S&P Global Ratings

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Research Update:

Austria-Based UNIQA Insurance Group Affirmed At 'A' Following Revised Capital Model Criteria; Outlook Remains Stable

June 7, 2024

Overview

- The implementation of our revised criteria for analyzing insurers' risk-based capital--"Insurer Risk-Based Capital Adequacy--Methodology And Assumptions" published Nov. 15, 2023--has no material impact on our view of the financial strength of UNIQA Insurance Group AG and its subsidiaries.
- We therefore affirmed our 'A' ratings on the group's core entities UNIQA Österreich Versicherungen AG and UNIQA Re AG, as well as our 'A-' rating on the operating holding company UNIQA Insurance Group AG (UIG).
- The stable outlook reflects our view that, over the next two years, UNIQA will maintain its sound earnings generation capabilities, ongoing underwriting discipline, and resilient capital position.

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Rating Action

On June 07, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on Austria-based multiline insurance group UNIQA's core operating entities and its 'A-' long-term issuer credit and financial strength ratings on UNIQA's operating holding company. The outlooks on all three entities remain stable.

Impact Of Revised Capital Model Criteria

- The application of our revised capital adequacy framework has no material effect on UNIQA's capital adequacy. We expect capital adequacy will continue to exceed our 99.99% confidence level over 2024-2026.
- Under the new criteria, we have captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these

improvements.

Credit Highlights

Overview

Key strengths	Key risks
A diversified product portfolio and well-established business model in Austria and Central and Eastern Europe (CEE)	Geopolitical and economic risks, capital market volatility, and inflation could still lead to some volatility in the group's earnings.
Robust capitalization, both in our view and under regulatory requirements	UNIQA's group capitalization somewhat relies on market fluctuations, especially interest rates.
The market leader in private health insurance in its domicile market.	

Outlook

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 CEE markets.

Downside scenario

Although unlikely, we could lower the ratings over the next two years if:

- Adverse market developments or considerable re-risking of the investment portfolio materially weakened UNIQA's capital adequacy prospects below the current level and eroded its strong profitability.
- We observe weakening of underwriting discipline that could lead to significant underperformance over a prolonged period.

We could widen the notching between our rating on the operating holding company, UIG, and the group's core operating entities if UIG reported a material reduction of profits from its own operating activity.

Upside scenario

We could raise the ratings over the next two years if we believe:

- UNIQA can sustain its earnings and revenue diversification through which the group is enhancing the resilience of its business risk profile; and
- UNIQA's financial leverage remains consistently below 40%, safeguarding the group's very strong financial risk profile.

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

Rationale

We consider that UNIQA's financial risk profile has sustainably improved over the last three years after the acquisition of AXA's CEE business. At that time, UNIQA financed the acquisition partially through the debt capital markets, which put some pressure on funding structure. We now see less pressure on the funding structure since UNIQA has demonstrated more stable and diverse earnings generation capabilities, also keeping capital above our highest confidence level at 99.99%.

As of year-end 2023, the group's financial leverage reduced to 40% from 49.8% under IFRS 4 in 2022. This was largely due to an increase in shareholders' equity on the back of sound earnings generation and bond prices pulling to par. We expect the group to hold the majority of bonds to maturity. Furthermore, in July 2023, the group redeemed €148.7 million of the remaining junior subordinated notes issued by UIG in 2013 (see "Research Update: UNIQA Group's Capital Assessment Unchanged By Redemption Of Hybrid; Rating On Remaining Hybrids Affirmed," published June 19, 2023). In our view, the combination of strong underlying earnings and bonds approaching their face value will lead to leverage reducing below 40% over 2024-2026. We therefore revised our assessment of UNIQA's funding structure to neutral from moderately negative. In turn, this has led to an overall change of our financial risk profile assessment to very strong from strong.

At the same time, UNIQA's fixed-charge coverage remained solid at about 10x in 2023. We envisage sustained fixed-charge coverage above 6x given our base-case expectations for earnings over 2024-2026.

Our assessment of UNIQA's business risk reflects the group's established brand name with its improving standing in 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.

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

We expect UNIQA will maintain its underlying profitability over 2024-2026 despite several geopolitical and macroeconomic challenges. The group's underwriting and investment performance in all business segments was strong throughout 2023 and the first quarter of 2024. As per IFRS-17 accounting principles, insurance revenue increased by 13.7% in the first quarter of 2024 compared to the same period in 2023 (gross premiums written increased by 10.9% in the first quarter of 2024). Gross written premiums (under IFRS 4) increased by 9.7% in 2023 versus 2022.

Reported net income improved to €303 million in 2023 compared to €256 million in 2022 due to a strong underwriting result in property/casualty business (P/C) and a higher investment result. The P/C gross combined (expense and loss) ratio remained strong at 92.6% compared to 92.8% in 2022, due to diligent underwriting controls and inflation-indexed premium adjustments. In the first quarter of 2024, the group's earnings capabilities remained strong with the gross combined ratio (IFRS 17) at 86.7%, improved from 88.7% in first-quarter 2023, and net income totaled €107 million, versus €101 million in first-quarter 2023.

As a result of the group's underlying underwriting and cost discipline, we expect robust underlying earnings in the medium term. We expect a resilient underwriting performance in UNIQA's Austrian and CEE P/C business with a combined ratio below 96% under IFRS 17. This could, however, be constrained by a combination of higher inflation, volatile capital markets, and economic downturn in CEE or Austrian insurance markets. We believe UNIQA can achieve a return on equity sustainably above 8%, supporting the buildup of capital in line with growth targets in our base-case scenario over 2024-2026.

UNIQA's Solvency II ratio improved to 264% for the first quarter of 2024 from 255% at year-end 2023. The group 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 UNIQA's capital position will remain a strength, with capital adequacy remaining above the 99.99% confidence level in our risk-based capital model throughout 2024-2026.

Our view on UNIQA's capital is somewhat constrained by higher reliance on hybrid capital and future health and life profits relative to overall total adjusted capital. Therefore, we consider the group's capital and earnings very strong rather than excellent.

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 fixed-income assets comprise securities of governments rated in the 'A' and 'AA' categories. That said, about 16% of invested assets comprise real estate, predominantly in Austria. We expect some impairments for real estate assets, but we do not anticipate any material negative impact on UNIQA's capitalization. Other higher-risk assets--like equities, as well as speculative-grade and unrated securities--represent about 10% of total invested asset.

Ratings Score Snapshot

	To	From
Financial strength rating	A/Stable/--	A/Stable/--
Anchor*	A	A
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk	Very Strong	Strong
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Moderately negative
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	

*The combination of a strong business and very strong financial risk profile results in a split 'a+/a' anchor. We select the lower anchor of 'a' for UNIQA. Although UNIQA Group is progressing well by diversifying its revenue and earnings streams, we believe the group still relies somewhat more on its domestic market compared to higher-rated-peers. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

************* UNIQA Insurance Group AG ************	
Ratings Affirmed	
UNIQA Insurance Group AG	
Issuer Credit Rating	
Local Currency	A-/Stable/--
Financial Strength Rating	
Local Currency	A-/Stable/--
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	
Senior Unsecured	A-
Junior Subordinated	BBB