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Sveriges Angfartygs Assurans Forening (The Swedish Club)

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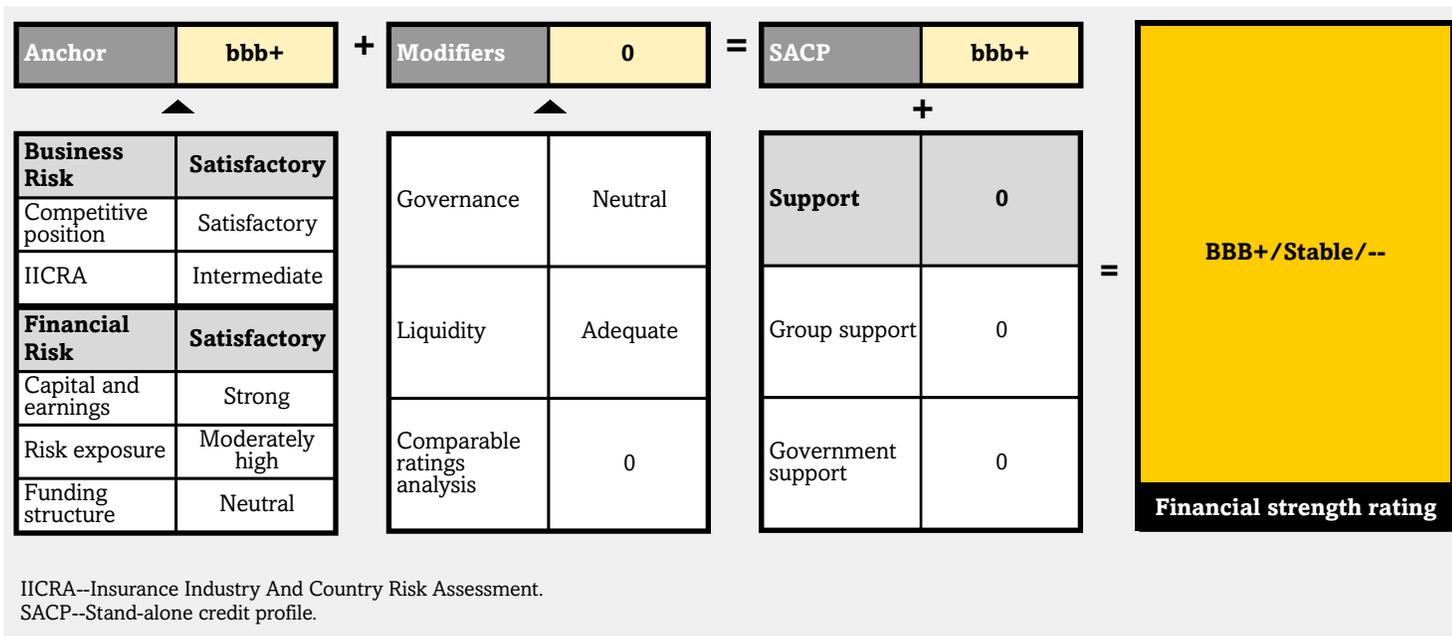
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Sveriges Angfartygs Assurans Forening (The Swedish Club)



Credit Highlights

Overview	
Key strengths	Key risks
Very strong risk-based capital adequacy as per our risk-based capital model.	More diversified than other property and indemnity (P&I) clubs, but business is nearly all related to marine cover.
Strong risk-control framework.	Small absolute size.

S&P Global Ratings expects the Swedish Club (TSC)ʼs 'AA' benchmark capitalization to remain a credit strength. After deteriorating due to underwriting losses in 2021 and investment losses in 2022, we now believe the club will maintain very strong capital adequacy as per our risk-based capital model. Moreover, if needed, the club can call on members for more capital, although we do not expect this over the next two years. Additionally, TSC benefits from strong risk controls and underwriting discipline. These three elements influence the overall rating, since they lead us to select the higher 'bbb+' anchor. We view the small absolute size of TSC's capital as a limiting factor to the financial risk profile, as per our criteria.

