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Ratings

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Vienna Insurance Group AG Wiener Versicherung Gruppe

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Vienna Insurance Group AG Wiener Versicherung Gruppe

Anchor	a+	+	Modifiers	0	=	SACP	a+		

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

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

Support	**0**
Group support	0
Government support	0

= **A+/Stable/--**

Financial strength rating

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

Credit Highlights

Overview

Strengths	**Risks**
Market leader in Austria and several Central and Eastern European (CEE) markets.	Increasing economic pressure and rising institutional risks in developing markets, particularly Turkey, Hungary, Romania, and Poland, which have high inflation, tight financial conditions, and lingering risks of recession.
A well-diversified insurance portfolio, enhanced by strong distribution capabilities and an exclusive bancassurance contract with Erste Group Bank AG.	Greater regional earnings concentration than higher-rated peers.
A solid capital buffer at the 'AAA' level, as per our risk-based capital model, supported by the group's underwriting discipline.	Relatively high capital sensitivity to market movements, particularly interest rates.
Sound reinsurance protection that limits the group's natural catastrophe losses from diverse perils in Austria and CEE.	

Vienna Insurance Group (VIG) has diversified multiline operations and continues to capitalize on the strong insurance market upswing as the market leader in Austria and several CEE countries. The group's growth remained strong in the first half of 2023, with gross written premium (GWP) up by 10.8% to €7.3 billion and insurance revenue up by 13.7% to €5.4 billion. In S&P Global Ratings' view, the growth reflects VIG's strong market standing and diversified product offering. VIG achieved strong organic growth thanks to continued price increases to reflect inflation, as well as organic growth in new business additions in commercial and property lines, and further consolidation of AEGON's CEE operations in Poland and Romania. In addition, VIG's reinsurance activities benefit from a material hardening of rates in Europe in 2023. We expect that these factors will continue to support robust growth in the remainder of 2023 and in 2024. Notably, we expect that premium growth will remain strong this year, at 7%-10%, despite the weak economic environment in Europe.

In May 2023, VIG finalized the acquisition of AEGON's CEE entities. After completing the AEGON CEE acquisition, VIG is the largest insurer in Hungary and has further consolidated its leading position in Romania. VIG also solidified its positions in Poland and Turkey. The effect of the consolidation on VIG's Hungarian and Turkish operations was already apparent in the 2022 topline, and amounted to €444.5 million or 3.7% of the group's total premium volume. The effect of the consolidation on the Polish and Romanian operations is mostly apparent in the 2023 topline, but the impact on the group's overall growth will be proportionally smaller.

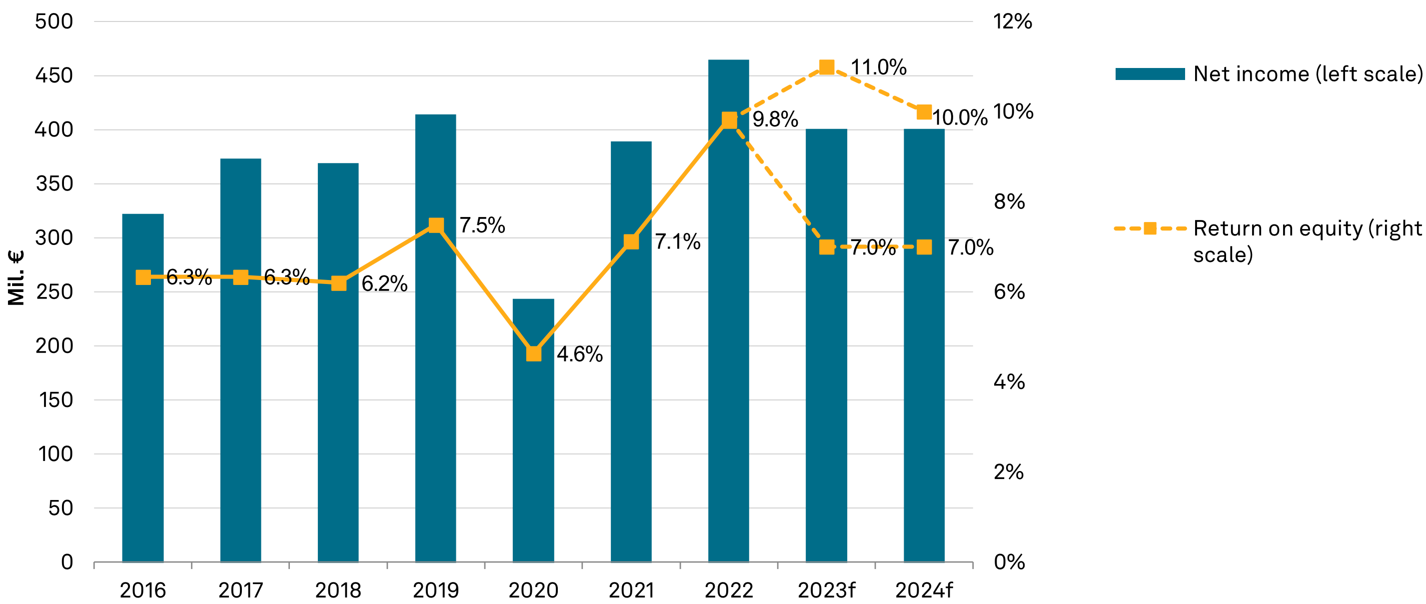
VIG is already actively integrating the newly acquired entities to take advantage of greater economies of scale. That said, we believe it will still take time for VIG's bottom line to fully benefit from the AEGON CEE acquisition. As such, we believe that earnings diversity outside the group's flagship Austrian, Czech, and Slovak operations in 2023-2025 will remain limited.

