S&P Global
Ratings

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Research Update:

# Austria-Based UNIQA Group Outlook Revised To Stable From Negative On Strong Group Performance; Ratings Affirmed

**March 1, 2023**

## Overview

- Even with challenging market conditions and impairments on some Russian and Ukrainian bonds, UNIQA Insurance Group AG (UNIQA) showed a strong underwriting and operating performance in 2022 with net income improving to €382 million, compared with €315 million in 2021.
- The group impaired €150 million of assets related to Russia and Ukraine in 2022, which reduced the potential volatility for its current and future capital and earnings position. As the Russian new business is discontinued, we expect asset exposure will reduce materially over the next three years.
- In our view, the combination of strong underlying earnings and reduced asset exposure will help maintain UNIQA's capital position above the 'AAA' level in 2023-2024 according to our risk-based capital model.
- We therefore revised our outlook on UNIQA to stable from negative and affirmed our 'A' ratings on the group's core entities UNIQA Österreich Versicherungen AG and UNIQA Re, as well as the 'A-' rating on the operating holding company UNIQA Insurance Group AG.
- The stable outlook reflects our view that, over the next two years, UNIQA's capital position and operating performance will remain resilient even if further impairments on Russian and Ukrainian assets were needed.

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## Rating Action

On March 1, 2023, S&P Global Ratings revised its long-term rating outlook on Austria-based multiline insurance group UNIQA and all its subsidiaries to stable from negative. We also affirmed the 'A' long-term issuer credit and financial strength ratings on the group's core operating entities and the 'A-' long-term issuer credit and financial strength ratings on UNIQA's operating holding company.

## Rationale

The outlook revision reflects our view that the risk of capital and earnings volatility from UNIQA's asset exposure in Russia and Ukraine has receded. The group managed to retain its solid capital position above 'AAA' according to our model, while its improved operating performance allowed UNIQA to fully offset losses from Russian and Ukrainian asset impairments.

UNIQA's diverse business portfolio of property/casualty, life, and health insurance products in domestic and Central and Eastern European markets (CEE) remained resilient and supported strong profitability and solid business growth in 2022 despite several geopolitical and macroeconomic challenges--including about €150 million of impairments on Russian and Ukrainian bonds. Moreover, UNIQA entered 2023 with sound capital adequacy. Its Solvency II ratio was about 245% and capital adequacy was above 'AAA' according to S&P Global Ratings' capital model.

We believe UNIQA can manage its residual exposure to Russia and Ukraine. Most of the remaining asset exposure is related to local operations in the two markets, where local currency assets are mainly matched with local liabilities. For these assets, we expect a gradual further reduction over the next three years. In the meantime, we think UNIQA's strong underlying profitability levels will offset any material volatility resulting from potential further impairments on Russian and Ukrainian assets.

Furthermore, we expect UNIQA's capital position will continue to be a strength, with capital adequacy remaining above the 'AAA' level of our risk-based capital model throughout 2023-2024.

UNIQA gradually improved its operating performance with resilient underwriting and top- and bottom-line results in 2022, including a combined ratio (loss and expense) of 92.9%, net income of €382 million, and gross written premium growth of 4%. UNIQA benefits from its strong underlying performance in the Austrian and CEE markets. We expect UNIQA will continue to demonstrate a solid operating performance in 2023-2024. This will be backed by a resilient underwriting performance of 94%-97% as well as indexation of premiums (to mostly pass-through price increases to offset high inflation).

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.

As we expected, the group's shareholder equity declined during 2022, following a fall in unrealized gains. This increased group leverage, but the ratio remained below 50%. With this in mind, we affirmed the funding structure assessment at moderately negative. At the same time, fixed-charge coverage has improved to around 10x, due to strong underlying earnings and lower interest payments. We will continue to closely monitor the development of UNIQA's funding structure metrics.

## 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 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, UNIQA, if it reported a material reduction in cash flow from 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 profile.

We could upgrade UNIQA if the holding company substantially and sustainably increases cash flows from own operating activity.

## Ratings Score Snapshot

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

IICRA--Insurance Industry And Country Risk Assessment.

## ESG credit indicators: E-2, S-2, G-2

## 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
- 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

## Ratings List

| | | |
|---|---|---|
| **Ratings Affirmed** | | |
| **UNIQA Insurance Group AG** | | |
| Senior Unsecured | A- | |
| Junior Subordinated | BBB | |
| **Ratings Affirmed; Outlook Action** | | |
| | **To** | **From** |
| **UNIQA Insurance Group AG** | | |
| Issuer Credit Rating | | |
| Local Currency | A-/Stable/-- | A-/Negative/-- |
| Financial Strength Rating | | |
| Local Currency | A-/Stable/-- | A-/Negative/-- |
| **UNIQA Oesterreich Versicherungen AG** | | |
| **UNIQA Re AG** | | |
| Issuer Credit Rating | | |
| Local Currency | A/Stable/-- | A/Negative/-- |
| Financial Strength Rating | | |
| Local Currency | A/Stable/-- | A/Negative/-- |