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Ratings

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KBC Insurance N.V.

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KBC Insurance N.V.

Anchor	a-
Business Risk	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk	Satisfactory
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a-

+

Support	1
Group support	1
Government support	0

=

A/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Good diversification between life and non-life insurance.	Limited geographic footprint.
Profitable bancassurance business model fostered by high commercial and operational integration with KBC Bank N.V.	Constrained capital adequacy stemming from capital management at the group level.
Market leader in the unit-linked savings segment and one of the largest insurers in Belgium.	Significant share of savings contracts reserves with high guaranteed rates.

We expect that KBC Insurance will maintain its prominent position in Belgium, with 13% market share in life and 9% in non-life insurance. Our ratings on KBC Insurance also reflect the depth and breadth of its product range and distribution network in the Belgian market. The 'a-' anchor reflects our view of the company's consistently strong results compared with its peers.

We estimate that KBC Insurance will generate annual net earnings of at least €400 million in 2019-2021. In particular, non-life technical performance in Belgium has historically been higher than the market, and we expect KBC Insurance will maintain a combined ratio of about 90%-94%.

KBC Insurance holds capital at the 'A' confidence level and we expect it will be at the high end of the 'BBB' range over the rating horizon, as measured by our risk-based model. We take into account a full upstream of the annual net profit to the parent, leaving limited growth potential in our measure of adjusted capital. This dividend policy reflects the strategy to foster the efficiency of KBC Group's capital structure.

Outlook: Stable

Our stable outlook on KBC Insurance reflects our expectation that KBC Group's group stand-alone credit profile (SACP) will remain unchanged over the next two years.

Upside scenario

We could raise the rating on KBC Insurance if we revised up our assessment of KBC Group's group SACP.

Downside scenario

Although unlikely, we could lower the rating on KBC Insurance if we revised down KBC Group's group SACP, or if we no longer considered the company a core subsidiary of KBC Group.

Key Assumptions

- Belgian real GDP growth slowing down to 1.2% in 2019 and 2020.
- Long-term Belgian government bond rates to be in negative territories in 2020, and gradually recovering to less than 0.5% in 2021 and 2022.

KBC Insurance N.V.--Key Metrics

	2020f	2019f	2018	2017	2016
Gross premium written (mil. €)	>2,800	>2,900	2,962	2,784	3,007
P/C: net combined ratio (%)	<94	<94	88.7	88.2	93.3
P/C: return on revenue (%)	15	15	15.5	16.6	11.3
Life new business margin (%)	>5	>5	9	9.9	3.5
Net income (mil. €)	>400	>400	470	465	334
Total shareholder equity	~2,900	~2,900	2,729	3,051	2,937
Return on shareholders' equity (%)	>10	>10	16.2	15.5	11.6
S&P Global Ratings capital adequacy*	Satisfactory	Satisfactory	Satisfactory	Moderately Strong	Moderately Strong

f--S&P Global Ratings forecast. P/C--Property/casualty. *The moderately strong assessment in 2016 and 2017 reflects the rating construction under the previous insurance criteria framework.

Business Risk Profile: Strong

KBC Insurance's leading position in its home country, Belgium--from where it derives over 70% of its gross written premiums-- underpins its strong business risk profile. The company benefits from strong distribution network of bank branch and tied agents.