In our view, the club's operating performance is showing signs of improvement, which we believe will last. TSC's management has taken measures to improve its technical performance. In our view, the decrease in pool claims during 2022, in combination with our expectations of further healthy rate increases at renewal, should translate into improved underwriting performance. At year-end 2022, the club reported a net combined ratio (loss and expense) of 102%, and our base-case scenario is that this will gradually improve to about 98% by year-end 2024.

Outlook: Stable

The stable outlook reflects our expectation that the club will maintain capital at the 'AA' benchmark in our model, and that its operating performance will improve over the two-year outlook horizon.

Downside scenario

We could lower the ratings over the next two years if:

- Contrary to our expectations, the club's capitalization, measured using our model, further deteriorates and falls below the 'AA' level for a prolonged period;
- TSC's operating performance does not improve in line with our base case, notably consisting of combined ratios of breakeven or lower on average over the two-year period; or
- The club's underwriting performance significantly lags so that its combined ratio is in the lowest quartile of its international peer group.

Upside scenario

We could raise the rating within the next two years if:

- TSC restores its capital adequacy, with a comfortable buffer above our 'AAA' requirements, while maintaining underwriting performance in line with its similarly rated peers in the P&I sector and our expectations.

Key Assumptions

- U.S. GDP growth of 0.8% in 2023 and U.K. growth of negative 0.5%.
- A healthy increase in marine rates in 2023-2024.
- No significant changes to the International Group of P&I Clubs (IGP&I) pool structure or pool-sharing methodology.

Sveriges Angfartygs Assurans Forening (The Swedish Club)--Key metrics

	2024f	2023f	2022	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong	Very Strong	Excellent	Excellent	Excellent	Excellent
Gross premium written (mil. \$)	>240	~240	230	200.5	178.8	165.3	143.3	151.0
Net income (mil. \$)	>15	~15	(33.8)	(35.5)	0.4	18.5	(8.3)	17.7
Net combined ratio (%)	97-99	<100	101.6	129.5	122.9	106.4	99.3	104.6
Net investment yield including investment gains/(losses) (%)	~2-3	~2-3	(9.7)	2.4	8.4	8.6	(1.5)	7.1
Free reserves (mil. \$)	>180	~165	150.0	196.5	231.4	228.4	203.8	213.5

f--S&P Global Ratings' forecast.

Business Risk Profile: Satisfactory

TSC provides P&I and marine insurance to its members. In our view, the club benefits from its wide geographical footprint. For 2022, we note the club opened its full-service office in Singapore, which we believe should further enhance its position in Asia. However, we view less favorably its concentration of activities solely in the marine sector. The club regularly posts more favorable operating performance than peers, despite representing a small share (4%) of the market.

