

UNIQA Insurance Group AG

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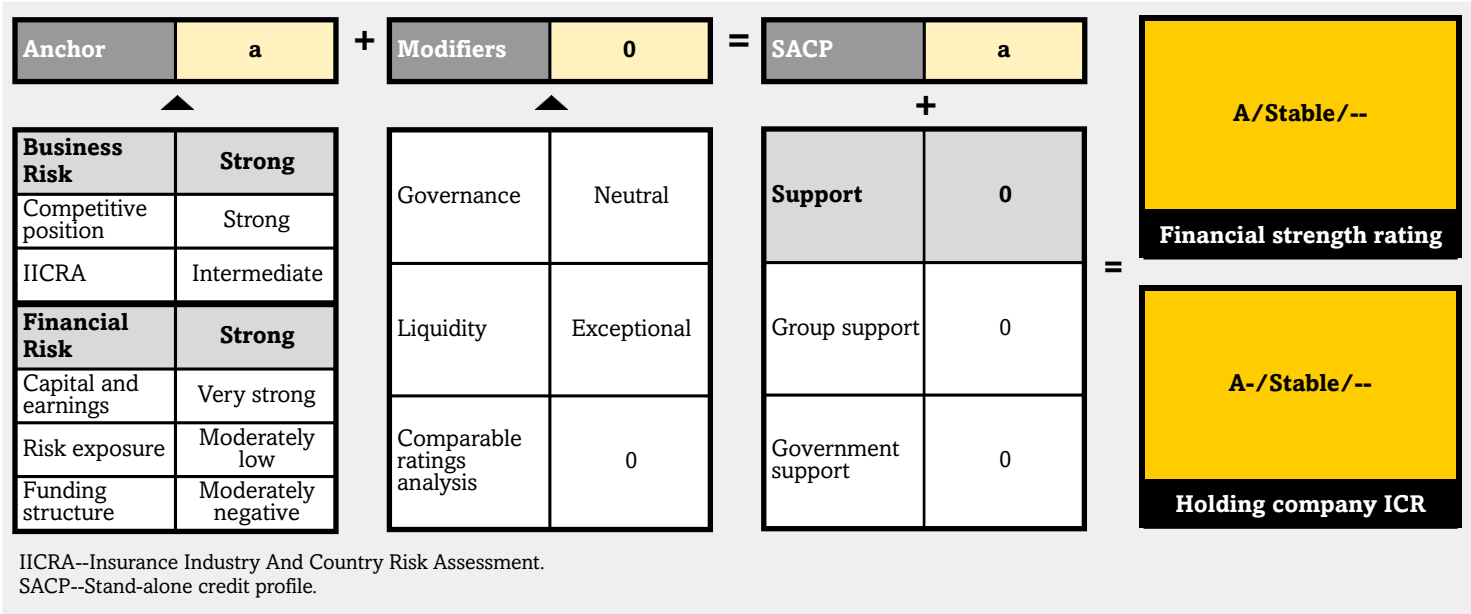
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UNIQA Insurance Group AG



Credit Highlights

Overview	
Key strengths	Key risks
A diversified product portfolio and well-established business model in Austria and Central and Eastern Europe (CEE).	Volatile capital markets and inflation--which is only gradually falling--could lead to some volatility of operating performance.
The market leader in private health insurance in its domicile market.	Somewhat more aggressive funding structure than that of its peers.
Robust capitalization, both in our view and under regulatory requirements.	

