

UNIQA Insurance Group's Proposed Junior Subordinated Callable Fixed-To-Floating Notes Rated 'BBB'

November 25, 2021

FRANKFURT (S&P Global Ratings) Nov. 25, 2021--S&P Global Ratings today assigned its 'BBB' rating to the junior subordinated notes to be issued by Austria-based insurer UNIQA Insurance Group AG (UNIQA; A-/Stable/--), the operating holding company of UNIQA Group. The rating is subject to our review of the notes' final terms and conditions.

We expect to classify the proposed notes as having intermediate equity content.

The rating on the proposed notes will be two notches below our 'A-' long-term issuer credit rating on UNIQA. This reflects our standard approach for rating subordinated debt issues. We believe two notches are sufficient to reflect the payment risk and subordination on these notes. This is because the mandatory coupon deferral trigger of the notes refers to UNIQA Group's solvency capital requirement (SCR) coverage (198% as of June 30, 2021). The issue rating reflects the notes' subordination and interest deferral features. We also consider that:

- The notes are subordinated to UNIQA's policy holders and senior creditors.
- The issuer can choose to defer interest as long as the issuer has not declared or made a dividend or other payment (including payment in relation to redemption or repurchase) on a more junior security in the previous six months.
- Under the notes' terms and conditions, interest deferral is mandatory if a solvency event has occurred, which, under Solvency II, would be a breach of the solvency capital requirement.

An unexpected deterioration in any of the group's regulatory solvency positions not accompanied by a rating action on UNIQA, or increased sensitivity to stress, could lead us to lower the ratings on the notes by widening the notching between the debt rating and the issuer credit rating.

We understand that the notes will have a tenor of 20 years, but UNIQA can call the notes 10 years from issuance and at each interest payment date thereafter, subject to the conditions for redemption, including approval from the insurance regulator. UNIQA also has the right to redeem the notes before the first call date in the event of a regulatory event, or if an accounting, tax or capital event occurred.

Initially, the coupon is fixed until the first reset date, which we expect will be 10 years after the issuance date. Thereafter, the coupon resets to the three-month Euribor (Euro Interbank Offered Rate), plus the initial margin and a step-up of 100 basis points.

At issuance, the notes will be aligned with the recommendations of the International Capital

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Market Association Green Bond Principles 2018. We understand UNIQA intends to finance or refinance eligible assets as defined by its green bond framework, up to the principal amount. Nevertheless, there is no legal obligation to do so. In addition, we do not believe that the "green" designation presents any limits to this instrument's ability to absorb losses either through coupon deferral or through liquidation of the assets if the group is in financial difficulty, whatever the nature of the event triggering the losses. We believe the notes' loss absorbing capacity is the same as for other tier 2 instruments that are not designated "green".

We understand that UNIQA plans to issue these notes as part of its announced debt liability management. In particular, UNIQA would use the proceeds of new issuance to simultaneously buy back the commensurate amount of its hybrids issued in 2013 and 2015. We consider that following completion of the transaction, UNIQA would be committed to maintaining its capital structure as is and stable capitalization levels. We assume that UNIQA will replace the remaining portions of the existing hybrids at or before their call dates. As a result, we continue to consider residual amount of these hybrids to retain intermediate equity content.

In our view, the transaction does not immediately affect our assessment of UNIQA's funding structure. We consider that the additional cost of the transaction might pressure fixed-charge coverage in 2021, which we expect to remain below 4x, then gradually improve in 2022-2023. That said, we believe that transaction will have a neutral effect on the company's financial leverage.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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

- UNIQA Insurance Group AG, Dec. 18, 2020

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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