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Ageas Group

Primary Credit Analyst:
Marco Sindaco, Madrid (34) 91-788-7218; marco.sindaco@spglobal.com

Secondary Contacts:
Charlotte Chausserie-Lapree, Paris (33) 1-4420-7205; charlotte.chausserie@spglobal.com
Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@spglobal.com

Research Contributor:
Ami Shah, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

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Ageas Group

SACP* Assessments				SACP*		Support		Ratings
Anchor	a	Modifiers	0	a		0		Financial Strength Rating: A/Stable/--
Business Risk: Strong		ERM and Management	0	Liquidity	0	Group Support	0	Holding Company Rating: A/Stable/A-1
Financial Risk: Strong		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths:	Weaknesses:
• Well-diversified insurance portfolio, broad geographic spread, and strong ties with brokers and banks in Belgium, Portugal, the U.K., and Asia. • Strong capital position and reduced risks and volatility associated with legacy issues. • Close asset-liability management.	• Just adequate property/casualty underwriting performance. • High level of competition in the UK PC market, Ageas second largest market. • Still-untested ability to tap capital markets via the holding company Ageas SA/NV.

Rationale

Our credit ratings on international insurance group Ageas' core operating subsidiaries reflect the group's prominent business positions in Belgium, Portugal, and the U.K as well as the insurer's large, minority-owned joint ventures in Asia. The ratings also incorporate our view of the group's sound capital, asset-liability management and liquid investment portfolio. Overall Ageas´strong business and financial risk profiles compare well with other international players rated in the 'A' range.

Ageas' large and well-diversified insurance portfolio, spanning life and non-life in developed countries, underpins our view of the group's strong business risk profile. We also take into account the insurer's strong brokerage and bancassurance ties in Europe, and in Asia, where it operates via large, minority-owned joint ventures. In particular, the continuation of the bancassurance partnership with BNP Paribas Fortis, fortifies Ageas' leading position in the Belgian market.

We expect Ageas will continue to build on its diversified positions, reporting annual income after tax and before minorities above €800 million over 2018-2021 excluding the impact of unrealised gains/losses related to RPN[i]. We estimate that Ageas will steadily bring its operating performance to more stable territories, preserving the profitability of its life business in Belgium while reducing volatility and improving property/casualty (P/C) technical performances, in particular of its U.K. business. We also expect Ageas will continue to source a good contribution to overall earnings from its minority stakes in major joint ventures in countries such as China, Malaysia, and Thailand.

Further, the ongoing resolution of legacy issues and legal disputes has reduced capital and earnings volatility. In particular, we expect Ageas will successfully complete by end-2019 the execution of the WCAM, the settlement proposal, capped at €1.3 billion, with some major claimant organizations regarding the former Fortis Group's civil proceedings.

We expect that Ageas' capital position will stabilize at strong levels, factoring in the group's appetite for acquisitions, as well as the dividend and share buyback strategy.

Outlook: Stable

The stable outlook reflects our expectation that, over the next two years, our ratings on Ageas' core operating entities and holding company will remain stable as the group will preserve its strong business position and strong capital buffers while continuing to post a good underlying operating performance. This is on the back of solid market positions and distribution ties in its main markets.

Upside scenario

We could raise the ratings on Ageas if its capital adequacy sustainably increased to the 'AAA' level, while sustainably improving its P/C combined ratio, particularly in U.K.

Downside scenario

We could lower the ratings on the core operating entities if capital adequacy weakened below strong. This could be the case if acquisitions, dividends, or share buybacks consume consolidated capital buffers below the strong level, contrary to our base-case forecast

We could also lower the ratings on the core operating entities and/or the holding company if operating performance or business position in one of Ageas core markets were to sustainably deteriorate.

Macroeconomic Assumptions

Table 1

Macroeconomic Assumptions

Belgium	2019F	2018F	2017	2016	2015	2014
Real GDP Growth	1.5	1.5	1.7	1.4	1.4	1.3

Table 1

Macroeconomic Assumptions (cont.)						
Unemployment rate	5.8	6.0	7.1	7.9	8.5	8.5
10 y gov bonds yields	1.3	0.7	0.7	0.5	0.9	1.7
UK	**2019F**	**2018F**	**2017**	**2016**	**2015**	**2014**
Real GDP Growth	1.3	1.3	1.7	1.8	2.3	2.9
Unemployment rate	4.3	4.1	4.4	4.9	5.4	6.2
10 y gov bonds yields	2.0	1.5	1.2	1.3	1.9	2.6
Portugal	**2019F**	**2018F**	**2017**	**2016**	**2015**	**2014**
Real GDP Growth	1.9	2.3	2.7	1.6	1.8	0.9
Unemployment rate	6.5	7.3	9.0	11.1	12.6	13.9

F--Forecast. Source: The data and ratios above result from S&P Global Ratings' own calculations.

