S&P Global
Ratings

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Research Update:

Israel-Based Phoenix Insurance Rating Affirmed At 'A-'; Outlook Stable

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Overview

- Phoenix continues to perform well and strengthen its capital base.
- We do not expect the ongoing Israel-Hamas war will have a material impact on Phoenix's creditworthiness.
- We affirmed our 'A-' rating on Phoenix Insurance.
- The stable outlook reflects Phoenix's capital buffers which buttress it against political and economic instability.

Rating Action

On July 30, 2024, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating and financial strength rating on Israel-based Phoenix Insurance Co. (The). We also affirmed our 'A-' long-term issuer credit rating on core group subsidiary The Phoenix Capital Raising 2009. The outlook on both entities remains stable.

Rationale

Phoenix's profitability continued to distinguish it from its peers in 2023-2024. In first-quarter 2024, the group reported income of Israeli new shekel (NIS)284 million, representing an annual return on equity of 11.2%. Profit in the quarter was driven by non-life lines because the impact of stronger interest rates filtered through. Profit was also supported by noninsurance activities, comprising asset management, agencies, and credit, which contributed after-tax income of NIS129 million. The group's robust performance was underpinned by sustained income growth and expansion of assets under management through both organic and inorganic strategies.

Phoenix has consistently outperformed the property/casualty (P/C) insurance industry average in Israel, achieving a combined ratio of 85.3% in 2023. This metric has remained stable within the 85%-95% range over the past five years, averaging 89.5%. At the same time, the P/C segment exhibited robust growth in 2023, with premiums increasing by 22% year on year. This growth was primarily driven by a strong performance in motor lines, which doubled underwriting profits.

Phoenix has strategically shifted its life focus toward lower-risk, capital-efficient short-term products. These products, primarily distributed through agency channels, generate revenue through asset under management fees.

Phoenix's capitalization strengthened over 2023, according to our model, though it remains heavily dependent on life value in force and sensitive to our assessment of interest rate risk. We believe that capitalization will be sufficient to support the rating through the group's plans for growth and any volatility arising from investment fluctuations or the military and political situation in Israel and the region. In addition, Phoenix enjoyed a strong solvency ratio of 194% in first-quarter 2024. The company's target range for this ratio is 150%-170%.

We currently do not expect the ongoing Israel-Hamas conflict and wider political and economic instability to damage Phoenix. The Israeli government has a scheme that will cover property insurance losses directly related to the war as well as military life insurance claims; insurers themselves will not cover these risks. The most significant effect of a prolonged conflict could be on insurers' investment portfolios, though these were swift to recover after the initial attack by Hamas on Israel in October 2023. More broadly, there could be protracted effects from changed macroeconomic prospects and credit conditions, particularly if the conflict were to spread more widely.

Outlook

The stable outlook on Phoenix Insurance 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 that erodes its loss-absorbing capacity and thus materially weakens its capital adequacy, or in case of a decline in premiums and deposits to a level that we believe weakens Phoenix's business position in the local market. A widening of the scope of the conflict beyond Gaza could also prompt a negative action.

Upside scenario

A positive rating action in the next 18-24 months would require a more stable political and economic situation in Israel and stabilization of the Phoenix group's capitalization.

Ratings Score Snapshot

Financial strength rating	A-
Anchor*	a-
Business risk	Strong
IICRA	Intermediate

Competitive position	Strong
Financial risk	Satisfactory
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	0
Liquidity	0
Comparable ratings analysis	0
Support	
Group support	0
Government support	0

*We chose the higher of the two anchor choice (a-/bbb+) to reflect the group's profitability and significant diversification outside insurance.
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: 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
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Phoenix Insurance Co. (The)	
Phoenix Capital Raising 2009 (The)	
Issuer Credit Rating	
Local Currency	A-/Stable/--
Phoenix Insurance Co. (The)	
Financial Strength Rating	
Local Currency	A-/Stable/--