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Ratings

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UNIQA Insurance Group AG

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UNIQA Insurance Group AG

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Moderately negative

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

+

Support	0
Group support	0
Government support	0

=

A/Stable/--
Financial strength rating

A-/Stable/--
Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Second-largest insurance group in Austria, with an expanding market position in Central and Eastern Europe (CEE) and Russia.	Overall earnings will be dampened by goodwill impairments and restructuring provisions in 2020, and life results remain pressured by low interest rates, in line with peers'.
Leading position in private health insurance in Austria.	Reliance on softer forms of capital, namely hybrids and the value of inforce business, as well as a somewhat more aggressive funding structure than that of peers.
Excellent capital adequacy as per S&P Global Ratings' capital model.	

Rationale

UNIQA Insurance Group's premium growth in 2020-2021 will benefit from the consolidation of AXA CEE. Austria-domiciled UNIQA has a strong competitive position, as the second-largest insurance group in its domestic market with a solid footprint in the CEE region. The recently acquired AXA CEE business will strengthen UNIQA's standing in Poland, Czech Republic, and Slovakia. Due to the acquisition, we expect the group's premium growth will exceed 10% in 2021, before normalizing at about 2%-3% per year from 2022. This should result in UNIQA achieving its targeted premium volume of above €7 billion in 2025. At the same time, we expect the group's geographic diversification of earnings will gradually improve.

UNIQA's technical performance remains resilient, but goodwill impairments and restructuring provisions will erode 2020 earnings. In the first three quarters of 2020, UNIQA's underwriting and investment performance showed resilience to the pandemic, with the group reporting net income of €166 million, and a combined ratio (loss and expense) of just above 95%, which was comparable to the same period of 2019. However, we expect goodwill impairments and restructuring provision in the last quarter of 2020 will offset earnings, resulting in a return on equity

(ROE) of about 0% in 2020, compared with 7.4% in 2019. Thereafter, we expect strong recovery of net income to about €170 million-€200 million in 2021 and about €240 million-€300 million in 2022, corresponding to ROE of 5%-7% in 2021 and 6%-8% in 2022.

We believe that UNIQA will maintain robust capitalization. We expect that UNIQA's capital position will continue to be a key strength, with capital adequacy, according to S&P Global Ratings' model, remaining above the 'AAA' level through 2022. This is following completion of the AXA CEE's acquisition and the July 2020 issuance of a €200 million capital-qualifying green hybrid bond. The acquisition also increases debt on UNIQA's balance sheet, making its funding structure metrics somewhat weaker than peers' and weighing on its medium-term financial profile, in our opinion.

Outlook: Stable

The stable outlook reflects our view that, over the next two years, UNIQA's capital position will remain resilient and its operating performance will gradually improve, while the integration of AXA CEE proceeds smoothly.

Downside scenario

We could lower the ratings over the next two years if adverse market developments materially weakened UNIQA's capital adequacy prospects below the current excellent level and further depressed its profitability. A significant underperformance of AXA CEE's profit contribution could also pressure the ratings. We could widen the notching of the group's operating holding UNIQA Insurance Group AG (UIG) if the holding reported a material reduction in cash flow from own operating activity.

Upside scenario

An upgrade of UNIQA is unlikely over the next two years, in our view. It would hinge on a material and sustained improvement in the group's funding metrics, combined with a pronounced strengthening of operating performance. We'd also have to observe further improvements in earnings diversification through which the group enhanced the resilience of its business profile. We could upgrade UIG if the holding substantially and sustainably increased cash flows from own operating activity.

Key Assumptions

- Real GDP contraction in Austria of 6.7% in 2020, with growth rebounding by 4.1% in 2021 and continuing at 1.4% in 2022.
- Poland real GDP contraction by 3.4% in 2020, with a strong growth rebound of 4.5% in 2021 and 3.6% in 2022.
- For 2020, in Austria, we expect inflation of 0.8%, coupled with unemployment rates rising to about 5.5%.
- 10-year eurozone government bond yields remaining low at 0.1% on average in 2020 and reduce to 0.0% in 2021 and only slightly increase to 0.2% in 2022.