After a strong first-half 2023, with group net income of €352.8 million, we now believe that earnings will likely be at the higher end of our forecast for the full year. The strong first half was supported by robust non-life and life underwriting results. Following the implementation of International Financial Reporting Standards (IFRS) 17 and 9, VIG's non-life net combined (loss and expense) ratio was 94.0% in the first half of 2023, while the new business margin on its life and health operations was 7.2% and the contractual service margin saw a €337 million release. Despite a higher anticipated frequency of natural catastrophes in Austria and CEE in second-half 2023, we do not expect a material impact on VIG's operating performance in 2023. We expect that VIG's investment results will gradually increase thanks to higher reinvestment rates in the eurozone and CEE markets where VIG holds most of its investments.

We expect VIG to report a consolidated net combined ratio of or below 95% in 2023-2025. Support for this will come from management's continuous focus on underwriting, tariff increases in line with inflation, conservative reinsurance protection, and strict cost controls. The group is still reviewing its prospective earnings targets and dividend policy following the implementation of the new accounting rules. That said, in our base-case scenario, we expect a resilient performance in 2024 and 2025 despite economic headwinds and additional economic and capital-market uncertainties. Overall, we expect that in 2024 and beyond, the group will deliver a solid return on equity of 7%-10%. We believe that such a performance would position VIG alongside its main peers in the 'A+' rating category in Europe, the Middle East, and Africa.

Chart 1

VIG's performance is set to remain resilient and strong



Source: S&P Global Ratings. f-Forecast.

In our view, VIG's excellent capital adequacy continues to be one of the group's key ratings strengths. We believe that VIG's solid year-end 2022 capital position provides sufficient room to consolidate AEGON's smaller remaining operations in Poland and Romania. This position also enabled VIG to partially buy back a capital-qualifying hybrid instrument in April 2023 (see "Insurer VIG's Jr. Sub. Notes Affirmed At 'A-' On Tender Offer; Equity Content To Be Maintained For Notes Not Bought Back," published April 13, 2023, on RatingsDirect).

We think that continued strong underwriting and operating performance will allow VIG to unlock good organic premium growth, continue paying regular dividends, and still build its capital buffers. This would give VIG some room to maneuver amid higher capital market volatility and an uncertain business environment. In our view, a diversified investment portfolio will also help protect VIG's balance sheet from investment losses above its risk tolerances in the next two years. That said, we already adjust our capital and earnings assessment due to VIG's material capital sensitivity to market movements. Overall, we expect the group's capital adequacy to remain at least in the 'AA' range in our capital model in 2023-2025.

