

Research Update:

# Allianz 'AA' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

June 20, 2024

## Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Under our updated criteria, Allianz SE's (Allianz's) capital position has improved as its capital buffers now meet the risk-based capital requirements in an extreme stress scenario. In our base-case scenario, we expect Allianz's capital adequacy will remain at the 99.99% confidence level.
- As a result of the group's stronger capital position, we improved our assessment of Allianz's financial profile to excellent from very strong.
- We affirmed our 'AA/A-1+' long- and short-term issuer credit ratings and 'AA' financial strength rating on Allianz and its core subsidiaries.
- The stable outlook reflects our view that, over the next two years, Allianz's globally diversified business profile will enable the group to generate robust and diverse earnings and sustain its excellent competitive position.

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## Rating Action

On June 20, 2024, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings and 'AA' financial strength rating on global multiline insurer Allianz and its core subsidiaries. Our outlook on the rating remains stable.

We also affirmed our issue ratings on all outstanding hybrid and debt instruments issued by Allianz and affiliated entities.

## Impact Of Revised Capital Model Criteria

- Following the implementation of our revised capital model criteria, Allianz's capital adequacy was redundant and exceeded the 99.99% confidence level at year-end 2023. We expect it will remain at this level through 2026.

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- We observed an increase in total adjusted capital under International Financial Reporting Standard (IFRS) 17 that increases visibility on future profits for the insurance sector through the contractual service margin (CSM). Under our revised capital model, we no longer apply haircuts or capital charges to equity-like reserves, such as the CSM and risk adjustments. The CSM for a combined after-tax amount was €40.7 billion at year-end 2023.
- Under the revised criteria, Allianz's diverse business portfolio now results in materially higher diversification benefits, leading to a substantial reduction in the required risk-based capital.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements.

## Credit Highlights

### Overview

Key strengths	Key risks
Globally diversified multiline insurer with top positions in western Europe and the U.S., where it has an excellent brand reputation, despite past governance concerns.	Continued capital market volatility and further geopolitical uncertainties could reduce investment returns.
Diversified insurance income streams, additionally enhanced by significant fee incomes from the group's asset management businesses.	Some governance deficits impaired the performance of the asset management business in 2022.
Excellent capital adequacy above the 99.99% confidence level and diversified exposure mitigate underwriting and investment risks.	

### Key metrics

#### Allianz SE--Key metrics

	2025f (IFRS 17)	2024f (IFRS 17)	2023 (IFRS 17)	2022 (IFRS 4)	2021 (IFRS 4)
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent	Very strong	Very strong
Insurance revenues	>94,500	>93,000	91,250	N/A	N/A
Net income	8,000-9,000	8,000-9,000	9,032	6,738	6,610
Return on equity (%)*	13.0-16.0	13.0-16.0	14.8	10.3	8.4
Net investment yield (%)	>2.0	>2.0	4.9	2.1	3.4
P/C: Net combined ratio (%)*	93.0-96.0	93.0-96.0	93.2	94.8	94.7
Return on revenue (%)	>9.0	>9.0	15.8	9.7	9.3
Financial leverage (%)	<40.0	<40.0	38.2	40.6	32.1
EBITDA fixed-charge coverage (x)	>9.0	>9.0	12.3	11.0	10.7

\*Calculated according to S&P Global Ratings' definitions. f--Forecast. N/A--Not available. P/C--Property/casualty.

## Outlook

The stable outlook reflects our view that Allianz's earnings will remain robust and resilient on the back of strong and diverse income streams from all businesses, including non-life, life, and asset management. Furthermore, we anticipate that, over the next two years, Allianz will maintain its excellent brand reputation. In our view, the group's financial profile will continue to benefit from very comfortable capital adequacy, with a confidence level of at least 99.95% under our risk-based capital model. This will retain Allianz's excellent competitive position.

## Downside scenario

We could consider lowering the ratings if, contrary to our expectations, Allianz's:

- Operating performance declined materially and sustainably, causing a prolonged underperformance, compared with GMI peers. This could be triggered by a severe capital market downturn, combined with an unexpected and prolonged negative claims trend;
- Business model deteriorated, for example because of further geopolitical uncertainties or material governance deficits; or
- Capitalization reduced below the 99.95% confidence level over a prolonged period.

## Upside scenario

An upgrade is unlikely over the next 24 months because we expect intermediate insurance industry and country risks will be limited, meaning Allianz's business risk profile will remain very strong. We could raise the ratings if Allianz's business risk profile improves to excellent and if the group's capital position sustainably exceeds the 99.99% confidence level.