Key Metrics							
	2022f	**2021f**	**2020e**	**9M2020***	**2019**	**2018**	**2017**
Gross premium written (mil. €)	~6,350	~6,200	~5,500	4,091	5,373	5,309	5,293
Net income (mil. €)	240-300	170-200	~0	236	236	235	217
Return on shareholders' equity (%)	6-8	5-7	~0	6.9	7.4	7.5	6.7
P/C: Net combined ratio (%)	94-96	95-97	~96	95.9	96.4	96.8	97.5
Life and health new business margin (%)	>2	>2	>2	N/A	4.3	5.9	4.5
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Net investment yield (%)	2.3-2.5	2.3-2.5	~2.4	2.4	2.5	2.5	2.5
Financial leverage (%)	37-40	37-40	~39	N/A	29.3	33.7	30.9
Fixed charge coverage (x)	4-5	3-4	~2	N/A	6.7	6.7	6.0

*As reported by UNIQA; Net income and return on Equity are on a rolling 12-months basis. e--S&P Global Ratings expected; f--S&P Global Ratings forecast. N/A--Not available. P/C--Property and casualty.

Business Risk Profile: Strong

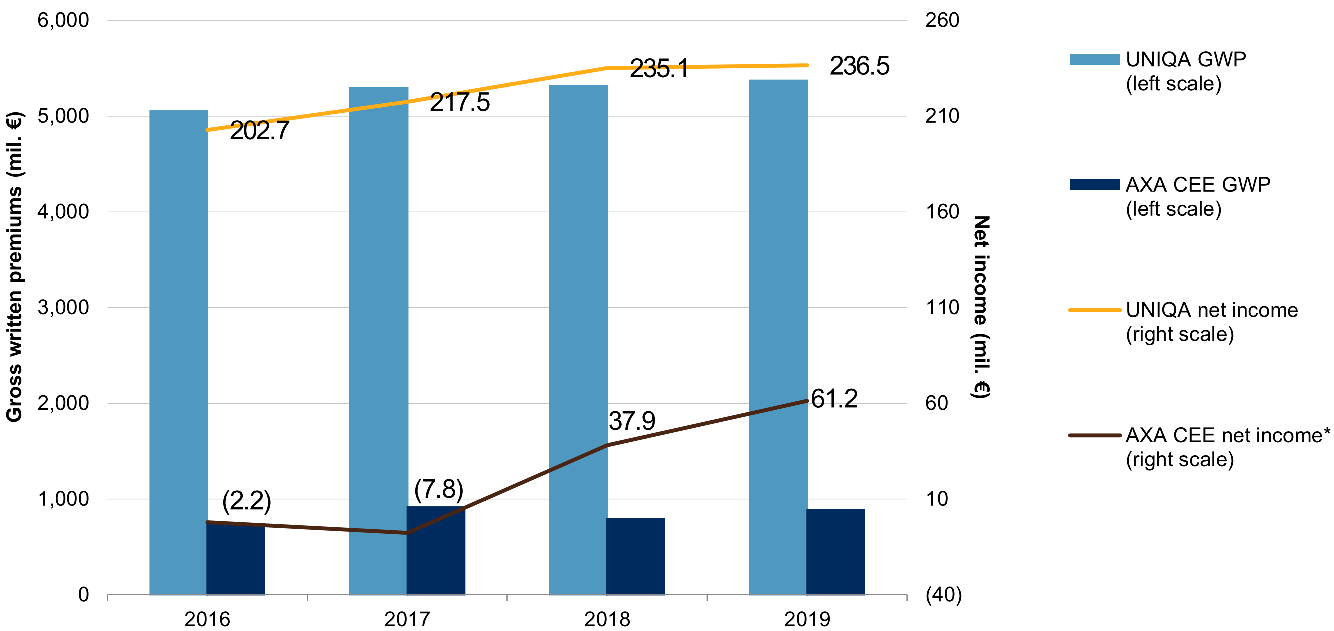
Our assessment of UNIQA's business risk reflects the group's strong position as Austria's second-largest insurer and its improving standing in the CEE insurance markets, which was enhanced by the AXA CEE acquisition. Furthermore, through UNIQA Re AG (A/Stable/--), the group is also active in international reinsurance.

Following the acquisition, UNIQA is now the fifth-largest insurer in the CEE, with a comprehensive insurance offer across the region. CEE premiums increased more than €840 million to exceed €2.4 billion. About two-thirds of premiums relate to the well-performing property and casualty (P/C) insurance business, and the rest is mainly from the profitable, capital-light life and health insurance businesses. CEE premiums now make up about 38% of UNIQA's combined premiums, with more than three-quarters 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. In our view, UNIQA continues to face intermediate industry and country risk, because the AXA acquisition did not materially increase overall business risk.

