquisition is currently facing some regulatory roadblocks in Hungary. We expect that VIG will work to resolve these issues and complete the transaction, but the timing remains uncertain. Therefore, we do not account for premium growth from the acquisition in our forecast. We note that, if VIG receives all necessary approvals, GPW would rise about €600 million--or 6% based on 2020 figures.

Chart 3

Vienna Insurance Group's Non-Life Underwriting Performance Is Comparable With Other 'A+' Rated Peers



*Based on first-half 2021 data. §As reported by the respective companies. Source: S&P Global Ratings.

Financial Risk Profile: Very Strong

VIG's financial risk profile underpins its strong balance sheet with robust capital buffers based on our capital model and Solvency II, and resilient earnings supporting capital generation. In our view, the investment and funding positions are supportive of its very strong financial profile.

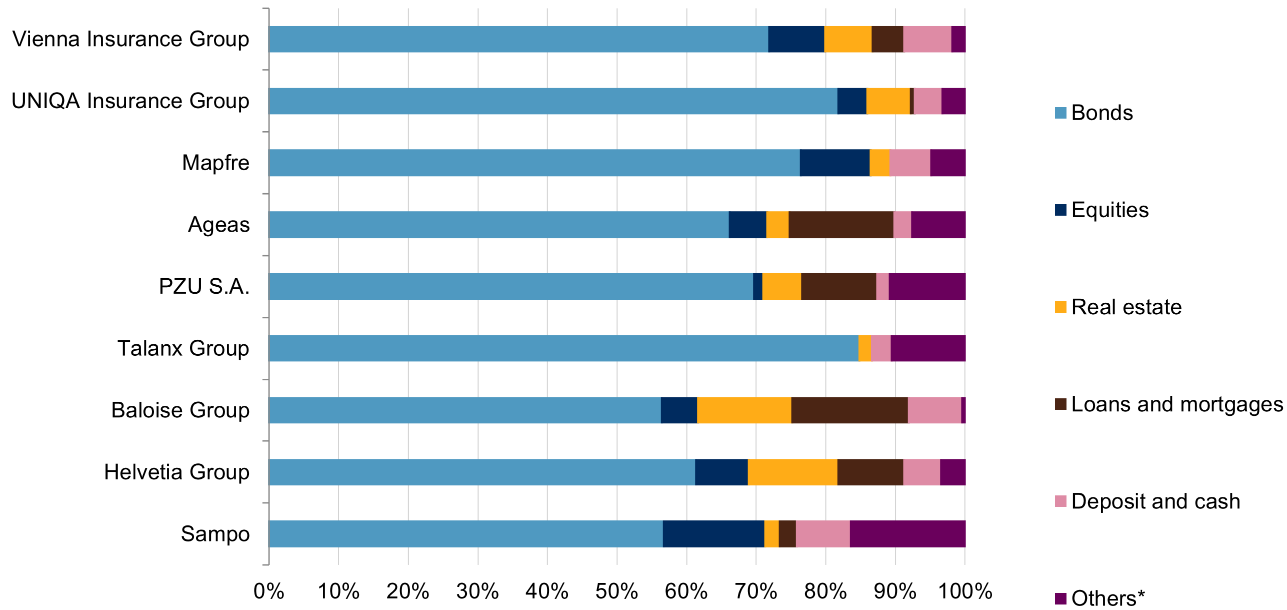
At year-end 2020, VIG's capital adequacy remained above 'AAA', according to our risk-based capital model. This was supported by a solid Solvency II ratio of 195% at Dec. 31, 2020. We consider that VIG's capital quality slightly improved last year, bringing it in line with the wider Europe, Middle East, and Africa (EMEA) insurance sector. Improvements in operating performance in the first three quarters of 2021, favorable capital markets development, and only moderate dividends payments allowed sufficient capital generation to fund good ongoing organic growth. As such, we consider that the capital position remains very solid. We note that since its year-end 2020 announcement of the AEGON CEE acquisition, VIG has secured acquisition financing through a combination of internal and external resources. If VIG gets all necessary approvals in Hungary, its capital would likely remain above the 'AAA' level, according to our model. Overall, we expect that it will also remain above the 'AAA' range in the medium term, supported by gradually increased earnings in 2021-2023, with continued moderate dividends distributions. We adjust our capital and earnings assessment downward due to relatively high capital sensitivity to market movements, in particular interest rates. Overall, we expect that VIG will maintain its capital and earnings assessment at least at a very strong level over the next two years, even amid prolonged market volatility and organic or inorganic growth opportunities.

VIG's risk profile has remained stable and supportive of its very strong financial profile. In our view, the group's risk profile benefits from its stable and conservative investment portfolio. In addition, the group has stable and effective reinsurance protection, which shields its balance sheet from larger natural catastrophes. This was retested by a very intense (to date) 2021 natural catastrophe season with larger June-July floods in Austria and a severe end-June storm in the Czech Republic. The €90 million net claim for these events remained well inside the company's risk tolerance levels.

