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Research

Research Update: Switzerland-Based Reinsurer UNIQA Re AG Assigned 'A' Ratings; Outlook Stable

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Local Currency

Credit Rating: A/Stable/--

Rationale

On Jan. 30, 2006, Standard & Poor's Ratings Services assigned its 'A' insurer financial strength and counterparty credit ratings to Switzerland-based UNIQA Re AG (UNIQA Re). The outlook is stable.

The ratings on UNIQA Re reflect its status within the Austrian-based UNIQA insurance group (UNIQA; core operating companies rated A/Stable), as it forms an integral part of UNIQA's risk-management strategy. The company only writes business emanating from the group and maintains a comprehensive reinsurance program. UNIQA Re's investment mix underlines its integration within the group. Measures to maintain appropriate liquidity are in place and UNIQA Re's capitalization is strong.

Major ratings factors:

- Integral part of UNIQA's risk-management strategy. UNIQA set up UNIQA Re in 2003 to minimize the risk-transfer costs of the group's nondomestic insurance operations in a flexible and efficient way. The company is managed as a profit center, but with its ultimate focus on profit optimization for the overall group. UNIQA Re's intermediate ownership of some of UNIQA's foreign primary insurance operations underlines the company's integration into the group.
- Business emanates from the group. UNIQA Re only writes business emanating from the group's nondomestic operations. In the currently unlikely event of the sale of any foreign primary business reinsured via UNIQA Re, respective reinsurance contracts would be either commutated or put into run-off. Comprehensive reinsurance program. UNIQA Re covers a diversified portfolio by country and business line. Although the company benefits from the detailed knowledge of its group-internal primary business, the probable maximum loss per claim of €8 million is set conservatively relative to its capital base. Retrocessionaires are rated at least 'A', with few exceptions on short-tail lines.

- Appropriate liquidity. UNIQA Re's asset base is mainly comprised of rather illiquid stakes in affiliated primary insurance companies and reinsurance deposits from affiliates. Nevertheless, the terms of the reinsurance agreements in place only require that claims payments are forwarded after cash receipt from external retrocessionaires. Although this substantially reduces the need for high asset liquidity, the group is aiming to reduce its reinsurance deposits over the next three years. If needed, the group would make additional liquidity available.
- Strong capitalization and financial flexibility. Risk-based capitalization is expected to have remained securely in the 'A' range in 2005. Given that UNIQA Re operates as a profit center and retains significant parts of the risks underwritten, the company is expected to remain securely capitalized. Standard & Poor's is convinced that the group would make additional financial resources available if needed.

Outlook

The stable outlook is solely driven by the stable outlook on its parent. The outlook reflects Standard & Poor's expectation that the group will continue to benefit from strong operating performance in 2006, although competitive pricing seems 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 Re AG

Counterparty credit rating

A/Stable/--

Insurer financial strength rating

A/Stable

Additional Contacts:

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