We think that the group benefits from a strong competitive position, with its operations focused on private clients, small-and-midsized enterprises, and a strong longstanding bancassurance cooperation with Raiffeisen Bank International (RBI). The group has well-established distribution relationships with members of its tied-agent network, and cooperates closely with RBI on the domestic and CEE markets. With the recent acquisition of CEE operations, the group also secured long-term cooperation with mBank, which strengthens its bancassurance offering in Poland. In addition, UNIQA is developing its direct insurance offer through Cherrisk. The group's well-established distribution capabilities and diverse business portfolio of P/C, life, and health insurance products support top-line growth. Despite more challenging business conditions from the pandemic and the change of the economic cycle, we expect UNIQA will continue successfully expanding in 2020-2022, predominantly thanks to the first integration of AXA CEE entities, and its own resilient core operations. Beyond 2021, we expect UNIQA will gradually tap profitable growth opportunities.

Chart 1

UNIQA's Integration Of AXA CEE Will Be Key For Top-Line Growth in 2020-2021

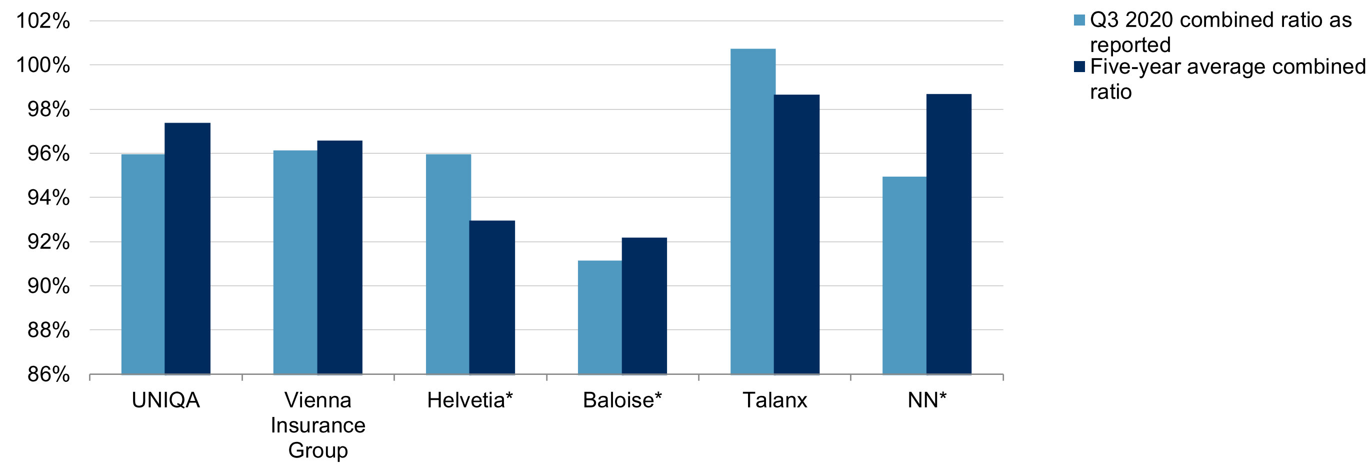


GWP--Gross written premiums. *Without pension business.
Source: UNIQA Annual Reports, AXA Poland & Czech Republic SFCR reports.

The group's combined ratio averaged 97.3% over 2015-2019, but has been trending down toward levels of domestic and some of the international peers. In the first three quarters of 2020, underwriting and investment performance remained resilient. The impact of business interruption claims was mainly offset by lower claims frequencies, for examples in motor insurance. In health insurance, UNIQA remains the market leader in Austria and continues to build on its strong vertical integration with health care facilities. As a result, its health business performance supports group performance and continues to display favorable business volumes and new business margins. We note that margins in its Austrian life business remain under pressure, due to lower-for-longer interest rates. In the CEE region, UNIQA achieved good organic premium growth in recent years, increasing CEE earnings contribution in 2019 to about 26% of pretax profits. We expect that in 2021-2022 the group will continue focusing on prudent underwriting, AXA CEE's integration, business digitalization and cost optimization, which together will help protect underwriting results. We expect that the 2021 combined ratio will remain in the range of 95%-97% and in 2022 improve to about 94%-96%, while UNIQA retains stable health business performance and resilient life insurance operations, despite low interest rates and the impact of the pandemic.

Chart 2

UNIQA's P/C Underwriting Performance To Remain Resilient In 2020



*As of H1 2020. Source: Q3 2020 combined ratios according to the groups' Q3 reports and presentations, S&P Global Ratings. P/C--Property and casualty.