Outlook: Stable

The stable outlook reflects VIG's leading market positions in Austria and CEE, as well as our expectation that earnings will continue supporting at least very strong capital adequacy. This is despite the weaker economic conditions we expect in 2023, needs arising from organic or external growth, and dividend payments in the next two-to-three years.

Downside scenario

We could lower the ratings if VIG's:

- Operating performance does not meet our earnings expectations for a prolonged period.
- Capital adequacy falls below our risk-based capital model's 'AA' level for an extended period.
- The funding structure deteriorates, with financial leverage sustainably above 40% or fixed-charge coverage below 4x.

Upside scenario

We could raise the ratings in the medium term if VIG's:

- Full integration of AEGON's CEE entities significantly and sustainably increases its earnings diversity outside Austria, Czechia, and Slovakia, and earnings materially and consistently exceed our base-case assumptions; and
- Capital adequacy sustainably exceeds our 'AA' confidence level.

Key Assumptions

- Interest rates in the eurozone in 2023-2025 to remain between 3.3% and 3.7%. We expect interest rates in local CEE currencies to be significantly higher than in Austria or the rest of the eurozone.
- Real GDP growth in Austria and Czechia to stall at 0.3% and 0.2% in 2023. We expect growth to recover to 1.5%-2.5% in 2024-2025.
- Unemployment in Austria to remain in the range of 4.5%-5.0% in 2023-2025, whereas in Czechia, we forecast low levels of about 2.5%-2.8% throughout 2023-2025.
- Inflation to remain high in 2023, with our expectation of about 7.4% in Austria, falling only gradually to about 4.0% in 2024 and 3.0% in 2025. We anticipate that inflation in Czechia will be about 11.0% in 2023, followed by a sharp reduction to about 2.8% in 2024 and 2.3% in 2025.

Vienna Insurance Group AG Wiener Versicherung Gruppe--Key Metrics

	2024f	2023f	H1 2023§	2022	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	At least Very Strong	At least Very Strong	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

Vienna Insurance Group AG Wiener Versicherung Gruppe--Key Metrics (cont.)									
	2024f	**2023f**	**H1 2023§**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Gross premium written (mil. €)	~ 14,400	~ 13,700	7,307	12,559	11,003	10,428	10,399	9,657	9,386
Insurance revenues (mil. €)	~ 10,500	~ 10,000	5,380	N/A	N/A	N/A	N/A	N/A	N/A
Net income (mil. €)	400 - 570	400 - 570	353	464	388	243	413	368	373
Return on shareholders' equity (%)	7 - 10	7 - 11	~ 11	9.8	7.3	4.6	7.5	6.2	6.3
P/C: Net combined ratio (%)	~ 95	~ 95	94.0	94.8	94.2	95.0	95.4	96.0	96.7
Net investment yield (%)	1.9 - 2,5	1.8 - 2,4	N/A	2.2	1.7	1.6	2.4	2.9	2.8
Financial leverage	< 40	< 40	34.4	43.4	35.3	28.2	27.3	22.8	23.7
EBITDA fixed-charge coverage (x)	> 4	> 4	N/A	7.5	6.2	6.2	6.8	5.7	5.0

§Data as reported by Vienna Insurance Group on International Financial Reporting Standard (IFRS) 17 except gross premium written (GPW). GPW, insurance revenue, net income, and property/casualty (P/C) net combined ratio are for first-half 2023 only. Annualized return on equity (ROE) for mid-year 2023 is approximation since IFRS17 shareholders equity is not available for mid-year 2022.

