

Research Update:

Finnish Insurer Alandia Forsakring Abp Ratings Affirmed At 'A-'; Off CreditWatch; Outlook Negative

June 15, 2020

Overview

- Alandia has now divested its life book, thereby removing uncertainty over its balance sheet position.
- Nevertheless, leverage is now significant and the capital surplus over the 'AAA' level has diminished.
- We are affirming our 'A-' ratings on Alandia and removing them from CreditWatch negative.
- The outlook is negative, reflecting the risks that underwriting profitability and operating performance will not further improve, the capital position will weaken, or investment risk-taking will become more aggressive.

Rating Action

On June 15, 2020, S&P Global Ratings affirmed its 'A-' long-term issuer credit and financial strength ratings on Finland-domiciled Alandia Försäkring Abp (Alandia). At the same time we removed the ratings from CreditWatch negative where we placed them on March 17, 2020. The outlook is negative.

Rationale

Improved underwriting results in 2020 to date have dampened our concerns regarding Alandia's profitability. However, Alandia's operations are still facing some heightened risks in the current environment while the insurer's underwriting results are benefiting from a hardening market. We forecast a combined (loss and expense) ratio of about 100% over 2020-2021.

As expected, Alandia divested its life book on May 31, 2020. This was part of its strategic initiative to streamline activities toward its core property/casualty business. However, the divestments were coupled with issuance of loans to keep the assets that were previously backing life liabilities post divestment, creating a leveraged balance sheet. We project financial leverage for 2020 will be about 40%, nearing the point where we may consider a downward assessment of funding

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structure and financial risk profile. This level of leverage leaves less flexibility to face an adverse macroeconomic and financial-market environment.

Alandia's key rating strengths remain its solid capital base, which is above the 'AAA' level as per our risk-based capital model, as well as its expertise in the Finnish and Swedish marine insurance market. However, we note that the surplus of capital above the 'AAA' level is significantly reduced.

Outlook

The negative outlook reflects our view that we could downgrade Alandia over the next two years.

Downside scenario

A downgrade could result if:

- Underwriting profitability does not improve in line with our expectations, with a combined ratio nearing 100%, or if operating performance does not improve, with Alandia posting losses;
- The capital position does not remain above the 'AAA' level of our risk-based capital model; or
- We observe more aggressive investment risk-taking.

Upside scenario

We could revise the outlook to stable if Alandia improves profitably and interest coverage, and rebuilds or at least maintains capital margins.

Ratings Score Snapshot

Financial strength rating	A-
Anchor*	a-
Business Risk Profile	Satisfactory
IICRA	Intermediate Risk
Competitive position	Satisfactory
Financial Risk Profile	Strong
Capital and earnings	Very Strong
Risk exposure	Moderately High
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

*This is influenced by our view of Alandia's capital surplus above the 'AAA' level according to our model. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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

Related Research

- Research Update: Alandia Forsakring Abp 'A-' Ratings Placed On CreditWatch Negative After Negative Underwriting Performance, March 17, 2020
- Research Update: Forsakringsaktiebolaget Alandia Ratings Affirmed At 'A-'; Outlook Stable, Sept 24, 2019
- Forsakringsaktiebolaget Alandia, May 29, 2019

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Alandia Forsakring Abp		
Issuer Credit Rating	A-/Negative/--	A-/Watch Neg/--
Financial Strength Rating	A-/Negative/--	A-/Watch Neg/--

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