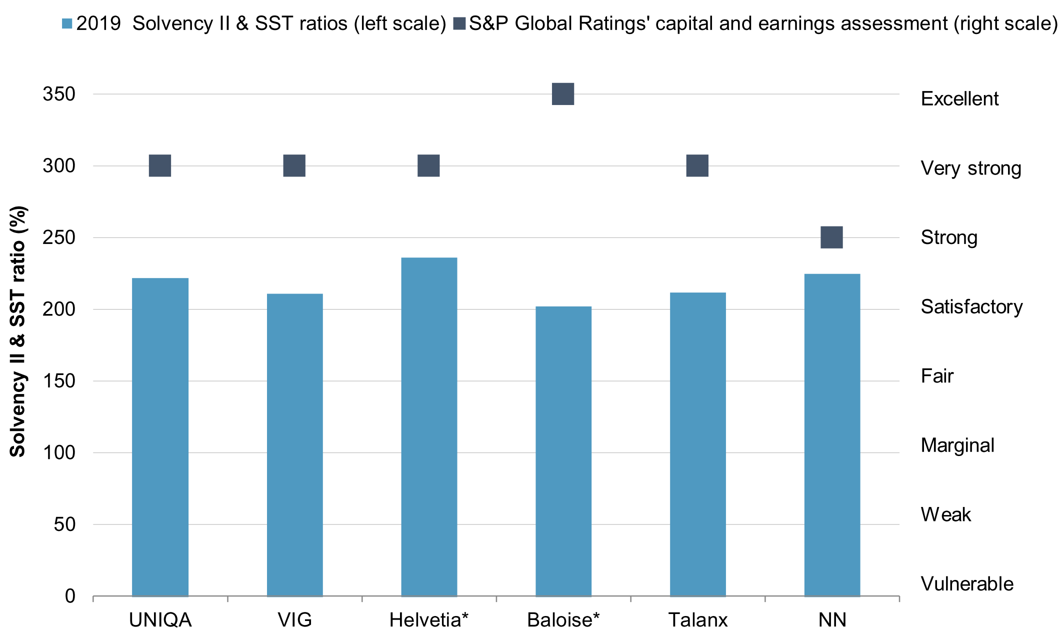
Financial Risk Profile: Strong

Solid capital buffers based on our capital model and Solvency II, as well as balanced and diversified investment allocation support UNIQA's strong financial profile. That said, financing of the AXA CEE acquisition has weakened the groups' funding structure metrics.

Even after the acquisition though, UNIQA has sustained its capital at the 'AAA' level according to our capital model. We expect that it will remain above the 'AAA' range in the medium term, supported by gradually increased earnings in 2021-2022 with only moderate dividends distributions. We adjust our capital and earnings downward due to relatively higher reliance on softer forms of capital like hybrid capital or value-in-force. Overall, we consider that UNIQA will sustain its capital and earnings assessment at least at a very strong level over the next two years.

Chart 3

UNIQA's Capital And Earnings Assessment Remains Very Strong After Acquistion



Data as of end 2019. *SST--Swiss Solvency Test. VIG -- Vienna Insurance Group. Source: S&P Global Ratings & company financials

For the acquisition, UNIQA issued an additional €600 million senior bond, and a €200 million capital-qualifying green hybrid bond. As a result, amount of debt on UNIQA's balance sheet increased. Due to expected weak performance in 2020 and increased interest burden, we expect fixed-charge coverage to drop materially below 4x in 2020 and only gradually improve in 2021-2022, remaining on average below 4x over the period. At this level, funding structure metrics are somewhat weaker than peers' and will weigh on UNIQA's medium-term financial profile, in our opinion.

UNIQA's technical performance in the first three quarters of 2020 remained resilient, but in the fourth-quarter UNIQA announced goodwill impairments and restructuring provisions of €210 million, which will erode 2020 earnings. Although 2020 earnings will suffer, we consider that UNIQA is taking active measures to improve performance in 2021-2025. We consider that domestic cost-optimization measures announced in fourth-quarter will help gradually reduce the group's cost ratio toward 25%, improving its cost competitiveness. In its CEE operations, the AXA CEE acquisition offers UNIQA material product and cost synergies and has potential to increase the group's earnings capacity. We believe swift integration of acquired entities and no material erosion of performance of its domestic operations will be key for UNIQA to achieve the expected strong rebound in earnings in 2021-2022, given macroeconomic uncertainty and potential further capital market volatility.