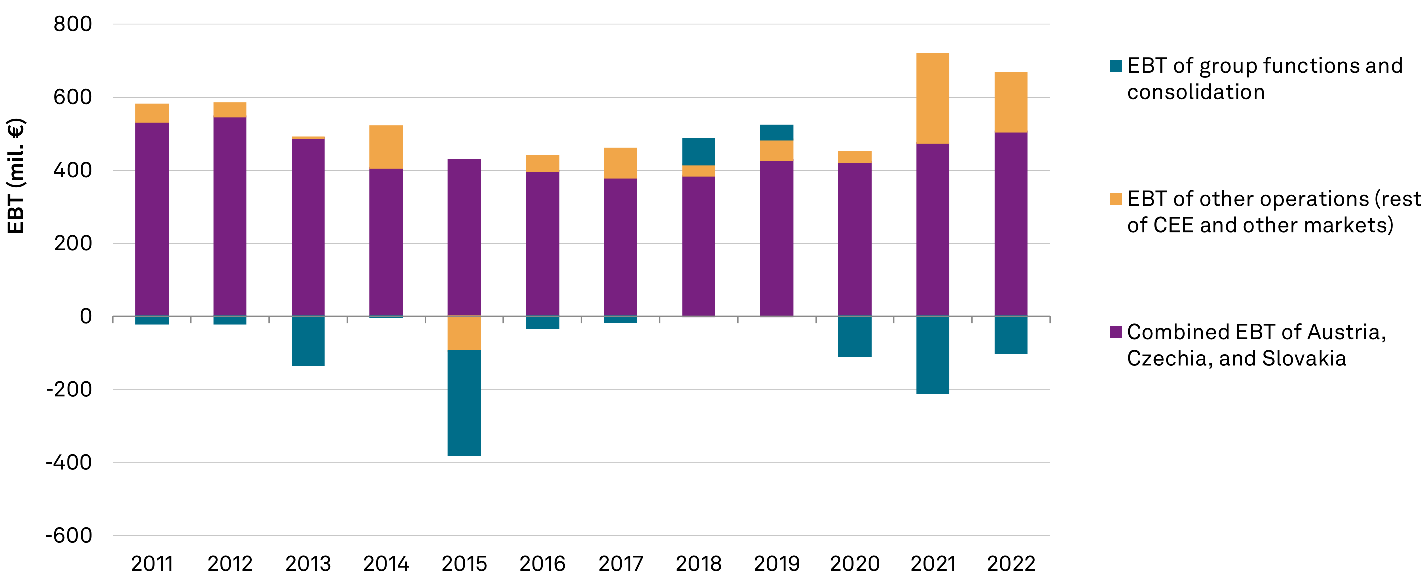
Business Risk Profile: Strong

VIG's market-leading position in Austria and CEE reflects the group's broad geographical presence, comprehensive range of products, and diverse distribution capabilities, supplemented by its well-known local brands. Some further geographical and business diversification comes from VIG Re (€792.3 million of GWP in 2022), the group's reinsurance arm. Thanks to VIG's widespread operations, we think that it will continue to benefit from its good geographical diversification. That said, VIG has greater earnings concentration than its higher-rated peers, since most of its earnings come from Austria, Czechia, and Slovakia. Underpinning these leading positions are diversified and sizable distribution networks, a focus on customer service, and successful sharing of best practices. In addition, in our view, VIG benefits from its longstanding bancassurance cooperation with Erste Group Bank AG (A+/Stable/A-1) in Austria and CEE.

About 35% of VIG's operations are in markets that have higher country or industry risk than its three main markets. Nevertheless, most of the premiums from the higher-risk markets come from countries that are part of the EU. Amid heightened uncertainty due to the external environment, high inflation, and a lingering risk of recession, we believe that EU-funded investments will continue to support economic growth and further convergence toward average EU growth in the higher-risk countries. This will continue to allow VIG to gradually unlock further organic growth in the region. As development risk remains material, VIG's country and industry risk exceeds that of its Swiss (Helvetia and Baloise) and Nordic (Sampo) insurance peers, and is more comparable to that of MAPFRE or Ageas.

Chart 2

VIG has very stable and profitable operations in the Austrian, Czech, and Slovakian markets



CEE--Central and Eastern Europe. EBT--Earnings before tax. Source: S&P Global Ratings.

We expect VIG's solid performance to continue thanks to its robust underwriting results in the life and non-life businesses and resilient investment results. The group's operating performance in 2022 and first-half 2023 was resilient to still-high inflation throughout the region, the impairment of Russian assets in 2022, and higher capital market volatility. Although some of the riskier insurance markets in CEE are facing some headwinds, we expect that the impact on VIG's performance will be limited, thanks to its strong and stable performance in Austria, Czechia, and Slovakia. We also expect that in the remainder of 2023 and in 2024, these operations will remain resilient, as the markets are benefiting from the sovereigns' solid fundamentals and robust household balance sheets, which continue to provide a cushion against further economic uncertainty.