Rationale

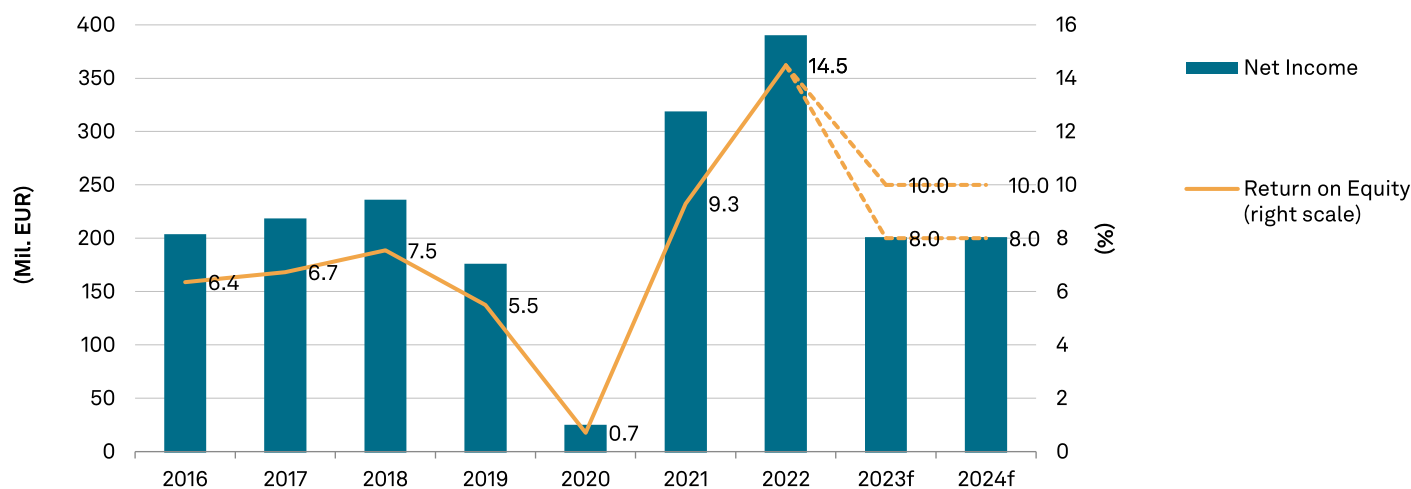
We expect UNIQA will maintain its underlying profitability over 2023-2025 despite several geopolitical and macroeconomic challenges. The group's underwriting and investment performance in all business segments was strong throughout the first six months of 2023. As per IFRS-17 accounting principles, the insurance revenue increased by 10.7% compared to the same period in 2022 (gross premiums written increased by 7.9% in first half of 2023). Reported net income almost doubled to €172 million compared to €87 million in the first half of 2022 due to a strong recovery of investment results. The property and casualty (P/C) gross combined (expense and loss) ratio remained strong at 89.2% compared to 90.4% in 2022 due to relatively low claims burden from major losses and natural catastrophes.

As a result of the underlying underwriting and cost discipline, we expect robust underlying earnings in the medium term. This could, however, be constrained by the combination of higher inflation, volatile capital markets, and an economic downturn.

We still believe UNIQA can achieve a return on equity sustainably above 8% supporting the build-up of capital in line with growth targets in our base-case scenario over 2023-2025.

Chart 1

Capitalization to be supported by solid earnings generation



f--Forecast. Source: S&P Global Ratings. Company financials
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We expect that UNIQA's capital position will remain robust in the foreseeable future. UNIQA demonstrates that it can effectively balance capital, earnings, and business growth. It also shows a prudent dividend policy and balanced investment practices. We therefore expect that UNIQA's capital position will remain a strength, with capital adequacy remaining above the 'AAA' level of our risk-based capital model throughout 2023-2025. A strong underlying performance in the Austrian and CEE markets will also support this--in particular the resilient underwriting performance in P/C with a combined ratio below 96% under IFRS 17, as well as indexation of premiums (to mostly pass-through price increases to offset high inflation).

In August 2023, UNIQA announced its decision to sell its Russian business after discontinuing new business since 2022. The sale of its Russian entity will likely be completed in the next six months, subject to all necessary regulatory approvals. We expect this will further reduce volatility of capital and earnings (see Research Update: Austria-Based UNIQA Group Outlook Revised To Stable From Negative On Strong Group Performance; Ratings Affirmed, published March 1, 2023).

Outlook: Stable

The stable outlook reflects our view that, over the next two years, UNIQA's capital position and operating performance will remain resilient. We think UNIQA will sustain and expand its strong competitive position in its domestic and in CEE markets.

Downside scenario

We could lower the ratings over the next two years if:

- Adverse market developments or a considerable re-risking of the investment portfolio materially weakened UNIQA's capital adequacy prospects below the current level and deteriorated its strong profitability levels.
- We observe a weakening in underwriting discipline that could lead to a significant underperformance over a prolonged period.
- We could widen the notching of the group's operating holding company, UIG, if it reported a material reduction in profits from its own operating activity.

Upside scenario

An upgrade is unlikely over the next two years, in our view. It would hinge on a material, sustained improvement in the group's financial leverage metric combined with a pronounced strengthening of its track record in stable long-term earnings generation through which the group would enhance the resilience of its business risk profile.

We could upgrade the holding company rating if it substantially and sustainably increased cash flows from its own operating activity.

