

## Allianz SE

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# Allianz SE

## Credit Highlights

**Operating Companies Covered  
By This Report**

**Financial Strength Rating**

*Local Currency*

AA/Stable/--

### Overview

#### Strengths

As one of the one of the largest global multiline insurers (GMIs), Allianz Group (Allianz) benefits from significant geographic diversification and from leading positions in various markets across the globe.

Ample range of insurance solutions, in particular its asset management business including Pacific Investment Management Co. LLC (PIMCO), enhancing Allianz's earnings diversification.

Very strong capital adequacy according to our capital model, supported by a well-diversified investment portfolio.

#### Risks

Low interest rates, in particular in Europe, putting pressure on investment results and margins in the back book of Allianz's traditional life business.

Allianz's investment exposure to Italian government bonds of about €19 billion will remain significant over the next years, although it is declining.

### Allianz will maintain its position as one of the largest and well-known GMIs.

S&P Global Ratings expects Allianz will maintain its leading market positions in countries like Germany, France, and Italy, benefitting from a strong brand recognition and reputation. Allianz earnings diversification benefits further from global lines such as industrial lines insurance via Allianz Global Corporate & Specialty (AGCS, which we regard as a core subsidiary of Allianz), and trade-credit insurance via Euler Hermes (core to the group's holding company Allianz SE [AZSE]).

***We expect group earnings will remain robust, benefitting from significant income streams from Allianz's asset management business.*** In addition to ample insurance operations, Allianz benefits from its strong asset management business including PIMCO, which has contributed roughly 20% to overall group's operating profit in recent years. We regard Allianz's diversification as a key rating strength, making the group's earnings more resilient than those of other global insurance groups that we rate 'AA-'.

***We anticipate capital adequacy measured by our capital model will remain very strong, supported by sound earnings and a disciplined capital management.*** Net income as per first-half 2019 stood at €4.3 billion, supporting our expectation for the full year 2019. Furthermore, the group's management is committed to having a Solvency II ratio of at least 180%, which reflects Allianz's moderate risk taking and dividend payouts.

## Outlook

The stable outlook is based on our expectation that over the next two to three years Allianz will continue to benefit from resilient, diversified income streams from its various business activities around the globe, and will safeguard its strong reputation. We also anticipate that the group's capitalization will remain comfortably in the 'AA' range according to our risk-based capital model.

### Downside scenario

Although unlikely at this stage, we could lower the ratings if the group's income streams, against our expectations, display materially higher volatility, for instance if the contribution from asset-management earnings substantially weakened. We might also consider lowering the ratings if the group's capitalization dropped below the 'AA' range for a prolonged time.

### Upside scenario

We regard an upgrade as remote over the next two years. However, we could raise our ratings if the group's capitalization improves sustainably into the 'AAA' range, credit conditions in Europe improve, and the group's exposure to Italian government bonds declines materially.

## Key Assumptions

- We expect interest rates in the Europe will remain low at 0.0% for 2019 and 0.4% for 2020.
- We forecast eurozone GDP growth of 1.1% this year and 1.3% next year, and continue to expect Germany and Italy will underperform due to their reliance on external demand.

Table 1

Allianz Group--Key Metrics							
(Mil. EUR)	2020f	2019f	2018	2017	2016	2015	2014
Gross premiums written	>76.000	>76.000	77,824	77,345	76,331	76,723	73,883
Net premiums written	>71.000	>71.000	72,683	72,433	71,430	71,187	69,420
Net income**	>6.000	>6.000	7,462	6,803	6,962	6,616	6,223
Return on shareholders' equity (%)	>10.0	>10.0	11.3	9.8	10.2	10.2	10.7
P/C net combined ratio (%)*	94.0-96.0	94.0-96.0	94.5	96.2	95.5	96.0	96.8
Net investment yield (%)	~2.0	~2.0	2.5	2.9	3.0	3.0	3.2
Return on revenue (%)	~11.0	~11.0	11.5	11.0	11.4	11.1	10.0
Return on assets (%)	~1.0	~1.0	1.3	1.2	1.3	1.3	1.3
Fixed-charge coverage (x)	> 8.0	> 8.0	11.6	10.1	10.0	10.5	9.1
Financial leverage (%) ***	<40	<40	33.1	31.8	30.2	30.0	29.7
Financial obligations to EBITDA	2.0-3.0	2.0-3.0	2.5	2.8	2.6	2.5	2.8

Table 1

Allianz Group--Key Metrics (cont.)							
(Mil. EUR)	2020f	2019f	2018	2017	2016	2015	2014
S&P Capital Adequacy	Very strong	Very strong	Very strong	Extremey strong	Very strong	Very strong	Very strong