We forecast that VIG's 2024-2025 organic premium growth will slightly exceed GDP growth in CEE. This reflects a lag in price adjustments in some lines. In addition, about 30% of VIG's GWP comes from retail and commercial property. In our view, this should support continued growth from some future cyclical price increases, as well as the addition of new insured risks in CEE following continued regional economic convergence with average EU economic development. In retail lines, the group will gradually unlock growth by further developing and scaling its digital offers and strengthening its ecosystems to sustain its solid underwriting margins.

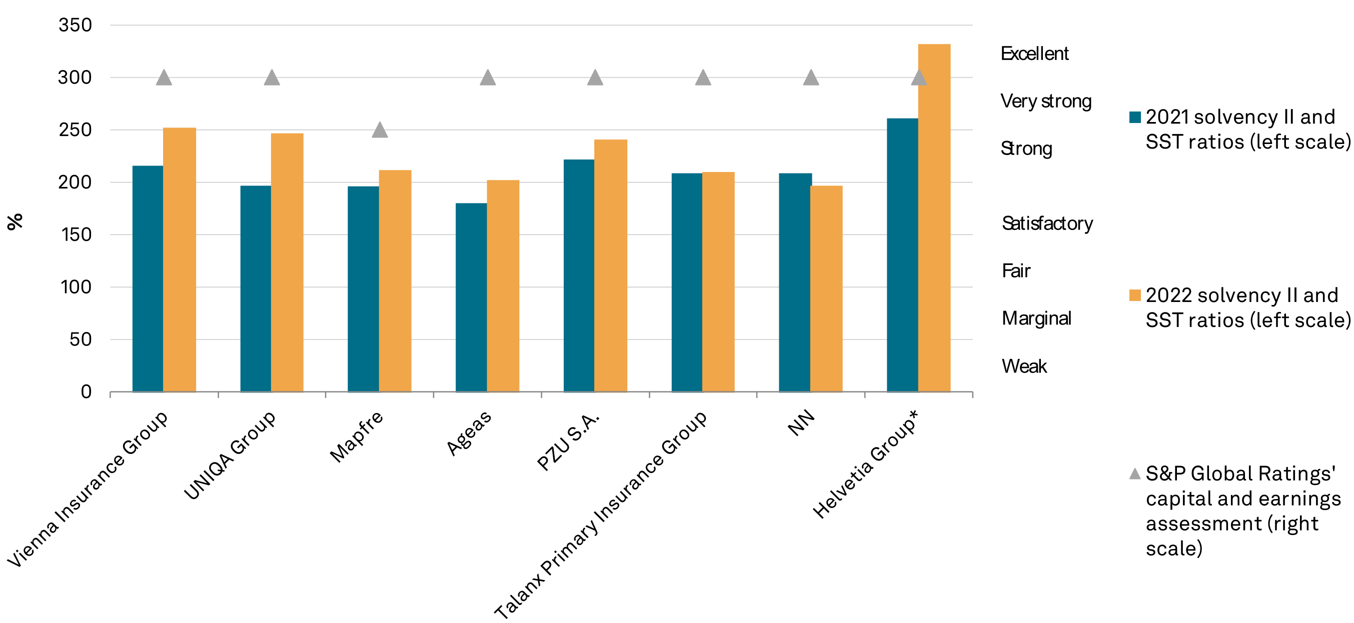
Financial Risk Profile: Very Strong

VIG's financial risk profile underpins its strong balance sheet, with robust capital buffers that we also reflect in our capital model and Solvency II ratios. We believe that VIG's resilient earnings will support moderate dividend payments and growth financing. The funding position remains neutral to the rating.

VIG maintained a robust capital position above the 'AAA' level at year-end 2022 and the end of first-half 2023. This reflected a robust Solvency II ratio of 251%, excluding transitional measures (280% with transitional measures) on Dec. 31, 2022. The Solvency II ratio remained stable at the end of first-half 2023. The group continued to distribute moderate dividends in 2023, in accordance with its strategy, and we expect these to continue.