Key Assumptions

- For Austria, we expect a real GDP growth of 0.3% due to economic stagnation in 2023. For the period 2024-2025, we estimate an annual GDP growth between 1.6% and 1.8%.
- For 2023-2024, in Austria, we expect an unemployment rate of about 4.7%-4.9%, coupled with inflation of about 6.8% in 2023 followed by 3.5% in 2024.
- Due to the increasing interest rate environment, 10-year eurozone government bond yields are expected to remain between 3.3%-3.7% for 2023-2025.

UNIQA--Key metrics

	2024f	2023f	1H-2023*	2022	2021	2020
Gross premium written (mil. €)	>6,800	>6,700	3,707	6,605	6,358	5,565
Net income (mil. €)	>200	>200	172	389	318	24
Return on shareholders' equity (%)	>8	>8	15.6 [^]	14.5	9.4	0.7
P/C: Net combined ratio (%)	<96	<96	89.2 ^{**}	92.9	93.7	97.8

UNIQA--Key metrics (cont.)

	2024f	2023f	1H-2023*	2022	2021	2020
Life & Health New Business margin (%)	>2	>2	4.30	4.4	4.1	3.6
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Net investment yield (%)	>2	>2	N/A	2.9	2.3	2.3
Financial leverage (%)	>40	>40	N/A	49.8	39.6	39.6
Fixed Charge Coverage (x)	>6	>6	N/A	9.9	4.4	3.7

*As reported by UNIQA on IFRS 17 accounting principles. **Gross combined ratio. ^The annualised return on equity (after taxes and noncontrolling interests). e--S&P Global Ratings expected; f--S&P Global Ratings forecast.

Business Risk Profile: Strong

Our assessment of UNIQA's business risk reflects the group's established brand name as Austria's second-largest insurer coupled with its improved standing in the CEE insurance markets. We think UNIQA has built a well-established market position plus a broad and diverse product portfolio within the Austrian and CEE insurance markets through a focused organic and inorganic growth strategy. Some additional business diversification through international reinsurance business is added by UNIQA Re AG (A/Stable/--).

Furthermore, the group has well-established distribution relationships with members of its tied agents' network. We believe that the group's competitiveness is driven mainly by its client-centric approach and bancassurance cooperation with Raiffeisen Bank International (RBI) in Austria and CEE markets and with mBank in Poland.

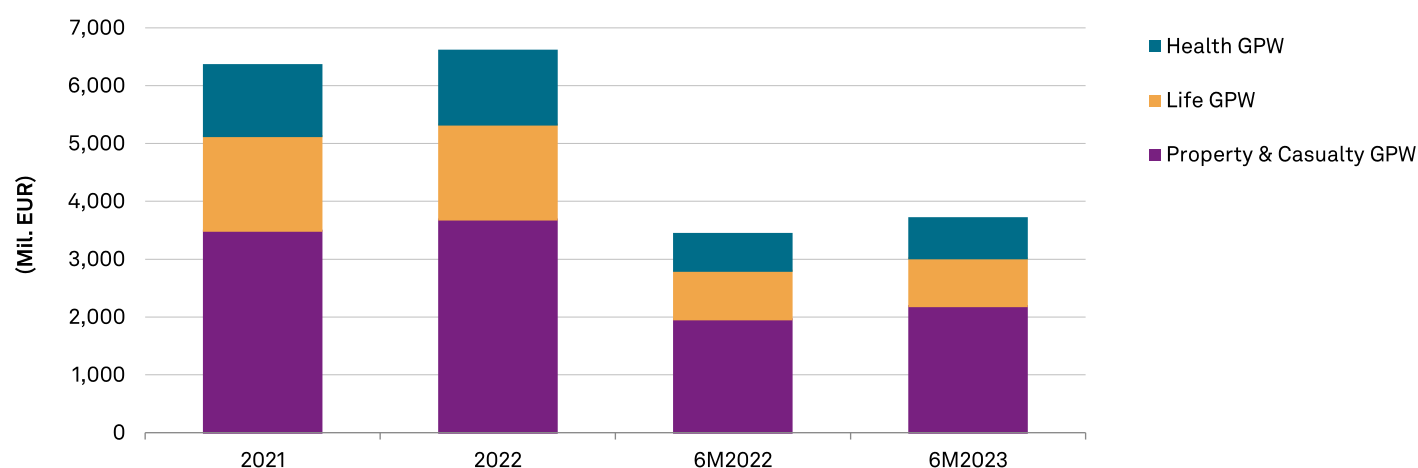
In our opinion, the group will continue to leverage its longstanding relationships with private clients, small and midsize enterprises, and bancassurance cooperations to further cement its market standing in Austria and CEE. As a result of the successful integration of the former AXA CEE operations, UNIQA's standing in Poland, Czech Republic, and Slovakia has further strengthened and we expect this trend to continue.

