

Reprinted from RatingsDirect

Research

Research Update: Austria-Based UNIQA Group Core Subs 'A' Ratings Affirmed; Outlook Stable

Publication date: 30-Jan-2006
Primary Credit Analyst: Ralf Bender, Frankfurt (49) 69-33-999-194;
ralf_bender@standardandpoors.com
Secondary Credit Analyst: Wolfgang Rief, Frankfurt (49) 69-33-999-190;
wolfgang_rief@standardandpoors.com

Local Currency

Credit Rating: A/Stable/--

Rationale

On Jan. 30, 2006, Standard & Poor's Ratings Services affirmed its 'A' counterparty credit and insurer financial strength ratings on Austria-based UNIQA group's core operating companies, UNIQA Personenversicherung AG (UPV) and UNIQA Sachversicherung AG (USV), as well as its 'A-' ratings on UNIQA Versicherungen AG (UV), the group's holding and internal reinsurer. The outlook on all entities is stable.

The ratings on UPV and USV reflect their core status within UNIQA insurance group (UNIQA), as they form intrinsic parts of UNIQA and contribute significantly to the group's strong domestic competitive position, strong capitalization, and sound operating performance. This is partly offset by the group's growing, but still relatively limited scale in the Central and Eastern European (CEE) region and limited levels of capital for significant business expansion in this region, which would also add to execution and economic risk. UV is rated one notch lower than UPV and USV, reflecting its mixed holding and operating characteristics, which are mitigated by self-generated cash-flows and moderate debt levels.

Major ratings factors:

- Strong domestic competitive position. The group is predominantly active in Austrian life, health, and non-life lines, where it enjoys leading positions with sound distribution power. Additional geographical diversification is derived from the group's Western and CEE operations, which increasingly contribute to the group's premium income and earnings.
- Strong group capitalization. UNIQA benefits from strong capitalization at the group level supported by sound bottom-line results, which has been the basis for business expansion in 2004 and 2005.
- Sound operating performance. Standard & Poor's recognizes the further tangible progress made in operating performance, following strong improvements in the underwriting results, a decrease in overall expense levels, and further supported by the recovery of equity markets in 2004 and 2005. UNIQA's operating performance in 2005 was sound, with an expected group ROE of 17%, supported by positive results in all markets and improvements in all business segments, although the non-life net combined ratio remained behind peers at just less than 100% in 2005 and new business life profitability has not been overly strong, with an APE new business margin of 4.5%.

- Growing but still limited scale in CEE. The group continues to be focused on the domestic market. Its Western European niche businesses, which are still larger by premium income than its CEE activities, provide some healthy diversification. In contrast, the scale of its CEE businesses, which is expected to be the main growth area, remains limited relative to its main peers. The group will need to demonstrate, whether it will be able to compete successfully with larger players in each of these markets once the market consolidation phase begins. Some concerns exist regarding the execution and operational risks of managing a growing and very diverse portfolio, geographically and by business line.
- Limited levels of capital available for significant business expansion in CEE. Availability of capital is viewed as essential to fund the potential growth in CEE to reach sizable and competitive market positions. Currently, sound bottom-line results and moderate debt levels provide flexibility. In the past, strongly improved earnings were sufficient to fund the relatively cautious investments in CEE. Nevertheless, in case of more rapid expansion or lower earnings retentions, UNIQA would need to make use of its financial flexibility (defined as the ability to source capital relative to capital requirements).

Outlook

The stable outlook reflects Standard & Poor's expectation that the group will continue to benefit from a strong operating performance in 2006, although competitive pricing appears to have picked up in the domestic market. Nevertheless, Standard & Poor's expects the group to achieve a net combined ratio of less than 100% and an ROE of at least 15% in 2006. The domestic life and health operations should contribute at least €90 million pretax profit in 2006. The group's earnings are expected to increasingly diversify away from the Austrian market through stronger presences in CEE. Capitalization is expected to remain strong.

Downward pressure could emerge, if Standard & Poor's expects that several of the group's so far smaller scale presences in CEE could not be run at sustainably profitable levels once market consolidation begins; or if the availability of capital through continued sound operating results or external means is insufficient to fund further CEE expansion to achieve competitive scale. The ratings may be raised once the group achieves wider scale and earnings diversification through CEE expansion, while capitalization remains at securely strong levels, and Standard & Poor's is confident that UNIQA will be able to compete effectively in the CEE region in the long run.

Ratings List

UNIQA Personenversicherung AG

Counterparty credit rating
A/Stable/--
Insurer financial strength rating
A/Stable

UNIQA Sachversicherung AG

Counterparty credit rating
A/Stable/--
Insurer financial strength rating
A/Stable

UNIQA Versicherungen AG

Counterparty credit rating
A-/Stable/--
Insurer financial strength rating
A-/Stable
Senior unsecured debt
A-

Additional Contacts: Insurance Ratings Europe;
InsuranceInteractive_Europe@standardandpoors.com

The report is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit research and analysis system, at www.ratingsdirect.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-9823 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search. All Standard & Poor's research information is accessible for 24 hours after publication on the public Web site. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5916; or Moscow (7) 095-783-4017. Members of the media may also contact the European Press Office by sending an e-mail to media_europe@standardandpoors.com.

The McGraw-Hill Companies