

## Research

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### Research Update:

# UNIQA Ratings Affirmed On Improved Capital Adequacy; Outlook Stable

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## Research Update:

# UNIQA Ratings Affirmed On Improved Capital Adequacy; Outlook Stable

## Overview

- We believe UNIQA's capital adequacy has improved to extremely strong levels, as a result of balance sheet derisking, stronger non-life underwriting performance, and conservative capital management.
- We estimate UNIQA will maintain good overall earnings in Austria, strengthening its performance in Central and Eastern European markets, but benefits from geographic diversification are lower than at higher rated peers.
- We are accordingly affirming our ratings on UNIQA Group's core operating entities at 'A'. We are also affirming our 'A-' ratings on UNIQA Group's holding company and highly strategic subsidiary.
- The stable outlook reflects our expectation that UNIQA will preserve its extremely strong capital adequacy and maintain its solid competitiveness, while remaining somewhat more concentrated in its home market compared with higher rated peers.

## Rating Action

On Dec. 21, 2018, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on the core operating entities of Austria-based multiline insurance group UNIQA. We are also affirming our 'A-' long-term issuer credit and financial strength ratings on UNIQA Group's holding company and highly strategic subsidiary. The outlook on all entities remains stable.

## Rationale

The affirmation reflects our view that UNIQA's capital adequacy has gradually consolidated at extremely strong levels over the recent years, according to our model. This reflects the group's ongoing derisking of its balance sheet, increased focus on underwriting performance, and stringent capital management.

In our view, UNIQA's capital position will remain very sound, according to both our risk-based capital model and Solvency II. We expect the group will continue derisking its business and report good operating profitability. At the same time, we estimate a modest increase in capital requirements resulting from organic business growth. We expect dividend and acquisition strategies to continue to be supportive of the current extremely strong capital levels.

We expect UNIQA will continue to focus on strengthening its non-life underwriting performance and we forecast the insurer will report an average non-life net combined ratio below 96% over 2018-2020, versus a five-year average of 98.5% in 2017. Under our base-case scenario, we estimate that solid non-life performance will offset lower life business volumes and investment returns, driving net income above €200 million over 2018-2020, in line with the five-year average.

Austria remains UNIQA's home and main market, accounting for around 70% of the group's consolidated premiums and 80% of consolidated income. However, direct insurance business in Central and Eastern Europe (CEE) offers the main growth opportunities. UNIQA has strengthened underwriting standards, gradually improving the profitability of its foreign business. Compared with 'A+' rated peers though, UNIQA still has lower geographic diversification of revenues and net income.

## **Outlook**

We expect our ratings on UNIQA group operating entities will remain stable over the next 12-24 months as we think the group will preserve its extremely strong capital adequacy, maintaining its strong competitiveness in its home market. Although we believe the insurer will continue to strengthen its position in CEE, the benefits from geographic business and income diversification are lower than at higher rated peers.

### **Upside scenario**

Although we do not expect it over the next 12-24 months, we could raise our ratings on UNIQA if:

- The insurer retains a material capital buffer at extremely strong levels while at the same time showing materially superior profitability compared with domestic and international competitors; or
- Geographic diversification of revenues and net income materially and sustainably increase.

### **Downside scenario**

We don't expect to take a negative rating action over the next 12-24 months, but we could consider it if UNIQA's:

- Capital consistently weakened below the 'AA' range according to our capital model; or
- Financial flexibility were to deteriorate because of a drop of fixed-charge coverage below 4x for a prolonged period, as result of lower earnings or higher refinancing costs than in our base case.

## Ratings Score Snapshot

	To	From
Financial Strength Rating	A/Stable/--	A/Stable/--
Anchor	a	a
Business Risk Profile	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive Position	Strong	Strong
Financial Risk Profile	Very Strong	Strong
Capital and Earnings	Very Strong	Strong
Risk Position	Intermediate	Intermediate
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria

- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features, July 24, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Ratings List

### Ratings Affirmed

UNIQA Oesterreich Versicherungen AG

UNIQA Re AG

Issuer Credit Rating

Local Currency A/Stable/--

Financial Strength Rating

Local Currency A/Stable/--

UNIQA Insurance Group AG

UNIQA Versicherung AG

Issuer Credit Rating

Local Currency A-/Stable/--

Financial Strength Rating

Local Currency A-/Stable/--

UNIQA Insurance Group AG

Junior Subordinated BBB

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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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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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