UNIQA's business growth will likely exceed 6% in 2023 due to sound underlying growth in health and P/C insurance. We believe the group will likely sustain business growth of 3%-5% over 2024-2025.

UNIQA's diverse business portfolio of P/C, life, and health insurance products has historically supported a sound balance of business growth and profitability. Total gross premiums exceeded €6.6 billion in 2022 compared with about €6.4 billion for the same period in 2021. UNIQA reported €3.7 billion of gross written premiums for six months of 2023 compared with €3.4 billion in the same period last year (see chart 2).

Chart 2

Resilient operations in Austria and CEE drive UNIQA's business growth in 2022 & 2023

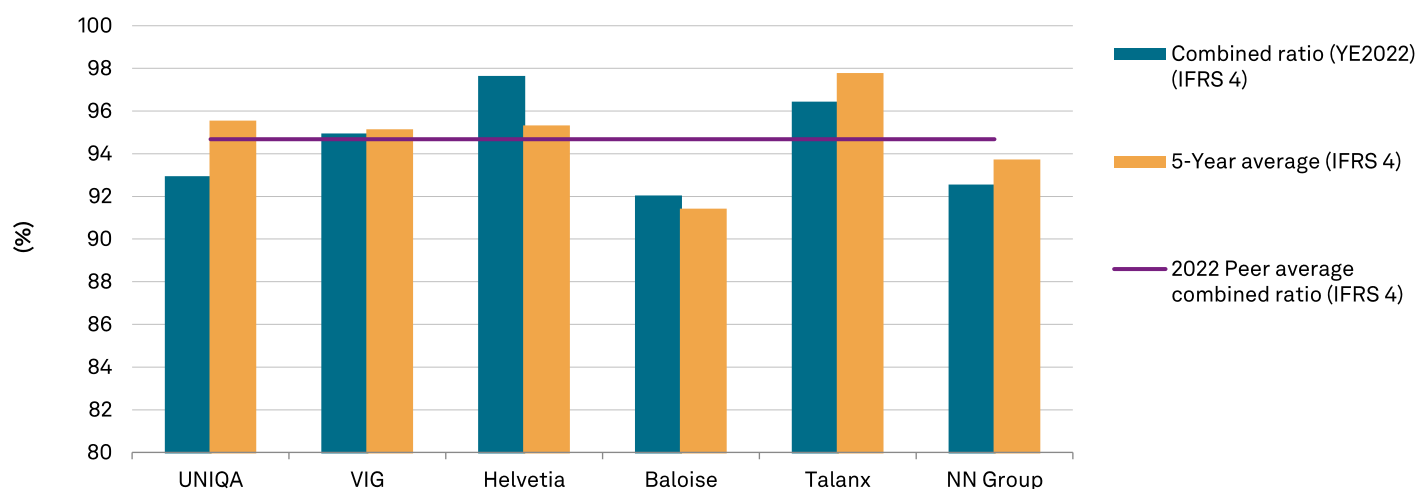


6M--First six months. GPW--Gross premiums written. Source: S&P Global Ratings. Company financials
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We believe the group will continue successfully expanding in 2023-2025, driven by organic growth of CEE entities, ongoing synergy effects, and resilient core operations in Austria.

UNIQA is the fifth-largest insurer in the CEE, with a comprehensive insurance offering across the region. In the first six months of 2023, UNIQA's international gross written premiums increased by 11.6% to €1.4 billion from €1.3 billion for the same period in 2022. About two-thirds of premiums relate to P/C insurance business, with the rest mainly from the profitable, capital-light life and health insurance businesses. UNIQA's international premium volumes now make up about 38% of UNIQA's total premiums, with the majority coming from more developed countries in the region (Czechia, Slovakia, Poland, and Hungary) where country and insurance industry risk is only slightly higher than in Austria.

UNIQA has maintained underwriting discipline with a five-year (2022-2018) combined ratio of about 95.5% (IFRS-4). Furthermore, for the first six months of 2023, underwriting performance remained resilient, with a gross combined ratio of 89.2% compared to 90.4% in the same period last year (IFRS-17).