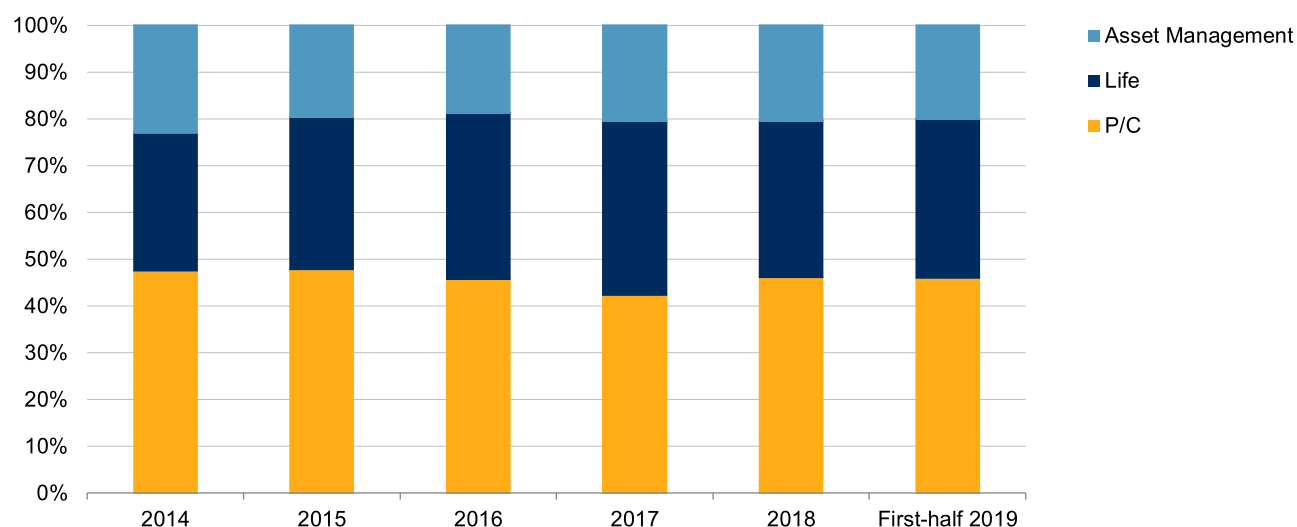
f--forecast. \*Includes premuim refunds. \*\* (Excluding Min Int). \*\*\* Calculation changed as per 2018 following the criteria update of the insurance rating methodology as per July 1, 2019.

## Business Risk Profile

Allianz benefits from an ample geographic footprint, making it resilient to changes in individual local markets. In our view, the company's wide diversification across property and casualty (P/C), life, and health insurance, as well as earnings from AGCS and Euler Hermes, will ensure that earnings are more robust compared with those of other GMIs rated 'AA-'. Furthermore, in our view, non-insurance fee income from asset management, mainly driven by PIMCO, further enhances earnings diversity (see chart 1).

Chart 1

### Allianz Group Operating Profit Breakdown



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Further supporting earnings diversification are Allianz's sound asset management results of €573 million as per first-half 2019, contributing about 20% to the overall group's operating profits.

We believe Allianz will remain the market leader in life insurance business in its home market Germany, which contributes about 17% of total gross written premiums (GWP). Although Allianz is shifting toward capital-light products in new business, guaranteed contracts dominate the back-book of its life insurance business. .

In addition, the Italian insurance market remains an important sector for the entire group, contributing about 12% to

overall GWP. We acknowledge the excellent underwriting profitability, particular in the nonlife segment, with a combined ratio of 83.9% as per first-half 2019. However, we also expect Allianz will remain exposed to market and credit risk due to its €19 billion investment in Italian government bonds. We see this as potential source of volatility and a potential weakness for the overall rating.

## Financial Risk Profile

We anticipate the group's capital adequacy will remain in the 'AA' range based on our capital model, supported by net income of more than €6 billion annually over the next two-to-three years. We believe the group will continue to focus on profitability and cost efficiency, ensuring solid earnings in line with the group's own return-on-equity target of at least 13% annually. Furthermore, we anticipate Allianz will show disciplined capital management, being committed to its target of having a Solvency II ratio of at least 180%. We therefore assume a dividend payout of 50%, in line with the group strategy. Our earnings forecast also incorporates the share buyback program in 2019 of €1.5 billion.

We believe Allianz will pursue expansion of its alternative investment portfolio, such as in infrastructure, targeting a portfolio value of €170 billion compared with €135 billion currently. Overall, we consider potential volatility from the group's investment portfolio, with an equity share of about 9%, and a fixed income portfolio of high credit quality (more than 90% are investment-grade securities), as limited.

Furthermore, we believe Allianz benefits from its sound risk management capabilities, particularly its solid risk controls. We therefore consider it unlikely that group will suffer losses outside its risk tolerances.