Key Metrics

	2019F	2018F	2017	2016	2015	2014
Gross premiums written (mil. €)	8,750	8,600	8,445	9,277	9,359	9,258
Net premiums writtten (mil. €)	8,550	8,400	8,208	9,011	9,067	8,904
Net income before minorities (mil. €)	>800	>800	850	223	940	656
EBITDA fixed-charge coverage (x)	14	14	14.1	9.1	11.6	8.5
Financial leverage (%)	22	22	22.3	21.6	22.4	20.0
Return on equity (%)	8	8	8.3	2.0	8.2	6.5
Net investment yield	3.5	3.5	3.8	3.8	4.0	4.0
Net combined ratio non-life (%)	98.5	98.5	98.3	105.0	99.4	100.7
Return on revenue (%)	8	8	9.3	6.6	9.2	6.5
Return on assets (%)	1	1	1.1	0.8	1.2	0.8

F--Forecast. Figures in this table and the report are calculated according to S&P Global Ratings' criteria and may differ from those reported by Ageas. In particular, in our calculation of the net combined ratio non-life we are including other expenses allocated to non-life profit and loss.

Business Risk Profile: Strong

Ageas' strong business risk profile is underpinned by its leading market position in its domestic market, Belgium. Over time, the group has built leading positions in the U.K. (in P/C) and Portugal (in both P/C and life) via acquisitions and organic growth. The group also benefits, in our view, from its strong ties with brokers and banks in Europe and Asia that distribute most of its products.

Belgium and the U.K. account for about 60% and 20% of Ageas' consolidated premiums, respectively, shaping our view of its intermediate insurance industry and country risk. We therefore think Ageas benefits from its exposure to strong and developed economies, in part offset by the modest growth potential and stiff competition in particular in the U.K. P/C market. The group generates the remaining 20% consolidated premiums in Portugal, which offers the largest organic growth opportunities, sustained by its economic and employment recovery. Overall we estimate the group's reported consolidated premiums will grow on average by 2% over 2018-2020.

Ageas also operates in Asia via major joint ventures, including China (No. 4 in life insurance), Malaysia (market leader in non-life and No. 4 in life insurance), Thailand (No. 1 in life insurance and No. 4 in non-life), and India. Given Ageas' minority shareholdings in these operations, we do not reflect Ageas' exposure to Asia in our industry and country risk assessment.

The long-standing partnership with BNP Paribas Fortis accounts for one-third of Ageas' overall consolidated premiums and represents the main single source of premiums and earnings for the group. The continuation of BNP Paribas Fortis as AG Insurance' shareholder, following the non-exercise of put option, underpins our view of Ageas' strong ties with the bank and consequently overall robust competitive position.

The group's profitability is neutral for our assessment of its competitive position. Close asset liability management, lower guaranteed rates, and the realization of asset gains have preserved the profitability of the life business in Belgium, in a low interest-rate environment. At year-end 2017 Ageas posted a P/C combined (loss and expense) ratio, the industry's main underwriting profitability metric, of 98.3% according to our calculations. This is weaker than the average of 94% we assess for Ageas' peer group, including large international players operating in continental Europe. We estimate that over 2018-2020 Ageas will report an average P/C combined ratio of 98.5%, while focusing on strengthening its positioning and performance in the U.K. market and addressing volatility resulting from the exposure to weather-related claims in U.K. and Belgium.

We also expect dividend payments from Asian operations will continue to contribute positively to the group overall profitability and earnings diversification.

Financial Risk Profile: Strong

In our opinion, the group benefits from solid levels of capital adequacy according to both our model and Solvency II, supporting our view of its strong financial risk profile. We assess that Ageas' capital position is stabilizing, and will maintain a capital adequacy that is in line with our 'A' benchmark over the next two years. Our assessment already reflects potential bolt-on acquisitions, dividends, and share buyback strategies. We estimate that Ageas will report income net of taxes and before minorities in excess of €800 million over 2018-2020 (excluding one-time expenses and the impact of unrealized gains/losses related to the RPN[i]), which will be mostly passed on to shareholders via dividends and share-buybacks. In terms of capital requirements we factor in our expectations a slight increase over the same period in line with our expectations of moderate volumes growth.

Qualitatively, we believe that potential capital volatility has reduced with BNP Paribas Fortis' non-exercise of the put-option on a 25% share in AG Insurance and the on-going resolution of all major legacy issues inherited from the break-up of the Fortis group, in particular the WCAM settlement. The latter is the settlement proposal, capped at €1.3 billion, with some major claimant organizations regarding the former Fortis Group's civil proceedings dating back to 2007 and 2008. It was declared binding by the Court of Amsterdam in July 2018 and we expect Ageas will successfully complete its execution by end-2019.

Ageas has demonstrated its ability to tap the debt markets via AG Insurance at a cheaper rate than before and at a rate comparable with that of its peers. The group has not yet demonstrated, however, its ability to tap the debt and/or equity markets via the holding company Ageas SA/NV. We assess the group's financial leverage will average 22% over 2018-2020, largely in line with its peers and regard it as neutral to our opinion of the group's financial flexibility. In our calculation of financial leverage, we include Ageas' subordinated liabilities and loans due to banks.