## Rationale

**The affirmation of our 'AA' ratings on Allianz reflects our view that the group's capital adequacy has materially and sustainably strengthened.** This improvement results from higher and more visible future profits in the group's life insurance business and a better diversification credit under our revised capital criteria. We now expect capitalization will remain excellent and redundant at the 99.99% confidence level through 2026.

**The group's capital adequacy at year-end 2023 exceeded the 99.99% confidence level.**

Additionally, Allianz's regulatory solvency ratio was very solid at 206% at year-end 2023. The current robust capital level and very solid earnings enable the group to continue taking advantage of growth opportunities across the geographies where Allianz is active. Under the new dividend policy, which the group announced in the first quarter of 2024, Allianz will further increase already generous dividend distributions to 60% from 50%, with dividend per share at least in line with those in 2023. Furthermore, Allianz again initiated a moderate share buyback program of €1 billion.

**We now think Allianz's life and health insurance segments contribute higher and more sustainable operating profits to the group.** Over the past decade, Allianz undertook several measures to reshape and solidify its flagship life insurance operations. We think the group's

efforts to further expand and develop its protection, health, unit-linked, and capital-light life businesses, and the efficiency improvements in its legacy traditional life business are paying off. In 2023, Allianz reported strong operating profits from its life and health segments of €5.2 billion, compared with €3.3 billion in 2014. Similarly, the new business margin in life insurance is now significantly higher at 5.9%, compared with 1.9% in 2014. The solid development of the life segment is also visible in Allianz's sizable and growing life insurance CSM, which we now fully recognize in our total capital calculations. High interest rates further limit the risks of remaining legacy life books. We also note that Allianz managed to retain a significant amount of additional life reserves and life policyholder buffer reserves, which can help mitigate potential capital market volatility.

**We believe that the group's stronger capital position is sustainable and that its risk profile will not impair the excellent financial profile through 2026.** Allianz continues to monitor and optimize its underwriting and investment exposure. The group's exit from U.S. MidCorp and Entertainment business in April 2024 helped reduce underwriting volatility. We note that the group's asset allocation is relatively conservative, with a well-established risk management framework, and that Allianz continues to reduce its exposure to the main market risks. The group's capital adequacy now exceeds the 99.99% confidence level, with sizable capital buffers that provide a significant cushion against current macroeconomic uncertainties and potential capital market volatility.

**Allianz remains well positioned to continue benefiting from its globally leading business franchises in insurance and asset management.** The group's highly diversified operations in non-life and life insurance businesses provide growth opportunities. Allianz's strong market positions in key insurance markets--including Germany, France, Italy, the U.K., and the U.S. life business--provide growth opportunities and increase the group's stability. Allianz also benefits from the high level of business and product diversification in the form of Allianz's global lines, including Allianz Trade (through Euler Hermes), Allianz Commercial (through Allianz Global Corporate & Specialty), and Allianz Partners. Its position in insurance operations is further enhanced by fee-based income from large global asset management operations, mainly through PIMCO, a top 10 global asset manager.

**Solid business growth will continue over 2024-2026.** Allianz reported a solid revenue growth of 4.9% in 2023 and 5.3% in the first quarter of 2024 on the back of solid revenue contribution from all three segments (non-life, life, and asset management). We note that revenue growth is widespread in terms of products and geographies. In the non-life segment, it mainly results from active price increases because of still elevated inflation. The group also continues to add new risks to its global lines. Considering declining inflation and new risk additions, we now expect moderate revenue growth of 3%-6% over 2024-2026.

**Allianz's performance remained very strong in the first quarter of 2024 and benefited from the group's continued underwriting discipline, price adjustments, and solid cost controls.** Allianz's robust combined ratio of 91.9%, the strong new business margin of 5.7% from its life business, and stable fee income from the asset management segment continued to support very solid net earnings of €2.6 billion in the first quarter of 2024. Assuming a normalization in the claim frequency related to natural catastrophes, we believe the group's combined ratio will remain at 92%-94% over 2024-2025. We also expect continued solid earnings from the life insurance and asset management businesses. We note that higher interest rates are gradually increasing investment incomes for the group and expect this will continue as reinvestment rates remain high.

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This will enable Allianz to meet its ambitious profit targets, with a net income of €8 billion-€9 billion and return on equity of 13%-16% from 2024. These strong results compare well those of GMI peers.