Chart 3**UNIQA's P/C underwriting performance remained resilient in 2022**

Source: S&P Global Ratings.

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Overall, we expect the combined ratio will remain below 96%, coupled with increasing margins in UNIQA's life insurance business due to rising interest rates leading to net income of more than €200 million over 2023-2025, in our base-case scenario under IFRS 17.

Overall, we expect that robust retained earnings will continue to support the group's capital adequacy, while financing growth and expected dividend payouts of 50%-60% of net income.

Financial Risk Profile: Strong

According to our risk-based capital model the group's capitalization remained at the 'AAA' level and we expect the group to maintain that level of capital adequacy throughout 2023-2025 supported by sound earnings generation, ongoing underwriting discipline, a shift toward capital-light products, and a conservative investment allocation.

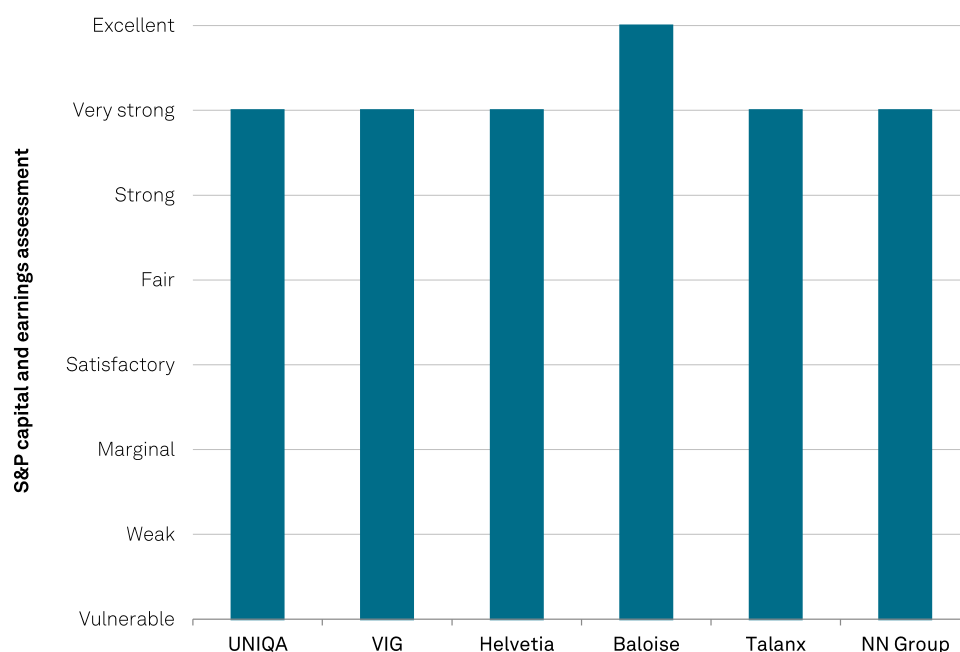
Despite volatile capital markets and declining market values of bonds, capital adequacy proved resilient for the first six months of 2023. Furthermore, UNIQA's Solvency II ratio remained stable at 244% for the first six months of 2023 versus 246% at year-end 2022. Thus, in our view, the combination of strong underlying earnings backed by comprehensive premium inflation adjustments, moderate dividend payments, and the high average rating in the fixed-income portfolio will help maintain UNIQA's capital position above the 'AAA' level in 2023-2025, according to our risk-based capital model.

Our view on UNIQA's capital is somewhat constrained by higher reliance on softer forms like hybrid capital and value in force relative to overall total adjusted capital. Therefore we consider the group's capital and earnings as very strong

overall.

Chart 4

UNIQA's capital position remains robust despite geopolitical and macroeconomic challenges



Source: S&P Global Ratings.C&E Scores as mentioned in S&P Global Ratings publications
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We expect UNIQA's investment exposure to remain resilient to market volatility, benefiting from a balanced, diversified, and stable investment portfolio. The group continues to follow a conservative fixed-income investment strategy, with its investments having an average credit quality of 'A'. Most of the acquired assets are in fixed-income securities of governments rated in the 'A' and 'AA' ranges. That said, about 18% of invested assets are in real estate, predominantly in Austria. We expect some impairments for real estate assets, but we do not anticipate any material negative effects on UNIQA's capitalization. Other higher-risk assets--like equities, speculative-grade, and unrated securities--represent about 17% of total invested assets.

