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Research Update:

Austria-Based Vienna Insurance Group Core Subsidiaries Affirmed At 'A+' Following Revised Capital Model Criteria

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Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Under our updated model, Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG) shows capital buffers that meet the risk-based capital requirements in an extreme stress scenario (99.99% confidence level), which we assume will continue in our base-case scenario.
- We therefore affirmed our 'A+' long-term financial strength and issuer credit ratings on VIG and its core subsidiary, VIG RE zajist'ovna a.s. (VIG Re).
- The stable outlook reflects our view that VIG will show strong and resilient operating performance in 2024-2026. We also expect the group will retain a robust balance sheet with at least very strong capital and earnings.

Rating Action

On July 15, 2024, S&P Global Ratings affirmed its 'A+' long-term insurer financial strength and issuer credit ratings on Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG) and its core subsidiary, VIG RE zajist'ovna a.s. (VIG Re). The outlook remains stable.

We also affirmed our 'A' issue rating on the senior bond and 'A-' issue ratings on subordinated bonds issued by VIG.

Impact Of Revised Capital Model Criteria

- The criteria revision does not lead to any rating changes because VIG's risk-based capital adequacy continues to display sizable capital buffers in an extreme stress scenario (99.99% confidence level).

- We observed an increase in total adjusted capital under International Financial Reporting Standard (IFRS) 17, which brings greater visibility to profits for the insurance sector through the contractual service margin (CSM). Under our revised capital model, we no longer apply haircuts or capital charges to equity-like reserves, such as the CSM and risk adjustment.
- We've also 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 partially offsets these improvements. Furthermore, liability charges under the new model are increasing, which also contributes to higher capital requirements.

Credit Highlights

Overview

Key strengths	Key risks
Market leader in Austria and several Central and Eastern European (CEE) markets.	Operating environment and economic conditions, including elevated inflation in larger emerging markets in the EMEA, namely Hungary, Poland, Romania, and Turkey, remains challenging.
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.
Solid capital buffers at the 99.99% confidence 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.
Solid reinsurance protection that limits the group's natural catastrophe losses.	

Outlook

The stable outlook reflects VIG's leading market positions in Austria and CEE, which allow it to source strong and resilient group earnings in 2024-2026. We expect that the group will continue to tap growth opportunities while not compromising its capital adequacy, which we expect to remain at least above our 99.95% confidence model. This is despite current uncertainty over significant macroeconomic and capital markets development, as well as VIG's needs arising from organic expansion, and dividend payments in the next two to three years.

Upside scenario

We could raise the ratings over the next two years if VIG's:

- Full integration of AEGON's CEE entities significantly and sustainably increases its earnings diversity outside Austria, Czech Republic, and Slovakia, and earnings materially and consistently exceed our base-case assumptions; and
- Capital adequacy sustainably exceeds our 99.95% confidence level.

Downside scenario

Although we currently see it as unlikely, we could lower the ratings over the next two years if VIG's:

- Operating performance does not meet our earnings expectations for a prolonged period, or
- Capital adequacy falls below our risk-based capital model's 99.95% confidence level for an extended period.

Rationale

The affirmation reflects our view that VIG's capital adequacy remains very robust after implementation of our new capital criteria and introduction of IFRS 17. The group's performance was strong in 2023, supported by strong underwriting results in non-life and a solid amount of CSM release in life business. In 2023 VIG reported a stable combined (loss and expense) ratio of 92.6% and a comparably strong new business margin of 8.9% from its life and health business. Strong underwriting results continued to support the group's solid net income of €576 million in 2023.

Capitalization remains one of VIG's key rating strengths, with capital adequacy at year-end 2023 exceeding the 99.99% confidence level. Additionally, the group's regulatory solvency ratio, without any transitional adjustments, was very solid at 243% on Dec. 31, 2023 (269% with transitional measures). The current robust capital level and solid earnings enable the group to continue taking advantage of growth opportunities across the geographies where VIG is active. VIG distributed moderate dividends in 2024 from 2023 earnings which were consistent with its dividend policy. Under the new dividend policy, which the group announced in the first quarter of 2024, VIG aims to distribute dividends which would be at least equal to that of the previous year and would increase continuously. The group continues to display conservative capital and financial management including strong reserving practices. This contributed significant buffers to smoothly transition to IFRS 17. Under our new capital criteria model, VIG's capital adequacy buffers strengthened further thanks to higher and more visible future profits in the group's life insurance business and a better diversification credit under our revised capital criteria.