Although capital markets rebounded quickly in second-half 2020 and have remained favorable to date in 2021, we believe that asset risks are still elevated for the international insurance sector going forward. In third-quarter 2021, VIG's invested assets were mainly in fixed-income securities with a relatively high creditworthiness in the 'A' range, and were broadly diversified across the Eurozone and CEE countries where it operates. Exposure to higher-risk assets remains modest.

Chart 4

Vienna Insurance Group's Investment Portfolio Remains Conservative



Source: S&P Global Ratings. *Includes affiliated companies and other investments.

Although, the group has some life insurance business with guarantees, the amount is lower than that of German peers. We believe that VIG has good matching of assets with life liabilities. In addition, the group has continued to actively limit the risk of these policies in 2020-2021 by building additional reserves to mitigate the low-interest-rate environment. Overall, we consider that the company remains relatively well protected against low interest rates coming from guaranteed business in its Austrian life portfolio.

VIG's funding structure metrics remained relatively stable last year, supported by resilient capital and earnings developments. We consider that the group has good access to capital markets, as displayed during 2021. VIG issued €500 million of senior secured and €300 million of hybrid debt at the start of 2021. The additional debt had a neutral impact on our view of the VIG's funding structure, however, it will materially increase its leverage metrics. We expect financial leverage will remain below 40% in 2021-2023, with continued stable operating performance supporting a stable fixed-charge coverage firmly above 4x.

Other Key Credit Considerations

Governance

We consider VIG's governance stable and comparable with that of its international peers. Governance and disclosure standards in Austria are comparable with the rest of the eurozone. VIG has credible strategic planning and conservative financial management. The board is experienced and capable of executing the group's business strategy.

Liquidity

VIG's liquidity profile is very sound and stable, thanks to the availability of liquid sources at its disposal, such as premium income and a highly liquid asset portfolio. Larger risks are heavily reinsured. Therefore, we consider that substantial claims from large natural catastrophes, like those seen in Austria and the Czech Republic in summer 2021, are not a significant drag on the cash position. We see no refinancing risk.

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 it 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.

Environmental, social, and governance(ESG)

In our view, ESG credit factors have no material influence on our VIG rating analysis.

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 on its balance sheet. This is because VIG channels most of its commissions directly through its profit-and-loss statement. We base our analysis of the group's life profitability and risk exposures mainly on market-consistent embedded-value disclosures. 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.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Insurance Industry And Country Risk Assessment: Austria Property/Casualty , Nov. 11, 2021

- Insurance Industry And Country Risk Assessment: Austria Life, Nov. 11, 2021
- EMEA Insurance Monitor: November 2021, Nov. 8, 2021
- Insurance Industry And Country Risk Assessment Update: August 2021, Aug 31, 2021
- Top 40 EMEA Insurers Remain Resilient To Lingering Pandemic Risks, Aug. 26, 2021
- Delayed Aegon CEE Acquisition Unlikely To Deter VIG From Strengthening Its Position In Central And Eastern Europe, Apr. 08, 2021
- Austrian Insurer VIG's Senior Unsecured Bonds Due 2036 Rated 'A', Mar. 18, 2021
- VIG Insurance Entities Ratings Affirmed On Announced Acquisition Of Aegon's Central And Eastern European Operations, Dec. 03, 2020
- Vienna Insurance Group, Nov. 25, 2020

Appendix

Vienna Insurance Group--Credit Metrics History

Ratio/Metric	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent
Total invested assets*	44,497.5	44,398.6	45,566.2	46,372.1
Total shareholder equity	5,285.8	5,190.7	5,835.7	6,043.9
Gross premiums written	10,428.5	10,399.4	9,657.3	9,386.0
Net premiums written	9,415.8	9,420.7	8,811.1	8,585.3
Net premiums earned	9,336.6	9,317.9	8,729.4	8,509.6
Reinsurance utilization (%)	9.7	9.4	8.8	8.5
EBIT	436.6	630.1	600.8	561.2
Net income (attributable to all shareholders)	242.7	413.1	368.0	372.6
Return on shareholders' equity (reported) (%)	4.6	7.5	6.2	6.3
P/C: net combined ratio (%)	95.0	95.4	96.0	96.7
P/C: net expense ratio (%)	32.2	31.7	31.3	30.4
P/C: return on revenue (%)	3.9	9.1	10.1	7.9
EBITDA fixed-charge coverage (x)	6.2	6.8	5.7	5.0
EBIT fixed-charge coverage (x)	4.8	5.8	5.2	4.7
Financial obligations / EBITDA adjusted	3.7	2.6	2.6	3.2
Financial leverage (%)	28.2	27.3	22.8	23.7
Net investment yield (%)	1.6	2.4	2.9	2.8
Net investment yield including investment gains/(losses) (%)	1.5	2.7	2.7	2.5

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

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 December 22, 2021)*

Operating Company 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-
Senior Unsecured	A
Related Entities	
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.