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Ageas Group

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Overview

Strengths

Ageas has diversified revenues from both its life and property and casualty (P&C) business operations in Belgium, Portugal, the U.K., and Asia.

Improved earnings combined with overall low-risk investments, have strengthened Ageas' capital adequacy.

Risks

Ageas has a more limited track record of strong and recurring performance compared with higher-rated peers.

Lack of control in Asian joint ventures.

We expect Ageas Group's focus on Europe and Asian markets will support earnings' growth and diversification. Ageas' leadership in Belgium, presence in U.K. and Portugal provide moderate, predictable, organic growth. We expect Ageas' JVs in Asia will continue to support the group's earnings growth.

We estimate that the group will generate normalized annual net income to a level in excess of €900 million over 2019-2021. Ageas has significantly boosted net income in the first half of 2019 leading to revise our targets upwards over 2019-2021. We consider, however, that Ageas has a more limited track record of strong and recurring performance compared with higher-rated peers.

We estimate Ageas will preserve very strong capital buffers at least until 2021. We expect Ageas will maintain its capital adequacy in line with the 'AA' confidence level over the next two years after considering share buyback and dividends.

Outlook

The stable outlook reflects our expectation that the group will preserve its strong business position and capital buffers, while maintaining good underlying operating performance, over the next two years.

Downside scenario

We currently view a potential downgrade as unlikely. However, we could downgrade Ageas if its forecast capital adequacy significantly weakened below the 'A' level due to unexpectedly large acquisitions, dividends, or share buybacks.

Upside scenario

We could raise the ratings on Ageas and its core subsidiaries if it demonstrated capacity to sustainably deliver improved operating performance in its property/casualty (P/C) business, while continuing to expand its Asian operations and maintaining its comfortable capital excess at a very strong level.

Key Assumptions

- We expect domestic demand in Belgium should remain resilient, as we foresee a continued recovery in employment. We project Belgian average real GDP growth of 1.3% between 2019 and 2021.
- We project long-term interest rates on U.K., Belgian, and wider European government 10-year bonds will continue to remain low.

Table 1

Ageas Insurance Ltd.--Key Metrics					
	2020F	2019F	2018	2017	2016
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong	Strong	Strong
Gross premium written (Mil. €)	>9,000	>9,000	8,860	8,445	9,277
Net income* (Mil. €)	>900	>900	809	623	27
Return on shareholders' equity (%)	>8.0	>8.0	8.5	6.5	0.3
PC : Combined ratio (%)	<97	<97	94.3	95.2	101.1
EBITDA fixed-charge coverage (x)	>8.0	>8.0	12.7	11.3	7.5
Financial leverage including pension deficit as debt (%)	<30.0	<30.0	26.5	28.9	30.0

F--S&P Global Ratings forecast. *After minorities.

Business Risk Profile

Ageas' strong business risk profile is underpinned by its leading position in both P&C and life insurance markets in its home country, Belgium. Over time, the group has also built good positions in the U.K. (in P/C) and Portugal (in both P/C and life) via acquisitions and organic growth. In addition, Ageas benefits, in our view, from its strong ties with brokers and banks in Europe and Asia that distribute most of its products. We view Ageas' longstanding partnership with BNP Paribas Fortis, which accounts for one-third of Ageas' overall consolidated premiums, as a support for the group's business position.

We also expect that earnings from its operations in Asia through 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 will remain key earning contributors. In the first half of 2019, Asian operations contributed around 55% of overall net earnings due to one-off effects.

Ageas's U.K. subsidiary, focused on motor, has also recovered and posted satisfactory performance contributing around 10% of net earnings in H1 2019.

Ageas' resilient earnings in a lower interest rate environment illustrates the group's good control of its guaranteed life insurance back book and limited asset-liability mismatch.