**The group's leverage will remain below 40% and decline over the next few years.** For 2024-2026, we expect the shareholders' equity will continue to increase through earnings growth and retention, meaning the financial leverage ratio will remain below 40%. Fixed-charge coverage remained solid at about 11x in 2023, due to strong underlying earnings, which we expect will continue. For now, we do not see any risks from the group's funding structure because we believe Allianz has the capacity and flexibility to withstand a stress scenario.

**We expect Allianz's liquidity will remain exceptional.** Allianz has large amounts of liquid assets in the form of its high-quality fixed-income portfolio. In addition, the group's expanding business generates constant revenues. We expect the group can withstand severe liquidity stress, for example from unexpectedly large claims or a severe capital market downturn.

## Ratings Score Snapshot

Financial strength rating	AA
Anchor*	aa
Business risk	Very strong
IICRA	Intermediate
Competitive position	Excellent
Financial risk	Excellent
Capital and earnings	Excellent
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

## Group support

We rate several Allianz subsidiaries worldwide. Allianz's French subsidiaries Allianz Vie and Allianz IARD are rated at 'AA/Stable/--' and its Italian subsidiary Allianz SpA at 'A/Stable/--', above our respective ratings on France (unsolicited, AA-/Stable/A-1+) and Italy (unsolicited, BBB/Stable/A-2). This reflects our view that Allianz would provide extraordinary support if required.

## Environmental, social, and governance

ESG factors have no material influence on our credit rating analysis of Allianz.

## Accounting considerations

Allianz reports its consolidated financial statements under IFRS. In assessing the group's capital adequacy, we adjust reported shareholders' equity, mainly for:

- Credit for post-tax CSM; and
- Inclusion of free and unallocated policyholder bonus reserves in life insurance.

## Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

\*\*\*\*\* Allianz SE \*\*\*\*\*

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### Ratings Affirmed

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#### Allianz Banque

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Issuer Credit Rating	AA-/Stable/A-1+
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Certificate Of Deposit	
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Foreign Currency	AA-
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Local Currency	AA-/A-1+
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#### Allianz SE

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#### Euler Hermes S.A.

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Issuer Credit Rating	AA/Stable/A-1+
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\*\*\*\*\* Allianz SE \*\*\*\*\*

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Ratings Affirmed

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Allianz SE

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National Surety Corp.

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Interstate Fire & Casualty Co.

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Fireman's Fund Insurance Co.

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Euler Hermes S.A.

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Euler Hermes Reinsurance AG

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Euler Hermes North America Insurance Co.

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Chicago Insurance Co.

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American Automobile Insurance Co.

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Allianz Vie

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Allianz Versicherungs AG

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Allianz Underwriters Insurance Co.

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Allianz Suisse Versicherungs - Gesellschaft

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Allianz Suisse Lebensversicherungs - Gesellschaft

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Allianz Re Dublin DAC

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Allianz Private Krankenversicherungs - AG

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Allianz Life Insurance Co. of North America

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Allianz Life Insurance Co. of New York

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Allianz Lebensversicherungs AG

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Allianz IARD

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Allianz Global Risks U.S. Insurance Co.

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Allianz Global Corporate & Specialty SE

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Allianz Elementar Versicherungs - AG

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Allianz Elementar Lebensversicherungs AG

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AGCS Marine Insurance Co.

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Financial Strength Rating

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Local Currency

AA/Stable/--

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\*\*\*\*\* Allianz SE \*\*\*\*\*

Ratings Affirmed

AGCS Marine Insurance Co.

National Surety Corp.

Interstate Fire & Casualty Co.

Fireman's Fund Insurance Co.

Chicago Insurance Co.

American Automobile Insurance Co.

Allianz Vie

Allianz Versicherungs AG

Allianz Underwriters Insurance Co.

Allianz Suisse Versicherungs - Gesellschaft

Allianz Suisse Lebensversicherungs - Gesellschaft

Allianz Private Krankenversicherungs - AG

Allianz Life Insurance Co. of North America

Allianz Life Insurance Co. of New York

Allianz Lebensversicherungs AG

Allianz IARD

Allianz Global Risks U.S. Insurance Co.

Allianz Global Corporate & Specialty SE

Allianz Elementar Versicherungs - AG

Allianz Elementar Lebensversicherungs AG

Issuer Credit Rating

Local Currency

AA/Stable/--

Allianz Australia Insurance Ltd.