We regard Ageas' investment portfolio as relatively prudent with over 85% of assets held in fixed-income investments and cash, and an average credit quality of 'A'. Riskier investments in equities, real estate, and loans account for around 10% of total invested assets, while we assess there is no risky concentration to single sectors or single obligors.

Other Assessments

Ageas group's enterprise risk management (ERM) is adequate, sustained by our positive view of its asset-liability management. With Solvency II, the group has implemented clearer risk tolerances, enhancing both strategic risk management and risk modelling. The group has set its target capital at 175% of Solvency II capital requirements under its internal model (SCR Ageas), versus 215% reported at the end of September 2018. The solvency capital requirement for the group under Solvency II (not based on SCR Ageas) was 208% at the same date. We regard ERM as highly important to the rating, given the complex nature of Ageas' operations in both life and non-life, its wide geographic reach, and the abovementioned legacy issues.

We view Ageas' management and governance as strong. We consider that the group has demonstrated the strength of its strategic planning process and its implementation, particularly in relation to the simplification of the group structure, the focus on resolving legacy issues while refocusing business on core markets, as well as the maintenance of sound levels of capital, notwithstanding the generous dividend policy and settlement of legacy issues.

Our assessment of Ageas' liquidity as exceptional reflects the insurer's liquid investment portfolio as well as a buffer to settle litigations at the reserved level.

Factors Specific To Group Companies

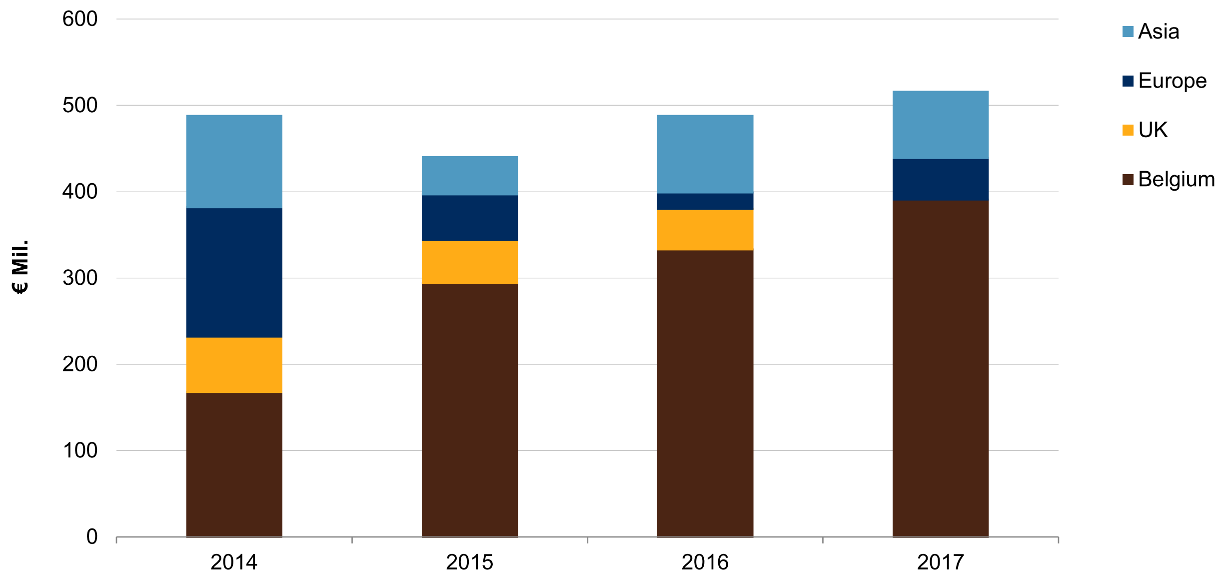
We regard Belgium-based AG Insurance and U.K.-based Ageas Insurance Ltd as core operating entities of the Ageas group. We consider they operate in lines of business integral to the overall group strategy and are highly unlikely to be sold. In addition, group management demonstrates a strong commitment to support these entities. We therefore rate them at 'A', in line with the Ageas group credit profile (GCP), which we assess at 'a'.

We also continue to consider core the Netherlands-based captive reinsurer Intreas N.V., which we expect will be absorbed by Ageas SA/NV in the coming months with the gradual centralization of group reinsurance at the holding level.

Ageas SA/NV, the group holding company, has been transformed into an operating entity with the plan to become Ageas group's internal reinsurer effective Jan. 1, 2019. We rate Ageas SA/NV in line with the group credit profile. Ageas will pool some of its reinsurance needs, taking advantage of internal diversification benefits and enhancing the group's reinsurance and wider capital efficiency.

Chart 1

Dividend Received From Operating Companies



Source: S&P Global Ratings.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank

And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

PLEASE NOTE: In the ratings detail below, the issuer credit ratings for the holding company and AG Insurance is both foreign and local currency. Domicile refers to the holding company.

Ratings Detail (As Of December 10, 2018)	
Holding Company: Ageas SA/NV	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	A/Stable/A-1
Operating Companies Covered By This Report	
AG Insurance	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	A/Stable/--
Junior Subordinated	BBB+
Ageas Insurance Ltd	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Intreas N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Domicile	Belgium

*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.