Financial Risk Profile

We consider that Ageas' capitalization and earnings capacity compares well with the European insurance sector average. Our assessment of Ageas' very strong capital reflects materially improved forecast net income over 2019-2021, as well as the reassessment of some of Ageas' investments as being linked to lower-risk real estate, rather than pure equity risk. As a result, we expect Ageas' capital redundancy according to our risk based capital model to remain in the 'AA' range through at least 2021. We anticipate that Ageas' capitalization will be in the 'AA' range due to strong earnings generation, even though shareholder dividends and share buybacks will remain substantial, in line with previous years. We estimate that potential bolt-on acquisitions would not deteriorate capital adequacy below very strong levels. We also factor in our expectations of a modest increase in capital requirements through 2021 on the back of moderate expected organic growth.

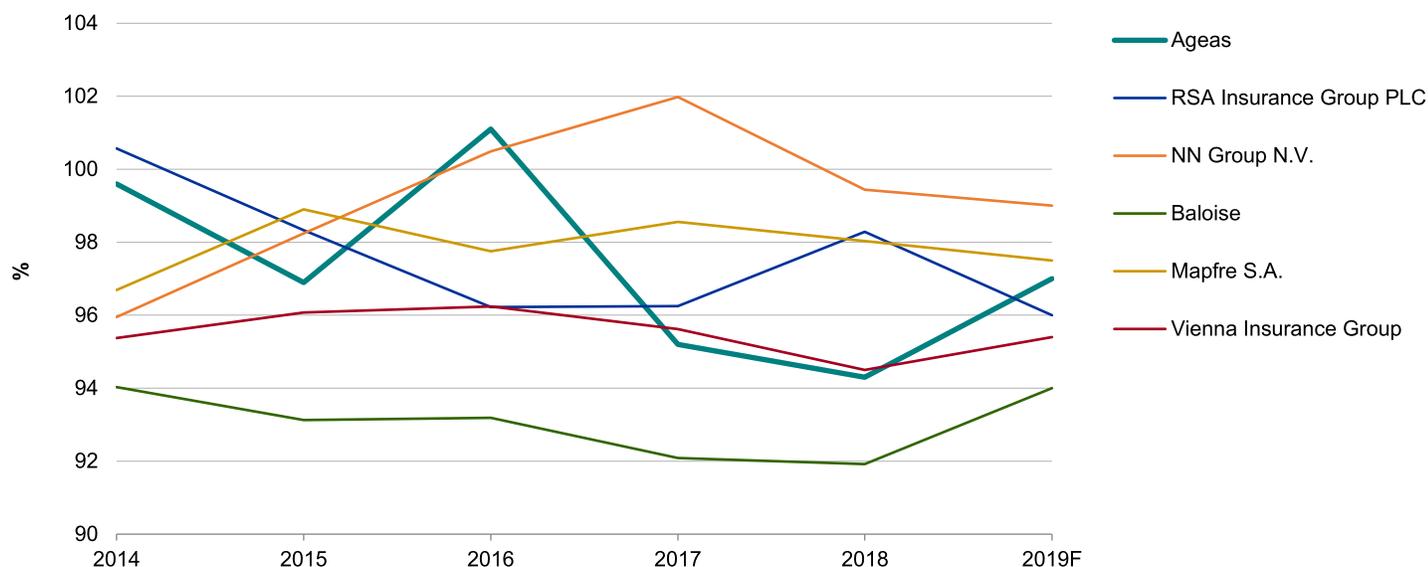
We also consider positive that Ageas' capital policy of maintaining a target group Solvency II ratio of above 175% (unless exceptional circumstances), that the Ageas Group's Solvency II ratio displays modest sensitivity, and that it does not rely on transitional adjustments. The group's Solvency II ratio stood at 201% at end-June 2019 and Ageas estimated the negative impact of market movements in first-half 2019 to have reduced its Solvency II ratio by only 6 percentage points between end 2018 and June 2019.

Ageas' performance in the first half of 2019 also benefitted from its strong resilience to the sharp decline in interest rates, with the group posting a 37% year-on-year increase in net income to €606 million. We estimate that Ageas will report net profit in excess of €900 million over 2019-2021 (excluding potential accounting effects of unrealized gains or losses on general account securities).

