

Research Update:

# KBC Insurance N.V. 'A-/A-2' Ratings Affirmed On Improved Financial Risk Profile; Outlook Negative

October 29, 2020

## Overview

- We expect KBC Insurance N.V. to maintain its improved capital adequacy sustainably above the 'A' benchmark over the medium to long term, taking into account the company's conservative reserving of its non-life provision.
- We continue to view KBC Insurance N.V. as core to KBC Group and therefore equalize our ratings on KBC Insurance with KBC Group's 'a' group stand-alone credit profile.
- We are affirming the 'A' ratings on KBC Insurance N.V. and on captive reinsurer KBC Group Re S.A.
- The negative outlook reflects the outlook on KBC Group.

## Rating Action

On Oct. 29, 2020, S&P Global Ratings affirmed its 'A' issuer credit and financial strength ratings on KBC Insurance N.V. and on captive reinsurer KBC Group Re S.A. The outlook remains negative.

## Outlook

Our negative outlook on KBC Insurance N.V. mirrors the outlook on KBC Group, which reflects increased downside risks to asset quality and earnings from the economic and market effects of the COVID-19 pandemic. Although we note KBC Group's significant revenue diversity, robust balance sheet, and the unprecedented fiscal and monetary response from Belgian and European authorities, a deep and extended economic downturn could significantly increase impairment losses and weaken revenue over our two-year outlook horizon.

## Upside scenario

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

### PRIMARY CREDIT ANALYST

**Olivier J Karusisi**  
Paris  
(33) 1-4420-7530  
olivier.karusisi  
@spglobal.com

### SECONDARY CONTACTS

**Marc-Philippe Juilliard**  
Paris  
+(33) 1-4075-2510  
m-philippe.juilliard  
@spglobal.com

### Ami M Shah

Mumbai  
(91) 22-4040-8340  
ami.shah  
@spglobal.com

### ADDITIONAL CONTACT

**Insurance Ratings Europe**  
insurance\_interactive\_europe  
@spglobal.com

## Downside scenario

Although unlikely, we could lower the ratings on KBC Insurance N.V. if we revised down our assessment of KBC Group's group SACP, or if we no longer considered KBC Insurance N.V. a core subsidiary of KBC Group.

## Rationale

We affirmed the ratings because we now assess KBC Insurance N.V.'s financial risk profile as strong versus satisfactory previously. Despite current market uncertainties, we think KBC Insurance N.V.'s forecast capital adequacy will remain above the 'A' benchmark in 2020-2022, thanks to its strong capital base and conservative reserving for the non-life segment. We base this on our 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.

Despite improving capital adequacy, KBC Insurance N.V.'s business is more highly concentrated in Belgium than higher rated peers. KBC Insurance N.V. has a leading position in its home country, Belgium, from where it derives more than 70% of its gross written premiums. The company benefits from a strong distribution network of bank branch and tied agents.

KBC Insurance N.V. reported strong net earnings of €176 million for the first half of 2020, which is more than 80% of KBC Group's total earnings. Based on our assumptions, we expect net income to decline to below €300 million for 2020. For 2021-2022 we forecast the combined (loss and expense) ratio will remain in line with the historical average of 90% and net income will be greater than €300 million. We assume 100% dividend payout to the parent in 2020-2022.

We view KBC Insurance N.V. as core to KBC Group. 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 N.V. with KBC Group's 'a' group SACP, which does not include a notch of support from additional loss-absorption capacity. Such support only applies to the group's banking operating companies.

## Ratings Score Snapshot

### KBC Insurance N.V.

	To	From
Financial strength rating	A	A
Anchor	a-	a-
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk	Strong	Satisfactory
Capital and earnings	Strong	Satisfactory
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers		

**KBC Insurance N.V. (cont.)**

	To	From
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support		
Group support	1	1
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

**Related Criteria**

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- 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**

\*\*\*\*\* KBC Group N.V. \*\*\*\*\*

**Ratings Affirmed**

**KBC Group Re S.A.**

**KBC Insurance N.V.**

Issuer Credit Rating	
Local Currency	A/Negative/--
Financial Strength Rating	
Local Currency	A/Negative/--

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