UNIQA's risk profile remains solid, benefiting from a balanced, diversified, and stable investment portfolio, and a conservative reinsurance protection strategy. UNIQA follows a conservative investment strategy, with its investments having an average credit quality of 'A' at the end of third-quarter 2020. We think that the AXA CEE integration will not materially change UNIQA's asset allocation or quality. Most of the acquired assets are in fixed-income securities of local governments rated in the 'A' and 'AA' range. Due to low interest rates, UNIQA is gradually adjusting and tapping some illiquidity premium in real estate, infrastructure, and the private debt space. This said, about 12% of invested assets is in real estate, predominantly in Austria. Other higher-risk assets like equities, speculative-grade and unrated securities, represent about 13% of total invested assets.

The group has a significant portfolio of life insurance business with average back book guarantees of about 2%, which is comparable with its peers. We consider that UNIQA's underlying life investment portfolio is well matched with its liability structure.

Other Key Credit Considerations

Governance

Governance and disclosure standards in Austria are high. We consider UNIQA's management and governance assessment is comparable with that of peers. Management is focusing on consistent strategic goals and building on the core capabilities, as demonstrated with acquisition of AXA CEE entities. The board is experienced and capable of executing the group's business strategy, as shown in its successfully disposed non-strategic assets and strengthening of the group's business development in recent years. In addition, UNIQA's management has experience in integrating companies in the CEE region, as such we do not expect major integration challenges from the recent acquisition.

Liquidity

We continue to assess UNIQA's liquidity as exceptional according to our measures. We have no refinancing concerns, and we expect the group would be able to withstand any severe liquidity stress, such as that caused by unexpectedly large claims.

Group support

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

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 the core operating entities of UNIQA Group.

Accounting considerations

- UNIQA prepares its consolidated financial statements according to International Financial Reporting Standards.
- We base our analysis of the group's life profitability and risk exposures mainly on market-consistent embedded-value disclosure.
- We base our assessment of UNIQA's capital adequacy on its reported shareholders' equity, which we adjust mainly to account for 50% of the life insurance value in force not included in the balance sheet.

- Our assessment of financial flexibility relies on the consolidated group, including UNIQA Versicherungsverein Privatstiftung obligations.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Insurance Industry And Country Risk Assessment: Poland Property And Casualty, Nov. 30, 2020
- Insurance Industry And Country Risk Assessment: Poland Life, Nov. 30, 2020
- Austrian Insurer UNIQA 'A' Ratings Affirmed On Finalized Financing Structure For The AXA CEE Acquisition; Outlook Stable, June 29, 2020
- Insurance Industry And Country Risk Assessment: Austria Property/Casualty, May 19, 2020
- Insurance Industry And Country Risk Assessment: Austria Life, May 19, 2020
- UNIQA Group Core Subsidiaries Ratings Remain On CreditWatch Negative After Profit Warning, Apr 15, 2020
- UNIQA Insurance Group CreditWatch Placement Revised To Negative From Developing On New Merger Plans, Feb. 20, 2020
- Ratings On UNIQA's Core Insurance Entities Put On Watch Negative On Planned Acquisition Of AXA's CEE Operations, Feb. 12, 2020
- Several Rating Actions Taken On UNIQA Insurance Group, Dec. 27, 2019
- UNIQA Insurance Group AG 'A-' Rating Put On CreditWatch Positive On Potential Merger Of Group Entities, Nov. 25, 2019

Appendix

UNIQA's Credit Metrics History

(Mil. €)	2019	2018
S&P Global Ratings' capital adequacy	Excellent	Excellent
Total invested assets	25,988	25,742

UNIQA's Credit Metrics History (cont.)

(Mil. €)	2019	2018
Total shareholder equity	3,420	2,987
Gross premiums written	5,373	5,309
Net premiums written	4,887	4,797
Net premiums earned	4,861	4,761
Reinsurance utilization (%)	9.0	9.7
EBIT	418	396
Net income (attributable to all shareholders)	236	235
Return on shareholders' equity (reported) (%)	7.4	7.5
P/C: net combined ratio (%)	96.4	96.8
P/C: net expense ratio (%)	32.2	31.4
P/C: return on revenue (%)	6.0	6.3
Life: Net expense ratio (%)	33.8	29.1
Health: Medical loss ratio (%)	82.7	81.2
EBITDA fixed-charge coverage (x)*	6.7	6.7
Financial obligations / EBITDA*	3.4	3.8
Financial leverage including pension deficit as debt (%)*	29.3	33.7
Net investment yield (%)	2.5	2.5
Net investment yield including investment gains/(losses) (%)	2.8	2.8

*All figures include also UNIQA Versicherungsverein Privatstiftung. P/C--Property and casualty.

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 December 18, 2020)*

UNIQA Insurance Group AG	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--

Ratings Detail (As Of December 18, 2020)*(cont.)	
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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