Ageas has also improved its underwriting performance: at year-end 2018 Ageas posted a P/C combined (loss and expense) ratio, the industry's main underwriting profitability metric, of 97.4% according to our calculations. This is much better than its five-year average of about 100% and is now in line with its peer group (see chart 1). We estimate that, over 2019-2021, Ageas will report an average P/C combined ratio of 97.5%, and focus on improving performance in the U.K. market.

Chart 1

Ageas Combined Ratio Is In Line With Peers



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

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We believe that Ageas' potential risks not captured in our assessment of capital to be limited. Investment-grade fixed-income assets, displaying an average credit quality of 'A', make up the bulk of its investments. We view Ageas' exposure to equities and real estate, which have higher risk than bonds, to be well managed. Riskier investments in equities, real estate, and loans account for less than 20% of total invested assets, while we assess there is no risky concentration to single sectors or single obligors. We also consider that Ageas has reduced potentially negative event risk in 2018, after BNP Paribas Fortis renounced a put option on a 25% share in AG Insurance and Ageas finalized the resolution process of most legacy issues inherited from the break-up of the Fortis group.

Ageas Group in April 2019 demonstrated its ability to tap the debt markets, via Ageas SA/NV. We expect the group's financial leverage will remain less than 30% and anticipate that it will continue to comfortably cover financial interests by more than 8x.

Other Key Credit Considerations

Governance

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.

Liquidity

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 the holding company

We rate Ageas SA/NV in line with the group credit profile. Ageas SA/NV, the group holding company, has started internal reinsurance operations in 2019, which gives internal diversification benefits and enhances the group's reinsurance and wider capital efficiency. Ageas' Belgium, U.K., and Portugal subsidiaries ceded 30%, 30%, and 20%, respectively, of their non-life business.

Group support

We regard Belgium-based AG Insurance, U.K.-based Ageas Insurance Ltd., and Netherlands-based captive reinsurer Intreas N.V., 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'.

Ratings Score Snapshot

Table 2

Ageas Insurance Ltd.--Rating Score Snapshot	
Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor	a*
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A

*This is influenced by our view that company's is still lacking track record of stronger profitability with A+ rated insurers.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019

- 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
- 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

- Ageas SA/NV And Core Subsidiaries Affirmed At 'A' On Strengthened Capital And Earnings; Outlook Stable, Sept. 06, 2019

Appendix

Table 3

Ageas Insurance Ltd.--Credit Metrics History		
Ratio/Metric	2018	2017
S&P Global Ratings capital adequacy*	Very Strong	Strong
Total invested assets	96,559.0	97,779.0
Total shareholder equity	11,519.6	10,162.2
Gross premiums written	8,860.0	8,445.0
Net premiums written	8,593.4	8,207.5
Net premiums earned	8,646.3	8,254.5
Reinsurance utilization (%)	3.0	2.8
EBIT	1,372.2	1,225.0
Net income (attributable to all shareholders)	996.9	850.0
Return on revenue (%)	11.3	10.3
Return on assets (including investment gains/losses) (%)	1.3	1.2
Return on shareholders' equity (reported) (%)	8.5	6.5
P/C: net combined ratio (%)	94.3	95.2
P/C: net expense ratio (%)	37.9	37.6
P/C: return on revenue (%)	10.6	9.8
EBITDA fixed-charge coverage (x)	12.7	11.3
Financial obligations / EBITDA adjusted	2.9	3.2
Financial leverage including pension deficit as debt (%)	26.5	28.9
Net investment yield (%)	3.6	3.8
Net investment yield including investment gains/ (losses) (%)	3.9	3.9

Ratings Detail (As Of September 30, 2019)*

Ageas SA/NV

Financial Strength Rating

Local Currency

A/Stable/--

Ratings Detail (As Of September 30, 2019)*(cont.)

Issuer Credit Rating	A/Stable/A-1
Junior Subordinated	BBB+
Related Entities	
Ageas Insurance Ltd	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--
AG Insurance	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	A/Stable/--
Junior Subordinated	BBB+
Intreas N.V.	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	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.

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