

Research Update:

Baloise Group Affirmed At 'A+'; Basler Sachversicherung Upgraded To 'A+' On Revised Group Status To Core; Outlook Stable

June 18, 2021

Overview

- Despite the COVID-19 pandemic, Baloise group maintained robust profitability and capital adequacy, as well as a sound Swiss solvency test ratio, which compares well with Swiss rated peers'.
- We affirmed our 'A+' long-term issuer credit and financial strength ratings on Baloise group's core operating entities.
- We now consider German subsidiary Basler Sachversicherung AG core to the group, rather than highly strategic, on continuous improvements in underwriting earnings in line with group targets.
- As a result, we raised our long-term financial strength rating on Basler Sachversicherung AG one notch to 'A+', aligning it with the ratings on the group's other core operating entities.
- The stable outlook reflects our expectation that Baloise group's capital adequacy will remain at the 'AAA' level, supported by strong earnings and a conservative investment and growth strategy.

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Rating Action

On June 18, 2021, S&P Global Ratings affirmed its 'A+' long-term issuer credit and financial strength ratings on the core operating entities of Switzerland-based composite insurance group Baloise. We also affirmed the 'A-' long-term issuer credit rating on the group's holding company Baloise Holding AG. In addition, we raised our long-term issuer credit and financial strength ratings on Germany-based subsidiary Basler Sachversicherung AG to 'A+' from 'A'. The outlook is stable on the holding company and each of the core operating subsidiaries.

Rationale

The affirmation reflects sound earnings from the group's diversified operations and its sustainable capital adequacy, at the 'AAA' level as per our capital model, despite challenging operating conditions in 2020.

In our view, the group's combined ratio (loss and expense) has remained relatively strong compared to peers'. The impact of COVID-19 claims on underwriting in 2020, with a combined ratio of 91.2%, was only 2% and partly offset by better claims performance in motor business. Although, business volume and net income contracted in 2020, they remained in line with our expectations and we expect they will likely increase amid our overall forecast of an improved macroeconomic environment in 2021 and 2022. We expect net income of more than Swiss franc (CHF) 500 million annually during this period, which is in line with the average net income over the past five years.

Baloise is a multiline insurance group that benefits from operating in wealthy and diversified economies. It has a strong foothold in its core markets--Switzerland, Belgium, Germany, and Luxembourg. We believe the group has a diverse product portfolio, offering life and property/casualty (P/C) insurance products in its core markets. However, we believe that life earnings are pressured by the challenges of low interest rates, especially in the domestic market. That said, the group is focusing on biometric and less interest-rate-sensitive life products. Baloise benefits from earnings diversification in its banking and asset management business, which contributed about 15% of EBIT in 2020. We also think Baloise's foray into noninsurance business will support earnings diversification, but we don't expect a meaningful contribution in the medium term.

As such, capitalization at year-end 2020 was very robust, with capital adequacy above the 'AAA' level, under S&P Global Ratings' capital model, and at 186% under local regulation (Swiss Solvency Test; SST). We believe, the group's capital position is supported by sustained, sound retained earnings and its conservative investment strategy. We have a favorable view of the group's risk management framework, which we consider to help reduce risk. Therefore, we expect that capital will remain above the 'AAA' benchmark over 2021-2023.

We have revised German subsidiary Baloise Sachversicherung AG's group status to core from highly strategic following consistent performance improvements in the past three years. After changes in the business mix, restructuring, and exiting loss-making hospitality insurance, the German subsidiary's combined ratio has improved since 2018 to less than 100%. Despite the pandemic and some exposure to the affected business lines, such as business interruption, the German subsidiary continued to report positive underwriting income with a combined ratio of 94.9% in 2020 (after 90.9% in 2019). We expect the combined ratio will stay in line with the group's target of 90%-95% for 2021-2023 and we now see the entity as highly integrated and a more stable earnings provider, with Germany a core market in Baloise's group strategy.

Outlook

The stable outlook reflects our expectation that Baloise will maintain its capital adequacy comfortably at the 'AAA' level, according to our capital model. Sound earnings, which will recover to at least CHF500 million per year in 2021–2023, an unchanged dividend policy, and a consistent conservative investment and growth strategy support our view.

Downside scenario

We could lower the ratings over the next 24 months if the group's capital weakens over a prolonged period because of significantly lower-than-expected retained earnings or a shift toward a more aggressive risk appetite in terms of acquisitions, growth, and product offering.

Upside scenario

We see limited rating upside in the next 24 months. We could take a positive rating action if Baloise's competitiveness improves substantially through higher earnings contributions from countries other than Switzerland, or from noninsurance business. This also assumes the group will maintain its current capitalization, risk profile, and earnings stability.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Low risk
Financial Risk Profile	Excellent
Capital and earnings	Excellent
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	a+
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A+

*This is influenced by our view of the group's narrower earnings focus on the domestic markets compared to higher-rated peers with broader earnings diversification.

Related Criteria

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

Baloise Holding AG

Issuer Credit Rating	A-/Stable/--
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Baloise Belgium N.V.

Basler Versicherung AG

Basler Leben AG

Issuer Credit Rating	A+/Stable/--
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Baloise Belgium N.V.

Basler Versicherung AG

Financial Strength Rating	A+/Stable/--
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Basler Leben AG

Junior Subordinated	A-
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Upgraded; Outlook Action

	To	From
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Basler Sachversicherungs AG

Issuer Credit Rating	A+/Stable/--	A/Positive/--
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Financial Strength Rating	A+/Stable/--	A/Positive/--
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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