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Research Update:

Israel-Based The Phoenix Insurance Co. Assigned 'A-' Ratings; Outlook Stable

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Overview

- The Phoenix Insurance Co. enjoys a strong and diversified position in the Israeli insurance market.
- Despite challenging market conditions in 2020-2022, Phoenix's capital base remains robust and its operation profitable, with a five-year-average return on equity of 15% and a Solvency II ratio of 211% at end-2022.
- Phoenix also benefits from increased cash flows from non-insurance operations, which amplifies its diversification and strengthens its competitive position.
- We assigned our 'A-' ratings to Phoenix and its core subsidiary The Phoenix Capital Raising 2009 Ltd.
- The stable outlook captures our assumption that, over the next 18-24 months, Phoenix will maintain its leading business position, underpinned by its diversified business model, sound profitability, and ensuing capital growth, alongside strengthening capital adequacy and manageable balance sheet risks.

Rating Action

On Aug. 31, 2023, S&P Global Ratings assigned its 'A-' financial strength and issuer credit ratings to Israeli insurer The Phoenix Insurance Co. and its core subsidiary The Phoenix Capital Raising 2009 Ltd. The outlooks are stable.

Rationale

Our 'A-' ratings on Phoenix take into account the insurer's diversified multiline insurer. The insurer's business is balanced between large life and long-term savings activity, property/casualty (P/C), and health insurance. Phoenix is the second-largest insurer in Israel in terms of premium, after Harel Insurance & Finance. In 2022, Phoenix had 17% of premium in the life market, 12% in non-life, and 20% of health.

We assume Phoenix's investment in the non-life sector will yield substantial premium growth by 2025. Profitability remains Phoenix's key target, with an expected 12%-15% return on equity (RoE) from all lines of business, as per the strategic plan. Although non-life premiums increased 15% in 2022, 10% of the growth stemmed from higher rates. Phoenix outperforms the industry in the P/C segment with a four-year average of 85% compared with the 91% industry average. Phoenix has been shifting the focus of its life business toward lower-volatility, short-term, and capital light products. The company sells these products directly through its Smart arm, through the agency channel and generate earnings through fees. Higher interest rates more than offset the investment hit in 2022.

Similar to its local peers, Phoenix operates in four major lines of health insurance: short-term (ST) and long-term (LT) health insurance (about 60% of premiums) and group long-term care (LTC), and personal LTC. Historically the ST and LT health lines have shown sound profitability with a loss ratio consistently below 60%. The LTC business is in run-off, and we assume this will take about 35 years to complete. Last year saw a return to underwriting profit, but the decisive factor in the result was the rising interest rates in Israel, which reduced required reserves.

Considering Phoenix's average RoE of approximately 15% on average over the past five years, we anticipate that Phoenix will continue to perform strongly over the coming two years. The company has diverse lines of business, and we think its investments in technological capabilities and exploitation of internal synergies will underpin its ongoing growth. In accordance with this strategic plan, we expect Phoenix to demonstrate an annual increase of 2%-3% in premiums and a decrease in the rate of expenses.

Phoenix is endeavoring to increase its cashflows from non-insurance operations (about 40% of total profit in 2022) through acquisitions and organic growth. It is currently the largest

asset manager in Israel. The growth in non-insurance operations contributes to the group's business diversification and strengthens its competitive position and business profile.

In our opinion, Phoenix's capital base has remained resilient despite the pandemic-induced slowdown and challenging market conditions over the past few years. We see the company's resilience whether measuring with our own models or a regulatory solvency basis. Although the company's stated goal is to maintain a Solvency II coverage ratio of 170%-150%, the ratio stood at 211% in December 2022, 190% in 2021, and 192% in 2020. We estimate that the company will continue to maintain a solid capital base, and our assessment of the capital and expectations for future growth consider the company's current dividend policy of distributing 50% of the group's total profit.

Government obligations are about 46% of invested assets, and total investment in bonds (government and corporate) is 56%. Other investments include equities and investment funds (15%), real estate (8%), and direct corporate lending (14%). We regard these investments as well diversified among sectors and obligors.

Outlook

The stable outlook reflects our view that, over the coming 18-24 months, Phoenix will maintain its leading business position. Our view is based on the company's diversified business model and sound profitability, supporting its capital growth. At the same time, we believe its capital adequacy will strengthen and remain adequate in relation to balance sheet risks.

Downside scenario

We may consider a negative rating action in the next 18-24 months if the company's operating performance materially deteriorates, thereby eroding its loss-absorbing capacity and materially weakening its capital adequacy. Rating pressure could also stem from a decline in premiums and deposits to a level that wears down Phoenix's business position in the local market.

Upside scenario

While we do not consider a positive rating action in the next 18-24 months as likely, one would require a pronounced strengthening of the Phoenix group's capitalization. Lower leverage and less reliance on Value in Force as a form of capital would also be positive elements within the rating.

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 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: 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

* * * * * * * * * * * * Phoenix Holdings Ltd. (The) * * * * * * * * * * *	
New Rating;	
Phoenix Capital Raising 2009 (The)	
Phoenix Insurance Co. (The)	
Issuer Credit Rating	
Local Currency	A-/Stable/--
Phoenix Insurance Co. (The)	
Financial Strength Rating	
Local Currency	A-/Stable/--

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.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings