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## Research Update:

# Finland-Based Insurer Alandia Upgraded To 'A-' Following Sustained Asset Derisking; Outlook Stable

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## Overview

- Alandia maintained its reduced investment risk appetite and kept its investment leverage below 100% throughout 2017.
- In addition, Alandia's capital adequacy remains a key ratings strength, in our view, and together with its reinsurance program, should continue to provide substantial buffers against possible unpredictable claims or financial market volatility.
- We are therefore raising our ratings on Alandia to 'A-' from 'BBB+'.
- The stable outlook predominantly reflects our expectation that Alandia will keep its exposure to investment risk at a reduced level, maintain its materially redundant 'AAA' capital adequacy, and achieve profitable expansion of its property/casualty portfolio, with combined (loss and expense) ratios of 93%-96%.

## Rating Action

On Jan. 25, 2018, S&P Global Ratings raised its insurer financial strength and issuer credit ratings on Försäkringsaktiebolaget Alandia, an insurer based in the Finnish region of Åland, to 'A-' from 'BBB+'. The outlook is stable.

## Rationale

The upgrade predominantly reflects our view that Alandia's overall financial risk profile has strengthened, thanks to substantial derisking of its investment portfolio executed over the past two years. This follows the group's strategic decision to lower its exposure to foreign exchange risk, single obligors, and higher-risk assets. Alandia's progress and tight investment exposure monitoring have led us to reassess the insurer's risk position to intermediate from moderate.

As part of the material derisking of its asset portfolio during 2016--when Alandia substantially shifted funds from equities and unrated bonds into investment-grade bonds, followed by further gradual exposure reductions in 2017--the investment leverage (high-risk assets to our total-adjusted capital) reduced to about 90% at end-2017 from its 140% peak during fourth-quarter 2015. While Alandia continues to have greater investment exposure than its peers, we understand that Alandia remains committed to maintaining a reduced investment risk appetite.

In our view, Alandia's capital adequacy remains a key ratings strength. In our base-case scenario, we assume that capital adequacy will remain substantially redundant at the 'AAA' level, according to our risk-based capital model. However, we limit our assessment of the group's capital and earnings assessment to strong, based on the small size of the group's capital base, which leaves it more exposed to underwriting or investment volatility than larger, more diversified peers.

We consider that Alandia enjoys a good competitive position in its markets. In our view, Alandia's proven expertise in the Finnish and Swedish marine insurance markets, in which we believe the group has built a strong reputation, underpins its competitive position. Marine hull is its core business line, with a leading position in small and medium-sized vessels in both Finland and Sweden, supported by a sound position in yacht insurance. Local presence, loss prevention, and claims services are Alandia's key drivers behind its growth and high retention levels in these two business lines.

Nevertheless, Alandia is among the smallest players in our similarly rated peer group. We regard continued moderate and profitable volume growth (4% property/casualty growth in 2017) as important for Alandia's financial strength, since it will help manage its digital transformation and maintain cost control. Developing new product lines, expanding in Norway and Denmark, and creating partnerships is a more recent strategic focus that could also support this development.

We regard Alandia's recent strategic investment into Nordic Marine Insurance (not rated) as neutral to its credit standing. The manageable investment further strengthens this partnership and creates an opportunity for Alandia to selectively underwrite marine business outside the Baltic Sea area.

## **Outlook**

The stable outlook reflects our view that Alandia will maintain a substantially redundant 'AAA' capital position, an underwriting-focused business growth strategy, and reduced investment risk appetite.

We could lower the ratings over the next 24 months if:

- Alandia returned to more aggressive investment risk-taking;
- Alandia was more strongly affected by soft marine market pricing and could not maintain its net combined (loss and expense) ratio sustainably below 100%;
- Excessive growth, underwriting, or investment losses resulted in a material reduction in the substantial excess capital position to the 'AAA' requirement, according to our risk-based capital model;
- Alandia were to come up against challenges in meeting its life insurance guarantee commitments; or
- There was an unexpected loss of competitive strengths in the company's core business lines, threatening competitiveness in its main business

areas.

We do not see any further upside to the ratings over the next 24 months due to the limitations in the insurer's competitive position in terms of scale and regional diversity, as well as its comparably small balance sheet versus higher rated competitors.

## Ratings Score Snapshot

	To	From
Financial Strength Rating	A-/Stable/--	BBB+/Positive/--
Anchor	a-	bbb+
Business Risk Profile	Satisfactory	Satisfactory
IICRA	Intermediate	Intermediate
Competitive Position	Adequate	Adequate
Financial Risk Profile	Strong	Moderately Strong
Capital and Earnings	Strong	Strong
Risk Position	Intermediate	Moderate
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
Enterprise Risk Management	Adequate	Adequate
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital

Model, June 7, 2010

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Upgraded

	To	From
Forsakringsaktiebolaget Alandia		
Counterparty Credit Rating		
Local Currency	A-/Stable/--	BBB+/Positive/--
Financial Strength Rating		
Local Currency	A-/Stable/--	BBB+/Positive/--

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