

## Salzburger Landes-Versicherung AG

Austria

pi Analysis

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### ■ Rationale

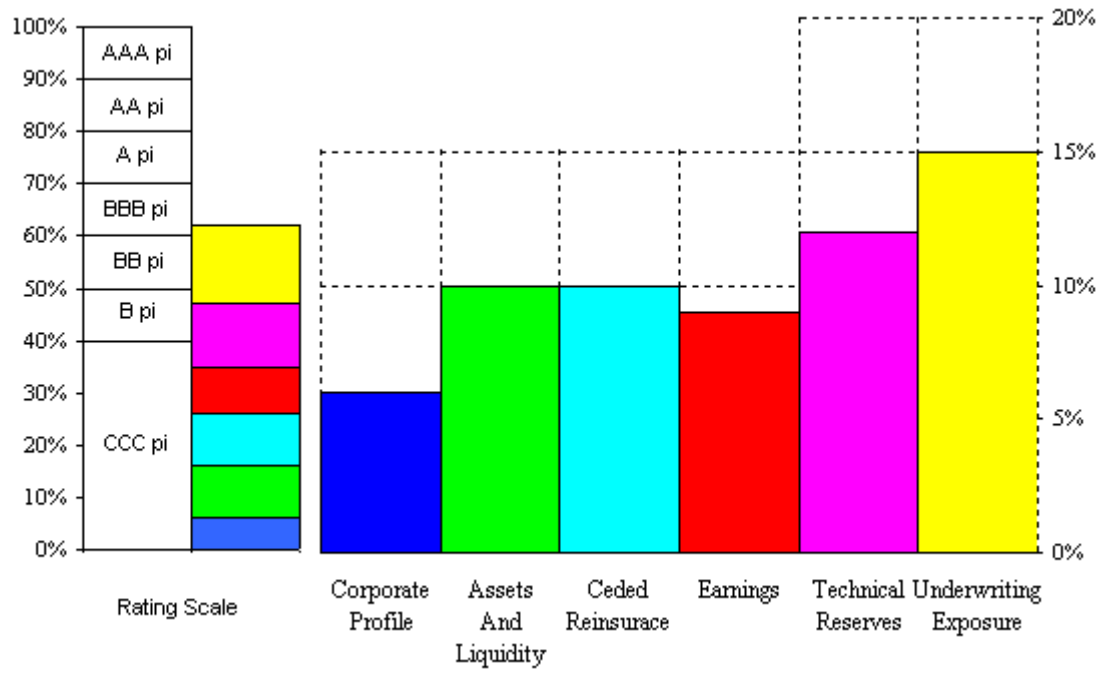
On Aug. 19, 2005, Standard & Poor's raised its insurer financial strength and counterparty credit ratings on Salzburger Landes-Versicherung AG (Salzburger) to 'BBBpi' from 'BBpi'. The rating reflects strong capitalization, good reserving, and recovering profitability levels. The rating does not include additional credit for implied group support from its parent, UNIQA Versicherungen AG (UNIQA; A-/Stable/--).

Salzburger is a small, predominantly regional, Austrian insurer and a subsidiary of the UNIQA Versicherungen group, one of the largest insurance groups in Austria. It writes a composite account, with some 15% of gross premium income derived from life business in 2004. Fire and property is the largest business area, providing 43% of total gross premiums in 2004.

Capitalization is considered to be strong. Further increases in the equalization and asset value reserves supported capitalization in 2004. The non-life solvency ratio (net premium written/adjusted shareholders funds) stood at a strong level of 73%. Solvency levels remain sound when including the life business with a group solvency measure of 6.4x. However, the majority of asset-value reserves is hidden in rather illiquid property investments. The company's small absolute size should, however, be borne in mind. In addition, exposure to reinsurance support is significant, with Salzburger retaining only about 50% of gross non-life premium income in 2004. However, comfort is drawn from the fact that since 1999 reinsurance cessions have been made exclusively to the parent, UNIQA.

Technical reserves are at a good level. Non-life technical reserves stabilized in 2004 at 124% of net premiums and are viewed as appropriate in view of the short-tail nature of the majority of the company's account. The shift in the company's asset structure to insurance debt and cash at year-end 2003 normalized back to its historical levels in 2004. It may have been affected by the integration of the Salzburg regional branch of the former Austrian AXA subsidiary, which was acquired by UNIQA. Also the company's liquidity profile normalized in 2004, with liquid assets covering 124% of non-life technical reserves.

Non-life underwriting results stabilized at sound levels, with the company reporting a net combined ratio of 95% in 2004 (94% in 2003), mainly reflecting a continued benign claims environment. As a regional player, the company remains exposed to natural catastrophe concentration risks. In Standard & Poor's view this is adequately reflected in the company's reinsurance cover. Bottom-line results reduced in 2004, but remain good. In 2004, the International-Financial-Reporting-Standards-like ROE of 3.7% (14.1% in 2003) was affected by a lower net investment return of 4.3% (5.7% in 2003), reduced life contributions of EUR0.7 million (EUR1.2 million in 2003), and exceptional expenses of EUR2.2 million booked in 2004.



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