We think the group will sustain capital adequacy above the highest confidence level through 2026, with our assessment of capital and earnings at least at very strong. In our view, VIG's currently very robust capital position, with continued good and improving earnings, would generate capital to enable it to continue taking advantage of organic growth opportunities across insurance markets in the regions where it operates. We believe the capital buffers the group currently displays provide a solid cushion against economic uncertainty and market stresses. We note that the group displays relatively high capital sensitivity to market movements, particularly interest rates. At the end of 2023, the group reported that a 100-basis point reduction in interest rates would reduce its regulatory solvency ratio by 19 percentage points. This said, even if interest rates were to decline more and sharper than we currently expect, or a potentially deeper and longer economic downturn than we anticipate would happen, we believe that VIG would maintain capitalization at least in the 99.95% confidence level of our insurance capital model over the next two to three years.

Solid business growth will continue over 2024-2026. VIG reported solid 12.2% revenue growth of and gross written premium (GWP) growth of 9.8% in 2023. GWP continued to show strong growth of around 11% in the first quarter of 2024 on the back of strong organic growth across the countries where VIG operates. In the non-life segment, growth mainly results from active price increases because of still elevated inflation in many of the countries where the group is present. The group also continues to add new risks in insurance and reinsurance business. We also expect that the group will further tap some emerging new risks in health and reinsurance, as well as actively develop its operations in target countries where it is not yet among the top three market players. Given still expected elevated inflation and new risk additions, we now expect VIG's moderate growth to continue at 6%-10% over 2024-2026.

VIG's performance will remain solid in 2024 and continue to benefit from the group's underwriting discipline and solid investment results. Assuming a normalized natural catastrophes season, we believe the group's combined ratio will remain below 95% over 2024-2026. We also expect continued solid earnings from the life insurance business. We note that higher interest rates are gradually increasing investment incomes for the group and expect this will continue as reinvestment rates remain higher. We expect that the group in 2024 will sustain solid operations performance of €450 million-€600 million, which should gradually increase in 2025-2026. This would correspond to return on equity of 7%-10%.

VIG is progressing with full integration of AEGON's CEE operations. VIG gained full regulatory approval to acquire AEGON's CEE operations in 2023. In the end of 2023 the group managed to further increase to 90% its stake in the combined VIG Hungarian operations, of which it previously owned 55% with the rest owned by the Corvinus International Investments Zrt. (not rated), an investment management company of the Hungarian state. As parts of the AEGON CEE acquisition were consolidated at different periods through 2022-2023, VIG is currently still in the process of combining its acquired operations to optimize its footprint, solidify its market positions in the respective countries, and prospectively improve earnings contributions from outside Austria, Czech Republic, and Slovakia. This said, the group already combined its operations in Hungary, and we understand that the group just received regulatory approval to merge some of its non-life Polish operations. We note that operating environment and economic conditions, including elevated inflation in larger countries--namely Hungary, Poland, Romania, and Turkey--remains challenging. In addition, we also note that in Hungary, windfall taxes that were introduced at the end 2022 are slated to remain in place at least until the end of 2024. All these for now prevent the Hungary and Poland operations' material and sustainable earnings contributions to the group earnings.

The group's funding structure metrics are now firmer and we do not expect material deterioration over the next few years. VIG's financial leverage has now moved firmly below 40% after it was temporarily above 40% in 2022. Liability management actions in 2022 and 2023, and improved shareholders' equity--which is expected to continue to increase through earnings growth and retention--are the main reasons for the firmer funding structure metrics. This said, we believe that the financial leverage ratio will remain below 30%-36% in the next few years. Fixed-charge coverage remained solid at about 12x in 2023, due to strong underlying earnings, which we expect will continue in 2024-2026. We do not see any risks from the group's funding structure because we believe VIG's solid capitalization provides abundant flexibility to withstand a stress scenario.

Ratings Score Snapshot

Financial strength rating	A+
Anchor*	A+
Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
Financial risk	Very strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	0
Governance	0
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

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
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Full Analysis: Vienna Insurance Group AG Wiener Versicherung Gruppe, Nov. 15, 2023

Ratings List

Ratings Affirmed	
Vienna Insurance Group AG Wiener Versicherung Gruppe	
VIG RE zajist'ovna a.s.	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--
Vienna Insurance Group AG Wiener Versicherung Gruppe	
Senior Unsecured	A
Junior Subordinated	A-