For year-end 2022, the financial leverage for the company deteriorated to 49.8% (from 39.6% in 2021). This was largely due to the recent drop in shareholders' equity on the back of increased interest rates. We expect shareholders' equity to gradually recover over the coming years as the majority of bonds we expect to be held to maturity. In July 2023, UNIQA redeemed €148.7 million of the remaining junior subordinated notes issued by UNIQA Insurance Group AG (A-/Stable/--) in 2013 (see Research Update: UNIQA Group's Capital Assessment Unchanged By Redemption Of Hybrid; Rating On Remaining Hybrids Affirmed, published June 19, 2023). The combination of the hybrid redemption and bonds pulling-back-to-par will reduce the leverage for year-end 2023. For UNIQA we anticipate a leverage ratio of

around 45% in 2023. At the same time, UNIQA's fixed-charge coverage improved to around 10x in 2022 after 4.4x in 2021. We envisage sustained fixed-charge coverage above 6x given our base-case expectations for earnings over 2023-2025.

Other Key Credit Considerations

Governance

Governance and disclosure standards in Austria are high. We consider UNIQA's management and governance assessment to be in line with that of its peers. UNIQA has demonstrated a clear path, particularly in terms of building up its strong market position in the Austrian and CEE insurance markets. The company also has a highly experienced management team that complements its operational needs.

Liquidity

In our view, UNIQA has sufficient liquidity despite a decline in its liquidity ratio at end-2022, temporarily affected by turbulent market conditions. We do not see liquidity as at risk or likely to influence our ratings, and expect it will recover in the medium term.

Factors specific to the holding company

UNIQA Insurance Group (UIG) continues to write reinsurance business and as such remains an operating holding company of the group, generating cash to partly fulfil its financial obligations with own means. However, because we think that UIG's own cash flow is relatively limited, we continue to apply a one-notch differential between the ratings on the holding and core operating entities of UNIQA Group.

Group support

We consider UNIQA Versicherungen Österreich and UNIQA Re as core operating entities of the group.

Environmental, social, and governance

ESG factors have no material influence on our credit rating analysis of UNIQA Group.

Accounting considerations

- Since January 2023, UNIQA has started preparing its consolidated financial statements according to IFRS-9/17 accounting principles.
- We base our analysis of the group's life profitability and risk exposures mainly on market-consistent embedded-value disclosure. With the switch to IFRS 17, we are considering the contractual service margin (CSM) in our capital assessment.
- Our assessment of financial flexibility relies on the consolidated group, including UNIQA Versicherungsverein Privatstiftung obligations.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: 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 Group's Capital Assessment Unchanged By Redemption Of Hybrid; Rating On Remaining Hybrids Affirmed, June 19, 2023
- Research Update: Austria-Based UNIQA Group Outlook Revised To Stable From Negative On Strong Group Performance; Ratings Affirmed, March 1, 2023
- Economic Research: European Insurance Mid-Year Outlook 2023: Challenges Loom, July 21, 2023
- Insurance Industry And Country Risk Assessment: Austria Property/Casualty, Oct. 11, 2023
- Insurance Industry And Country Risk Assessment: Austria Life, Oct. 11, 2023

Appendix

UNIQA--Credit metrics history		
Ratio/Metric	2022	2021
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	23,233	27,722
Total shareholder equity	2,052	3,323
Gross premiums written	6,605	6,358
Net premiums written	6,009	5,767
Net premiums earned	5,949	5,698
Reinsurance utilization (%)	9.03	9.30
EBITDA	515.7	588.0
Net income (attributable to all shareholders)	389.3	317.9
Return on shareholders' equity (reported) (%)	14.25	9.26
P/C: net combined ratio (%)	92.90	93.73
P/C: net expense ratio (%)	31.78	32.39
P/C: return on revenue (%)	5.12	7.22
Life: Net expense ratio (%)	33.03	31.55
EBITDA fixed-charge coverage (x)*	9.92	4.36
Financial obligations / EBITDA*	3.95	3.71
Financial leverage including pension deficit as debt (%)*	49.80	39.62
Net investment yield (%)	2.89	2.28
Net investment yield including investment gains/(losses) (%)	1.94	2.83

* All figures include also UNIQA Versicherungsverein Privatstiftung.

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 November 8, 2023)*
UNIQA Insurance Group AG

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/--

Junior Subordinated

BBB

Senior Unsecured

A-

Related Entities
UNIQA Oesterreich Versicherungen AG

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

UNIQA Re AG

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.

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