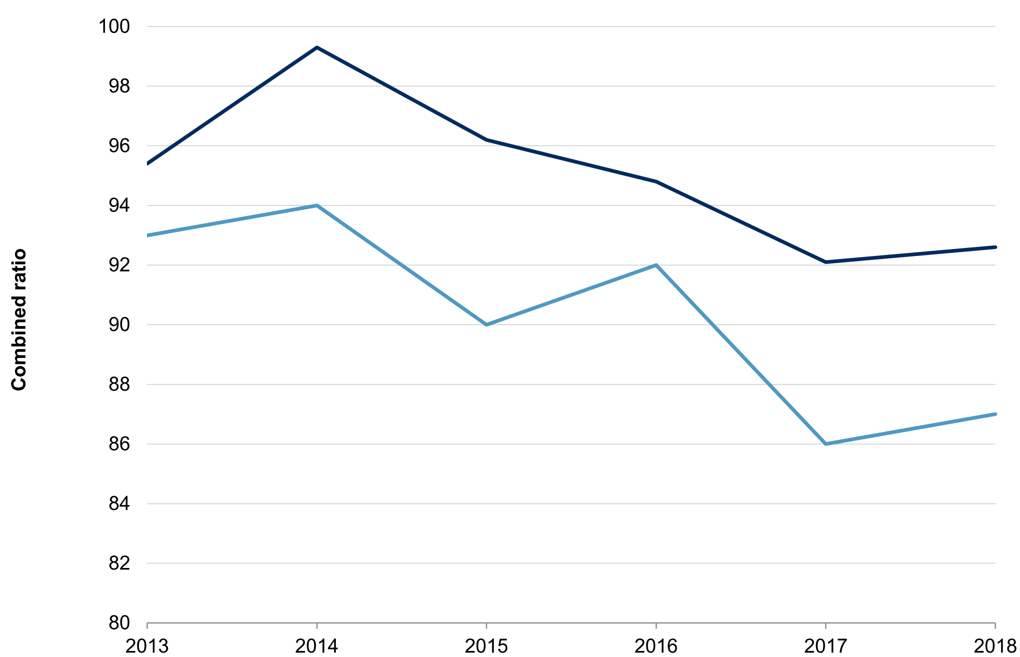
KBC Insurance is the fourth largest insurer in Belgium after AG Insurance, AXA Belgium, and Ethias. KBC Insurance is also the market leader in the unit-linked savings segment, leveraging the group's expertise in asset management. Its share of the property/casualty (P/C) market is limited to 9% because it focuses on the group's bank branch network and tied agents, with a limited footprint within the Belgian large broker-led share of P/C activity.

For the Belgian activities, the company's combined (loss and expense) ratio has been stronger than that of its peers by five percentage points on average over the past six years (see chart 1). We expect KBC Insurance will continue to outperform the Belgian P/C market, owing to its good knowledge of customers and strict underwriting rules. In the first nine months of 2019, the group's combined ratio was a sound 91% as per the company's calculations (the lower the combined ratio, the more profitable the insurer, and a ratio of more than 100% signifies an underwriting loss). In view of the large claims experience and negative provision development over the period, we view this technical performance as robust.

Chart 1

Combined Ratio

KBC Insurance historically outperformed peers in non-life technical performance.



Source: KBC Insurance, Assuralia.

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Through local subsidiaries, KBC Insurance also writes business in Central and Eastern Europe, mainly in the Czech Republic through CSOB Pojistovna a.s., in Slovakia through CSOB Poistovna a.s., in Hungary via K&H Biztositó, and in Bulgaria through DZI Insurance. KBC Insurance is also in the process of starting pension savings in Ireland, where the group already operates banking activities via KBC Bank Ireland.

