

Research Update:

# KBC Insurance 'A' Ratings Affirmed On Revised Insurance Capital Model Criteria; Outlook Remains Stable

June 27, 2024

## Overview

- The implementation of our revised criteria for analyzing insurers' risk-based capital, "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, published Nov. 15, 2023, has increased KBC Insurance's capital buffer beyond our 99.95% confidence level.
- As such, we now assess KBC Insurance's financial risk profile as very strong rather than strong, and its stand-alone credit profile (SACP) at 'a', the same as the group SACP; we've therefore removed the notch of uplift for group support.
- We have affirmed our 'A' ratings on KBC Insurance.
- Our stable outlook mirrors that on KBC Group, which is based on our view that the group would remain efficient and profitable over the next two years.

## Rating Action

On June 27, 2024, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on KBC Insurance N.V. and on captive reinsurer KBC Group Re S.A. The outlook remains stable.

## Impact Of Revised Capital Model Criteria

- The improvement in capital adequacy primarily reflects an increase in total adjusted capital (TAC) owing to an increase in core shareholders' equity as per IFRS 17, as well as full recognition of the contractual service margin, which we regard as equity-like reserves.
- We've also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- Symmetrically, the recalibration of our capital charges to higher confidence levels increases

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capital requirements, especially for equity risk and interest rate risk, as well as for natural catastrophe risk.

## Credit Highlights

### Overview

Key strengths	Key risks
Well capitalized and profitable insurance business model.	Limited geographic diversification.
Market leader in the unit-linked savings segment and one of the largest insurers in Belgium.	High dividend policy.

### Rationale

KBC Insurance is the fourth largest insurer in its home country, Belgium, and the market leader in the country's unit-linked savings segment, where it builds on the group's expertise in asset management. We expect KBC Insurance will also continue to outperform the Belgian property/casualty market, owing to its deep knowledge of customers and strict underwriting rules.

We believe KBC Insurance can maintain a capital buffer at the 99.95% confidence level, based on our risk-based capital model, over 2024-2025. This reflects its sustained profitability, further change in the product mix to less-capital-intensive products, and conservative non-life provisions. That said, KBC Insurance's high dividend policy implies that its strategy is to foster the efficiency of KBC Group's overall capital structure.

For full-year 2023, KBC Insurance reported net income of €527 million compared to €635 million in 2022 as per IFRS 17. Still, the combined (loss and expense) ratio remained strong at 87%. We expect KBC Insurance will maintain an average combined ratio of less than 90% in the foreseeable future.

### Liquidity

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

### Group support

We view KBC Insurance and KBC Group Re as core to KBC Group N.V. We understand from the Belgian banking resolution framework that insurance operations would be outside the scope of a potential bail-in process. Our assessment of KBC Insurance's SACP is at the same level as the 'a' group SACP, which does not include any notch of support from additional loss-absorption capacity. Such support can only apply to the group's bank operating companies.

### Outlook

Our stable outlook mirrors that on KBC Group N.V., which is based on our view that the group would remain efficient and profitable over the next two years. Moreover, we estimate that credit

loss provisions adequately capture future corporate and small and midsize enterprise defaults in the group's markets. We expect the group will display strong and resilient earnings as it leverages its efficient bank-insurance operating model, involving the sale of insurance and asset-management products to bank customers, which should help alleviate ongoing inflationary pressures.

### Downside scenario

We could lower the ratings on KBC Insurance over the next two years if we revised down our assessment of KBC Group's SACP by more than one notch. Although unlikely, we could also lower our ratings if we no longer view KBC Insurance as a core entity of KBC Group and its SACP deteriorated materially.

### Upside scenario

Given KBC Insurance's core strategic importance to the group, we would raise the ratings over the next two years if we were to take a similar action on KBC Group. We consider KBC Insurance's SACP unlikely to strengthen further over the next two years. This would require a more-diverse business model or increased capital adequacy, notably due to a less demanding dividend policy.

### Ratings Score Snapshot

	To	From
<b>Financial strength rating</b>	<b>A</b>	<b>A</b>
Anchor*	a	a-
<b>Business risk</b>		
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
<b>Financial risk</b>		
Capital and earnings	Very strong	Strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
<b>Modifiers</b>		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis		
<b>Support</b>		
Group support	0	1
Government support	0	0

\*The choice of anchor choice is influenced by KBC Insurance's limited geographic diversification and demanding dividend policy. IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed

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**KBC Insurance N.V.**

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**KBC Group Re S.A.**

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Issuer Credit Rating

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Local Currency      A/Stable/--

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Financial Strength Rating

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Local Currency      A/Stable/--

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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.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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