STANDARD & POOR'S

RatingsDirect®

October 2, 2009

Research Update:

Austrian Non-Life Insurer HDI Versicherung AG Assigned 'A' Ratings; Outlook Stable

Primary Credit Analyst:
Johannes Bender, Frankfurt (49) 69-33-999-196;johannes_bender@standardandpoors.com

Secondary Credit Analyst:
Hiltrud Besgen, Frankfurt (49) 69-33-999-192;hiltrud_besgen@standardandpoors.com

Table Of Contents

Research Update:

Austrian Non-Life Insurer HDI Versicherung AG Assigned 'A' Ratings; Outlook Stable

Overview

- We are assigning 'A' ratings to Austria-based non-life insurer HDI Versicherung AG.
- The stable outlook reflects our assumption that the company will remain strategically important to its parent, Talanx AG.

Rating Action

On Oct. 2, 2009, Standard & Poor's Ratings Services assigned its 'A' long-term counterparty credit and insurer financial strength ratings to Austria-based insurer HDI Versicherung AG (HDI Austria). The outlook is stable.

Rationale

The ratings on HDI Austria reflect the company's strategic importance to its parent, Talanx AG (A-/Stable/--), the intermediate holding company of Germany-based Talanx insurance and reinsurance group (core primary operating entities collectively referred to as Talanx Primary Group (TPG) are rated A+/Stable/--). The ratings also reflect the company's very strong capitalization and strong operating performance.

Offsetting these positives is the company's limited competitive strength in the highly competitive personal lines business in Austria, where there is increasing pressure on rates and bottom-line results, mainly in motor.

Because of HDI Austria's strategic importance to TPG, the ratings factor in two notches of implicit support. We regard HDI Austria as strategically important to TPG, mainly based on the successful execution of its industrial lines business in Austria and via branch offices in the Czech Republic, Slovakia, and Hungary in line with the group's international strategy. In addition, HDI Austria acts as TPG's service platform in these countries (around 16% of gross premiums written from the industrial lines business) by fronting international industrial lines programs mainly for TPG's core operating company HDI-Gerling Industrie Versicherung AG (HG-I; A+/Stable/--). Moreover, the company has demonstrated a sustained track record of strong operating performance, which has exceeded the group's financial targets.

We view the company's capitalization as very strong, based on extremely strong capital adequacy and strong quality of capital. The balance sheet is, in our view, further protected by comprehensive quota share and catastrophe reinsurance covers.

We view HDI Austria's operating performance as strong, based on its track record of sound underwriting results with a net combined ratio of 87% in 2008 (three-year average: 88%). In our view, the company benefits from its slim cost base that provides a comfortable cost advantage compared with peers. We believe that the financial market downturn had a negative effect on the company's 2008 investment performance; however, we think that it has resisted relatively well, reflected in a strong return on adjusted equity of 20% in 2008 (five-year average: 18%).

We view HDI Austria's competitive strength in private lines business as limited, due to its small size and major focus on only two selected business lines--motor and legal protection. We consider the company's market share of 4%-5% as modest in the highly concentrated Austrian insurance market. Moreover, competition in the company's local business line, motor insurance, has intensified and there is increasing pressure on rates and bottom-line results.

Outlook

The stable outlook reflects our expectation that HDI Austria will remain strategically important to TPG, based on our assumption of the successful, profitable continuation of the company's business model in line with the group's strategy, mainly in the industrial lines business. We will, however, closely monitor the potential impact of TPG's recently announced major restructuring program. The ratings could come under pressure if TPG were to spin-off the industrial lines business from HDI Austria, which would, therefore, raise concerns about the company's strategic importance, and with it the implicit support currently factored into the rating.

We expect capitalization to remain very strong and operating performance strong. The non-life combined ratio should, in our view, not exceed 95%. In addition, we expect a return on equity well in excess of the parent's minimum target of the risk-free return plus 750 basis points.

Related Research

- Interactive Ratings Methodology, April 22, 2009
- Group Methodology, April 22, 2009

Ratings List

New Rating; CreditWatch/Outlook Action

HDI Versicherung AG	
Counterparty Credit Rating	A/Stable/--
Insurer Financial Strength Rating	A/Stable

Additional Contact:
Insurance Ratings Europe;InsuranceInteractive_Europe@standardandpoors.com

Ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.