Financial Risk Profile: Satisfactory

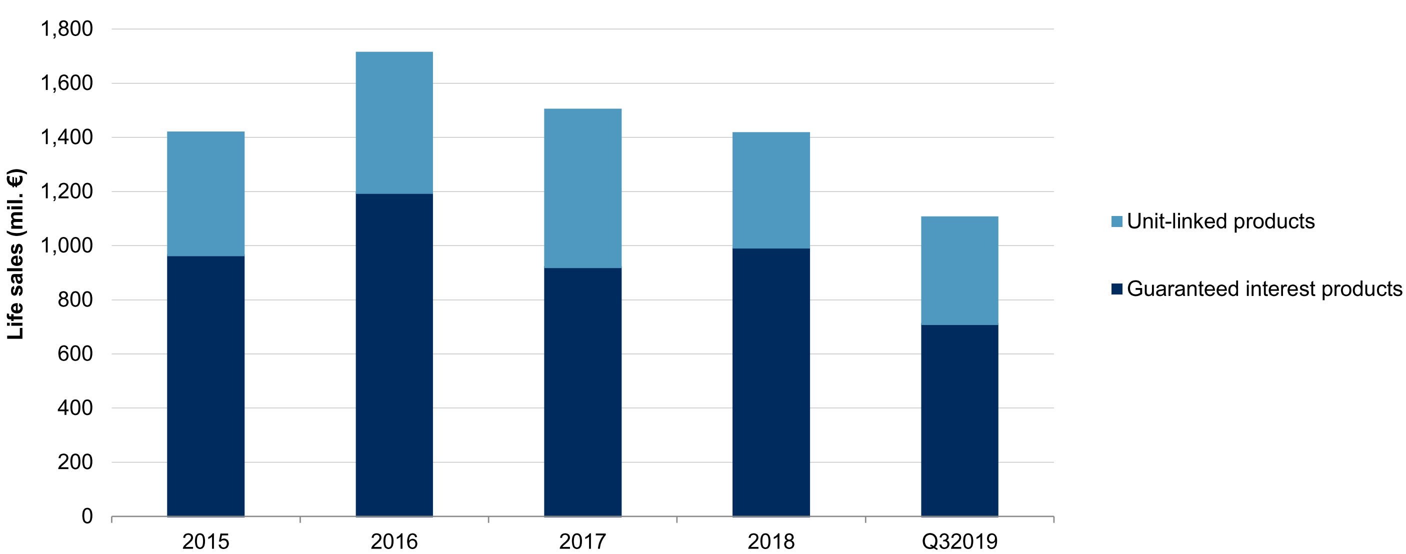
Although KBC Insurance holds adjusted capital at the 'A' confidence level, as measured by our risk-based model, we forecast capital adequacy will likely be in the high 'BBB' range by 2021. This projection results from the assumption that there will be full payout of profits as dividends to the parent, combined with moderate balance sheet growth and stable investment risk on the asset side.

About 37% of KBC Insurance 's traditional life insurance reserves have a minimum guaranteed rate above 2.50%. However, due to the medium-tailed nature of guaranteed savings business in Belgium (the guarantee expires after eight years) and the high share of unit-linked business, we do not view this as a long-term threat to the company's balance sheet.

Chart 2

Saving/Pension Inflow Mix In Belgium

Leader in unit-linked business, average 33% of life sales over the past five years.



Q3--Third quarter. Source: Company's financial report

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We assess KBC Insurance's sensitivity to interest rates as limited in view of the relatively close match between assets and guaranteed liabilities.

The funding structure does not raise any particular concern given KBC Insurance's financial leverage of just 17%. This includes an intra-group subordinated debt of €500 million and a limited pension deficit.

Other Key Credit Considerations

Governance

KBC Insurance's governance reflects the company's ability to set and execute long-term strategic goals that are in line with KBC Group's long-term objectives, and within reach.

Liquidity

The company's liquidity level is not a concern, owing to the strength of available liquidity sources and the company's relatively liquid asset portfolio.

Group support

We view KBC Insurance and KBC Group Re as core to KBC. We understand from the Belgian banking resolution framework that insurance operations would be outside the scope of a potential bail-in process. We therefore equalize our ratings on KBC Insurance with KBC's 'a' group SACP, which does not include a notch of support from additional loss-absorption capacity. Such support can only apply to the group's banking operating companies.

Accounting considerations

KBC Insurance reports annually under International Financial Reporting Standards. An important share of the company's life insurance revenue stems from investment contracts, which are not booked as insurance premiums. This understates KBC Insurance's underlying revenue generation, and excluded €456 million in 2018.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- 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

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	**Satisfactory**	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	**a-/bbb+**	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of November 29, 2019)*

Operating Company Covered By This Report	
KBC Insurance N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Related Entities	
KBC Group Re S.A.	
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.

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