Chart 3

We expect VIG's capital position to remain robust



Solvency II ratio without transitional measures for VIG, UNIQA, Mapfre, Ageas, PZU, Talanx, and NN.

*Helvetia's Swiss Solvency Test (SST) ratio is as of Jan. 1, 2023.

Source: S&P Global Ratings, based on respective companies' 2022 solvency and financial condition reports.

In our view, VIG's robust capital position, with continued good and improving earnings, would allow for further solid capital generation. Generally prudent property/casualty (P/C) loss reserves provide a solid cushion against market stresses or a potentially deeper and longer economic downturn than we anticipate. The group's generally conservative reserving policy and the shorter-tail nature of its business in CEE limits the risk from high inflation. Overall, we expect the group's capital adequacy to remain at least in the 'AA' range in our capital model in 2023-2025.

VIG's stable risk profile supports its very strong financial profile. In our view, the group's investment portfolio remains of solid quality and has proved resilient in the past few years. The consolidation of AEGON CEE in Hungary and Turkey did not materially increase VIG's credit risk. As such, most of the invested assets remain in fixed-income securities, with relatively high creditworthiness in the 'A' range. These securities are broadly diversified across the eurozone and CEE countries where VIG operates. Higher interest rates have alleviated the pressure on the legacy traditional with-profits Austrian life insurance book. At the same time, the CEE life insurance portfolio remains capital-light, and, overall, is not seeing a material increase in lapses for now.

VIG's exposure to less liquid assets, such as property, private debt, and private equity, mainly comes from its real estate investments. Real estate represents about 10% of the group's total assets. We expect that the risk of a repricing in the real estate markets will remain modest. Most of VIG's real estate investments are in its life business, where policyholders participate in the performance of the assets. VIG's real estate investments are mainly in prime residential and commercial areas in Austria, mostly Vienna. The portfolio remained relatively stable and resilient in 2022 and the first half of 2023. The equity share was about 4% of total invested assets. Overall, we expect that VIG's investment risk appetite will remain relatively stable.

VIG managed to source stable and solid reinsurance protection in 2023, despite the challenging reinsurance markets. Despite an increase in its risk retention, we believe that the 2023 catastrophe season will not cause material volatility in capital and earnings. We expect that in 2024, the group will be able to source effective reinsurance coverage, thereby continuing to protect its balance sheet and earnings against significant volatility.

VIG's funding structure is neutral to the current rating. After the spike in interest rates last year, VIG's unrealized gains dropped, triggering a decline in shareholders' equity. Financial leverage consequently increased to above 40% at year-end 2022. With the migration to IFRS 17, VIG's shareholders' equity increased materially by about 25% compared to the values it disclosed under IFRS 4.

In addition, in first-half 2023, VIG also undertook some liability management, which reduced debt by €186 million. Based on the first-half 2023 figures, financial leverage is now 34.4%. The nominal amount of debt should reduce further because, in October 2023, VIG paid off the residual €285 million of hybrid debt from the hybrid instrument it issued in 2013. We expect VIG's leverage to remain materially below 40% in 2024-2025. With VIG's stable and gradually improving operating performance, we expect fixed-charge coverage to remain firmly above 4x.

Other Key Credit Considerations

Governance

We consider VIG's governance stable and comparable with that of its international peers. Governance and disclosure standards in Austria are comparable with those in the rest of the eurozone. VIG has credible strategic planning and conservative financial management. The board is experienced and capable of executing the group's business strategy.

Liquidity

VIG's liquidity profile is exceptional and stable thanks to the availability of liquid sources, such as premium income and a highly liquid asset portfolio. Larger risks are heavily reinsured. We see no refinancing risk, and we expect that the group would withstand severe liquidity stress, such as from unexpectedly large claims in the P/C business or a material increase in lapses and surrenders in its life business.

Factors specific to the holding company

Vienna Insurance Group AG Wiener Versicherung Gruppe, the ultimate holding company of VIG's operating entities, writes internal reinsurance and international corporate and large customer insurance business. Because we view it as an operating holding company with sizable excess capital and sound revenue from its own investments and underwriting activities, we equalize the ratings on the holding company with those on the group's core operating entities.