Allianz Risk Transfer (Bermuda) Ltd.

Allianz PLC

Allianz Insurance PLC

Issuer Credit Rating

Local Currency

AA-/Stable/--

\*\*\*\*\* Allianz SE \*\*\*\*\*

**Ratings Affirmed**

**Allianz Australia Insurance Ltd.**

**Liverpool Victoria Insurance Co. Ltd.**

**Highway Insurance Co. Ltd.**

**Allianz Risk Transfer AG**

**Allianz Risk Transfer (Bermuda) Ltd.**

**Allianz Reinsurance America Inc.**

**Allianz PLC**

**Allianz Insurance PLC**

Financial Strength Rating

Local Currency AA-/Stable/--

**Allianz France**

Issuer Credit Rating

Local Currency A+/Stable/A-1

**Allianz Global Corporate and Specialty South Africa Ltd.**

Issuer Credit Rating

Local Currency BB+/Stable/--

South Africa National Scale zaAAA/--/--

Financial Strength Rating

Local Currency BB+/Stable/--

**Allianz Risk Transfer (Bermuda) Ltd.**

**Allianz Risk Transfer AG**

Financial Enhancement Rating

Local Currency AA-/--/--

**Allianz Risk Transfer AG**

Issuer Credit Rating

Local Currency AA-/Stable/A-1+

**Allianz SpA**

Issuer Credit Rating

Local Currency A/Stable/--

Financial Strength Rating

Local Currency A/Stable/--

**Euler Hermes North America Insurance Co.**

**Euler Hermes Reinsurance AG**

Issuer Credit Rating

AA/Stable/--

**Allianz Banque**

Commercial Paper

A-1+

\*\*\*\*\* Allianz SE \*\*\*\*\*

**Ratings Affirmed**

**Allianz SE**

Junior Subordinated	A
Junior Subordinated	A+
Commercial Paper	A-1+

**AGF - Assurances Generales de France CASH (SNC)**

Commercial Paper	A-1
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**Allianz Finance Corp.**

Commercial Paper	A-1+
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**Allianz Finance II B.V.**

Senior Unsecured	AA
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**Allianz France**

Junior Subordinated	BBB+
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## Appendix

### Allianz SE--Credit metrics history

	2023 (IFRS 17)	2022 (IFRS 4)	2021 (IFRS 4)	2020 (IFRS 4)
S&P Global Ratings' capital adequacy	Excellent	Very strong	Very strong	Strong
Total invested assets	892,205	837,717	978,237	938,076
Total shareholders' equity	63,580	55,242	84,222	84,594
Insurance revenues	91,250	N/A	N/A	N/A
Reinsurance utilization (%)	10.5	8.6	8.8	8.1
EBIT	12,635	10,157	9,988	10,282
Net income	9,032	6,738	6,610	6,807
Return on revenue (%)	15.8	9.7	9.3	9.8
Return on assets (excluding investment gains/losses) (%)	2.4	0.9	0.9	1.0
Return on shareholder equity (%)	14.8	10.3	8.4	8.8
P/C: net combined ratio (%)	93.2	94.8	94.7	96.9
P/C: Return on revenue (%)	8.1	9.3	9.7	7.9
Life: operational ratio (%)	80.9	N/A	N/A	N/A
Life: Return on assets (%)	0.8	N/A	N/A	N/A
Health: Net combined ratio (%)	N / A	N/A	N/A	N/A
Health: Return on revenue (%)	N / A	N/A	N/A	N/A
EBITDA fixed-charge coverage (x)	12.3	11.0	10.7	10.5
EBIT fixed-charge coverage (x)	12.0	10.7	10.4	10.2

## Allianz SE--Credit metrics history (cont.)

	2023 (IFRS 17)	2022 (IFRS 4)	2021 (IFRS 4)	2020 (IFRS 4)
EBIT fixed-charge coverage including realized and unrealized gains/(losses) (x)	21.0	N/A	N/A	N/A
Financial obligations / EBITDA (x)	2.7	3.3	3.7	3.4
Financial leverage (%)	38.2	40.6	32.1	30.5
Net investment yield (%)	4.9	1.4	2.4	2.5
Net investment yield including investment gains/(losses) (%)	3.5	2.1	3.4	3.1
Net investment yield including realized capital gains/(losses) (%) (IFRS 17)	3.9	N/A	N/A	N/A

N/A--Not available.

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