

Research Update:

Phoenix Insurance Affirmed At 'A-'; Outlook Stable

December 27, 2023

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").
- The implementation of S&P Global Ratings' new risk-based capital model has a positive impact on our view of Phoenix Insurance Co Ltd. (Phoenix)'s capitalization, but a neutral one on the rating, given potential volatility arising from the Israel-Hamas conflict.
- We therefore affirmed our 'A-' global scale ratings on Phoenix.
- The outlook is stable, reflecting that we do not currently expect that the ongoing conflict between Israel and Hamas will have a material negative effect on Phoenix's creditworthiness.

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Rating Action

On Dec. 27, 2023, S&P Global Ratings said that it affirmed its 'A-' global scale long-term issuer credit and financial strength ratings on Israel-based Phoenix Insurance Co. Ltd. (Phoenix) and its core group subsidiary Phoenix Capital Raising (2009) on Dec. 11, 2023. The outlooks remain stable.

Impact Of Revised Capital Model Criteria

- The improvement in capital adequacy is primarily due to the additional credit given by the new capital model for the value in force within Phoenix's life book.
- Previously, we applied a positive adjustment to the rating to reflect Phoenix's market position and profitability relative to peers, both within Israel and comparable European markets.
- With the improvement in the capital score, the natural roll-up of the rating to 'A-' is holistically appropriate compared to peers given the geopolitical conflict. The adjustment is therefore no longer necessary.

Outlook

The stable outlook on Phoenix reflects our view that it will maintain its leading business position in the next 18-24 months. Our view is supported by its 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 in case of material deterioration in the company's operating performance, which erodes its loss absorbing capacity and therefore materially weakens its capital adequacy. A negative rating action could also follow in case of a decline in premiums and deposits to levels that we find to weaken Phoenix's business position in the local market.

Upside scenario

A positive rating action would require additional strengthening of Phoenix group's capitalization.

Rationale

In November 2023 S&P Global Ratings revised its criteria for assessing insurers' capitalization. Phoenix's capitalization under the new criteria is stronger than under the old. We reflect this in our enhanced financial risk profile score.

Hamas' attacks and the military operation led by the Israeli army on the Gaza Strip have added significant downside risks to the economic outlook for Israel, particularly the financial system. Israeli insurance companies currently face heightened operational risks, but there could be protracted effects from changed macroeconomic prospects and credit conditions, particularly if the conflict spreads.

Despite the ongoing conflict and wider political and economic instability, we currently do not expect changes to our insurance ratings within Israel. This reflects that direct insurance losses related to the war will be covered by the government's scheme rather than by the insurers themselves. In addition, where life and property losses are not covered by the government, Israeli insurers have significant catastrophe reinsurance programs, which should limit the impact on their capital. If the war is relatively short and confined to the Gaza region, then we consider that the investment impact will remain modest. A longer or wider conflict could lead us to reconsider, but that is not our current expectation.

Ratings Score Snapshot

	To	From
Financial strength rating	A-	A-
Anchor*	a-	bbb+
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate

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	To	From
Competitive position	Strong	Strong
Financial risk	Satisfactory	Fair
Capital and earnings	Satisfactory	Fair
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers		
Governance	0	0
Liquidity	0	0
Comparable ratings analysis	0	+1
Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment. *We chose the higher anchor option (a-/bbb+) to reflect the group's profitability and significant diversification outside of insurance.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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

Ratings List

***** Phoenix Holdings Ltd. (The) *****

Affirmed

Phoenix Capital Raising 2009 (The)

Phoenix Insurance Co. (The)

Issuer Credit Rating

Local Currency A-/Stable/--

Phoenix Insurance Co. (The)

Financial Strength Rating

***** Phoenix Holdings Ltd. (The) *****

Affirmed	
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.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. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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