Environmental, social, and governance (ESG)

In our view, ESG credit factors have no material influence on our rating analysis of VIG.

Accounting considerations

VIG prepares its consolidated financial statements according to IFRS. One particular feature of VIG's IFRS accounting is the limited recognition of deferred acquisition costs on its balance sheet. This is because VIG channels most of its commission directly through its profit-and-loss statement.

We base our analysis of the profitability and risk exposures of VIG's life insurance business mainly on the market-consistent embedded-value disclosures. With the transition to IFRS 17, we take account of the contractual service margin in our capital assessment.

We base our assessment of VIG's capital adequacy on its reported shareholders' equity, which we adjust mainly to account for:

- 50% of the life insurance value in force that is not included on the balance sheet (in 2023, we consider the on-balance-sheet contractual service margin);
- Hybrid debt that we classify as having equity content according to our criteria;
- Policyholder capital available to absorb losses;
- 50% of non-life loss-reserve redundancies; and
- Off-balance-sheet asset-value reserves.

We deduct the on-balance-sheet goodwill from capital.

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
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013

- 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

- Insurance Industry And Country Risk Assessment: Austria Property/Casualty, Oct. 11, 2023
- Insurance Industry And Country Risk Assessment: Austria Life, Oct. 11, 2023
- Research Update: Vienna Insurance Group Affirmed At 'A+' On Solid Earnings And Robust Capital After AEGON CEE Integration; Outlook Stable, July 27, 2023
- Insurer VIG's Jr. Sub. Notes Affirmed At 'A-' On Tender Offer; Equity Content To Be Maintained For Notes Not Bought Back, April 13, 2023
- Insurance Industry And Country Risk Assessment: Czechia Property/Casualty, Feb. 8, 2023
- Insurance Industry And Country Risk Assessment: Czechia Life, Feb. 8, 2023
- Central And Eastern Europe: Growth Freezes, Risks Mount, Nov. 10, 2022

Appendix

Vienna Insurance Group Credit Metrics History

Ratio/Metric	2022	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Total invested assets* (mil. €)	41,446	45,673	44,498	44,399	45,566	46,372
Total shareholder equity (mil. €)	4,134	5,298	5,286	5,191	5,836	6,044
Gross premiums written (mil. €)	12,559	11,003	10,428	10,399	9,657	9,386
Net premiums written (mil. €)	11,177	9,879	9,416	9,421	8,811	8,585
Net premiums earned (mil. €)	10,911	9,706	9,337	9,318	8,729	8,510
Reinsurance utilization (%)	11.0	10.2	9.7	9.4	8.8	8.5
EBIT (mil. €)	659.1	609.7	436.6	630.1	600.8	561.2
Net income (attributable to all shareholders) (mil. €)	464.3	388.0	242.7	413.1	368.0	372.6
Return on shareholders' equity (reported) (%)	9.8	7.3	4.6	7.5	6.2	6.3
P/C: net combined ratio (%)	94.8	94.2	95.0	95.4	96.0	96.7
P/C: net expense ratio (%)	33.2	32.7	32.2	31.7	31.3	30.4
P/C: return on revenue (%)	7.5	6.2	3.9	9.1	10.1	7.9
EBITDA fixed-charge coverage (x)	7.5	6.2	6.2	6.8	5.7	5.0
EBIT fixed-charge coverage (x)	6.8	6.2	4.8	5.8	5.2	4.7
Financial obligations / EBITDA adjusted	4.4	4.7	3.7	2.6	2.6	3.2
Financial leverage (%)	43.4	35.3	28.2	27.3	22.8	23.7
Net investment yield (%)	2.2	1.7	1.6	2.4	2.9	2.8
Net investment yield including investment gains/(losses) (%)	2.0	1.6	1.5	2.7	2.7	2.5

*Including unit- and index-linked products.

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 15, 2023)*

Operating Companies Covered By This Report	
Vienna Insurance Group AG Wiener Versicherung Gruppe	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Junior Subordinated	A-
Senior Unsecured	A
VIG RE zajist'ovna a.s.	
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.