

Harel Insurance Company Ltd. Harel Insurance Finance and Issues Ltd.

December 2, 2024

Rating Affirmation 'iIAA+' Issuer Rating Affirmed, Outlook Stable

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Overview

- Harel Insurance Company Ltd. (“Harel Insurance” or “the Company”) is the market leader in Israeli insurance in terms of premiums, and benefits from a leading business position and a wide diversity of income across business lines.
- The Company's capitalization has strengthened, although it is still dependent on Value In Force (VIF), while profitability continues to improve.
- The rating is currently constrained by the political and security situation in Israel, and the risk that Harel Insurance's performance will weaken in case of a prolonged economic slowdown and high volatility in investment income.
- We are hereby affirming our 'iIAA+' rating on Harel Insurance Company Ltd.
- The stable outlook reflects our view that Harel Insurance will continue to maintain its leading market position as the largest insurer in Israel, as well as its current financial risk profile. Our assessment is supported by the Company's business diversification and the measures it implements to improve profitability. We believe that the Company has strong capitalization and loss absorption capacity relative to its balance sheet risks, supporting the current rating.

Rating Action

On December 2, 2024, S&P Maalot affirmed its 'iIAA+' rating on Harel Insurance Company Ltd., the outlook is stable. At the same time, S&P Maalot affirmed its 'iIAA-' rating on Harel's tier-2 capital deferred promissory notes.

Rating Rationale

Harel Investments' operating performance has improved. In the first nine months of 2024, Harel Group posted post-tax income of NIS 672 million, compared to NIS 397 million in the corresponding period last year. In the same period, the Company's underwriting profit increased by about NIS 202 million, supported by improved underwriting in health segment, partly due to the termination of a collective LTC insurance deal with Clalit Health Services and the change to a new program with no insurance risk. The Company also posted improved underwriting in health and LTC insurance due to lower number and value of claims. Results in the non-life insurance line also improved, including due to a higher average premium and a lower average claim cost in car property damage insurance. Profit from the life insurance line remained stable at about NIS 90 million in the first nine months of 2024 (NIS 93 million in the corresponding period last year), despite a negative effect of about NIS 40 million due to the war during this period and a weaker underwriting profit mostly in cover for P.H.I. Harel Investments' assets under management continued to grow to NIS 490 billion on September 30, 2024,

from NIS 428 billion in December 2023. This was due to the yields earned and largely due to the high volume of contributions and premiums. Return on capital (in annual terms) consequently improved, to about 10% on September 30, 2024, compared to 6% on September 30, 2023.

Harel Insurance's capital base materially strengthened in the past two years, mainly due to VIF growing to NIS 21 billion in December 2023 from NIS 19.7 billion in December 2022, enhancing our capital assessment for the Company. Additionally, Harel Insurance's overall regulatory solvency ratio (including transition provisions) was 185% on June 30, 2024, compared to 168% on December 31, 2023. We believe the Company demonstrates robust loss absorption capacity with material capital surplus compared with requirements at the current rating level.

The Company's operating environment is highly uncertain. On October 1, 2024, S&P Global Ratings downgraded the State of Israel to 'A' from 'A+', and stated that its outlook was negative (see [Israel Long-Term Ratings Lowered To 'A' From 'A+' On Heightened Security Risk; Outlook Negative](#)). This occurred due to concerns that the continuation of the war may delay economic recovery and pressure state budget. Although the war has not had a substantial impact on the insurance sector so far, its scope and duration as well as its implications for the Israeli economy are still unknown. The direct underwriting effect on Harel has so far been moderate.

Harel Insurance's rating continues to be supported by the Company's leading business position as the largest insurer in Israel, with diversified insurance and asset management operations. Its business is evenly balanced between life and long-term savings, pension and provident funds management, and various types of PC and Health insurance.

Outlook

The stable outlook reflects our view that Harel Insurance will maintain its leading competitive position as the largest insurer in Israel while its financial profile remains stable in the next 18-24 months. Our assessment is supported by the Company's business diversification and its actions to improve underwriting profitability. We also expect Harel Insurance's capitalization to remain stable compared to balance sheet risks, and its capital adequacy as measured by S&P Global Ratings' Risk Adjusted Capital model to continue supporting the rating.

Upside Scenario

We may raise our rating on Harel Insurance if we consider that the Company's capitalization will stabilize at its current high level and that its performance will not be affected by the slowdown in the Israeli economy and the continuation of the war. An upgrade would also require that the Company maintain its profitability and its leading position in the local insurance market.

Downside Scenario

We may downgrade Harel Insurance in the next 18-24 months if, contrary to our assessment, we see a material weakening in its profitability and capitalization. This scenario may materialize if the Company's capital adequacy sharply weakens as a result of a significant economic slowdown. We will also consider a negative rating action in the event of a weakening of the Company's profits that would consistently lower the interest coverage ratio below 4x.

Related Criteria And Research

- [Principles Of Credit Ratings](#), February 16, 2011
- [Insurers Rating Methodology](#), July 1, 2019
- [Group Rating Methodology](#), July 1, 2019
- [Environmental, Social, And Governance Principles In Credit Ratings](#), October 10, 2021
- [Hybrid Capital: Methodology And Assumptions](#), March 2, 2022
- [Methodology For National And Regional Scale Credit Ratings](#), June 8, 2023
- [Risk-Adjusted Capital Framework Methodology](#), November 15, 2023
- [S&P Global Ratings Definitions](#), November 10, 2021

Ratings List

Harel Insurance Company Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s)			
Long term	iAA+/Stable	01/08/1995	04/12/2023
Issuer Credit Rating history			
<u>Long term</u>			
November 28, 2019	iAA+/Stable		
January 14, 2018	iAA+/Positive		
November 19, 2012	iAA+/Stable		
July 18, 2012	iAA+/Watch Neg		
August 25, 2010	iAA+/Stable		
May 10, 2010	iAA+/Negative		
June 17, 2009	iAA/Negative		
November 20, 2006	iAA/Stable		
July 14, 1996	iAA		
August 01, 1995	iAA+/Stable		

**Harel Insurance Company Ltd.
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Harel Insurance Finance and Issues Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s)			
Long term	ilAA+/Stable	01/08/1995	04/12/2023
Issue rating(s)			
<u>Subordinate hybrid debt</u>			
Series 11 Tier 2 hybrid capital	ilAA-	18/01/2015	04/12/2023
Series 14,15	ilAA-	14/01/2018	04/12/2023
Series 10	ilAA-	10/08/2014	04/12/2023
Series 12,13	ilAA-	27/12/2015	04/12/2023
Series 20	ilAA-	16/06/2024	16/06/2024
Series 9	ilAA-	10/08/2014	04/12/2023
Series 16	ilAA-	02/04/2019	04/12/2023
Series 18	ilAA-	30/11/2021	04/12/2023
Series 19	ilAA-	08/01/2023	04/12/2023
Series 17	ilAA-	13/11/2019	04/12/2023

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