## Other Key Credit Considerations

### Governance

We do not see any material governance issues for Allianz. We believe Allianz benefits from a clear internal processes and a deeply embedded risk culture that mitigates risks.

### Liquidity

We have a favorable view of the group's liquidity position, based on steady premium income and its highly liquid asset portfolio. We have no refinancing concerns, and we expect the group would be able to withstand any severe liquidity stress, such as those caused by unexpectedly large claims.

### Factors specific to the holding company

We rate AZSE in line with the core operating companies of Allianz Group. This reflects our view of AZSE's various and material business activities and income streams from reinsurance, asset management, and treasury. It also reflects ample liquidity at the holding level.

### Accounting considerations

AZSE prepares its consolidated financial statements under International Financial Reporting Standards. In assessing AZSE's capital adequacy, we adjust reported shareholders' equity, mainly for:

- Credit for life value-in-force business.
- Inclusion of free and unallocated policyholder bonus reserves in life insurance.
- Credit for reserve discount in P/C.
- We also adjust risk capital requirements for quantitative credit for the group's economic capital model.

## Ratings Score Snapshot

<b>Business Risk Profile</b>	<b>Very Strong</b>
Competitive position	Excellent
IICRA	Intermediate risk
<b>Financial Risk Profile</b>	<b>Very strong</b>
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	aa
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
<b>Financial Strength Rating</b>	<b>AA</b>

\*This is influenced by our view of the group's top five position in the global reinsurance sector, with a very strong franchise and sound diversification by lines of business and regions.

## 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011

## Related Research

- Allianz SE And Its Core Subsidiaries Affirmed At 'AA'; Outlook Stable, July 25, 2019

## Ratings Detail (As Of August 14, 2019)\*

**Operating Companies Covered By This Report****Allianz SE**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

AA/Stable/A-1+

Commercial Paper

*Local Currency*

A-1+

Junior Subordinated

A+

**AGCS Marine Insurance Co.**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Australia Insurance Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Allianz Banque**

Issuer Credit Rating

AA-/Stable/A-1+

Commercial Paper

*Local Currency*

A-1+

Senior Unsecured

AA-

**Allianz Elementar Lebensversicherungs AG**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Elementar Versicherungs - AG**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

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

Financial Strength Rating

*Local Currency*

BBB-/Stable/--

Issuer Credit Rating

*Local Currency*

BBB-/Stable/--

*South Africa National Scale*

zaAAA/--/--

**Allianz Global Corporate & Specialty SE**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

## Ratings Detail (As Of August 14, 2019)\*(cont.)

**Allianz Global Risks U.S. Insurance Co.**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz IARD**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Insurance PLC**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Allianz Lebensversicherungs AG**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Life Insurance Co. of New York**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Life Insurance Co. of North America**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz PLC**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Allianz Private Krankenversicherungs - AG**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Risk Transfer AG**

Financial Strength Rating

*Local Currency*

AA-/Stable/--



## Ratings Detail (As Of August 14, 2019)\*(cont.)

Issuer Credit Rating	
Local Currency	AA-/Stable/A-1+
Financial Enhancement Rating	
Local Currency	AA-/--/--
<b>Allianz Risk Transfer (Bermuda) Ltd.</b>	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Financial Enhancement Rating	
Local Currency	AA-/--/--
<b>Allianz SpA</b>	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
<b>Allianz Suisse Lebensversicherungs - Gesellschaft</b>	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
<b>Allianz Suisse Versicherungs - Gesellschaft</b>	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
<b>Allianz Underwriters Insurance Co.</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
<b>Allianz Versicherungs AG</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
<b>Allianz Vie</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
<b>American Automobile Insurance Co.</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--

## Ratings Detail (As Of August 14, 2019)\*(cont.)

Issuer Credit Rating	
Local Currency	AA/Stable/--
<b>American Insurance Co.</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
<b>Associated Indemnity Corp.</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
<b>Chicago Insurance Co.</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
<b>Euler Hermes North America Insurance Company</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	AA/Stable/--
<b>Euler Hermes Reinsurance AG</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	AA/Stable/--
<b>Euler Hermes S.A.</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	AA/Stable/A-1+
<b>Fireman's Fund Indemnity Corp.</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
<b>Fireman's Fund Insurance Co.</b>	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
<b>Highway Insurance Co. Ltd.</b>	
Financial Strength Rating	
Local Currency	AA-/Stable/--

**Ratings Detail (As Of August 14, 2019)\*(cont.)**
**Interstate Fire & Casualty Co.**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Liverpool Victoria Insurance Co. Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

**National Surety Corp.**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Related Entities**
**Allianz France**

Issuer Credit Rating

*Local Currency*

A+/Stable/A-1

Junior Subordinated

BBB+

**Domicile**

Germany

\*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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