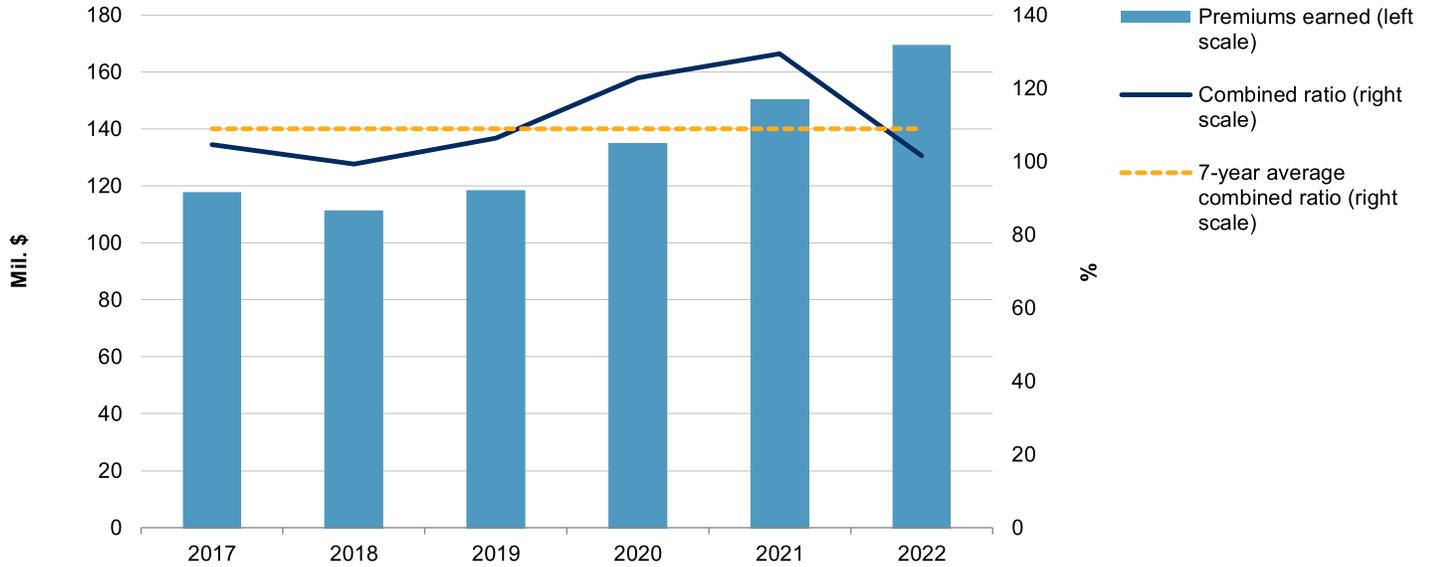
The club experienced poor underwriting performance in 2020 and 2021, with combined ratios of 123% and 129% respectively, due in part to continued high industry-wide pool claims in P&I policies. The bottom-line loss in 2021, coupled with investment losses in first-half 2022 amid challenging market conditions, led to a sharp decrease in the club's equity.

We note TSC's management has taken measures to improve technical performance and, in combination with fewer pool claims in 2022, the club posted a combined ratio of 102% at year end. Although technical profitability improved, the club recorded an operating loss of \$41.7 million on the same date, due to important investment losses. Our base-case scenario is that a more stable claims environment and our assumption of further healthy rate increases at renewal should translate into improved underwriting performance. Therefore, we expect combined ratios of about 97%-99% in 2023 and 2024. We also expect the club to return to a net bottom-line surplus, and therefore halt further erosion of its capital base, by year-end 2023.

Likewise, we assume TSC has a thoroughly developed risk control framework, supporting its underwriting performance and the club's overall competitiveness.

Chart 1

The Swedish Club's profitability is improving



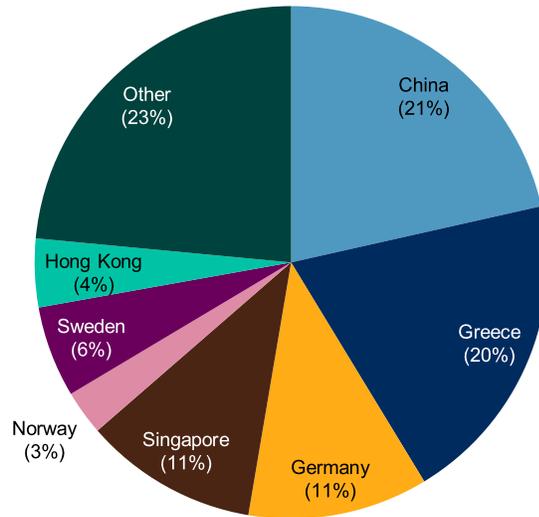
Source: S&P Global Ratings.

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We believe TSC's competitive position benefits from a geographically diverse client base in China (21%), Greece (20%), Germany (11%), Singapore (11%), Sweden (6%), Hong Kong (4%), Norway (3%), and others (23%). Furthermore, the club maintains very close relationships with its members and, like other IGP&I insurers, has significantly higher retention rates than most non-life insurers in Europe, the Middle East, and Africa, with about 94% of members renewing each year.

Chart 2

The Swedish Club has a geographically diverse client base



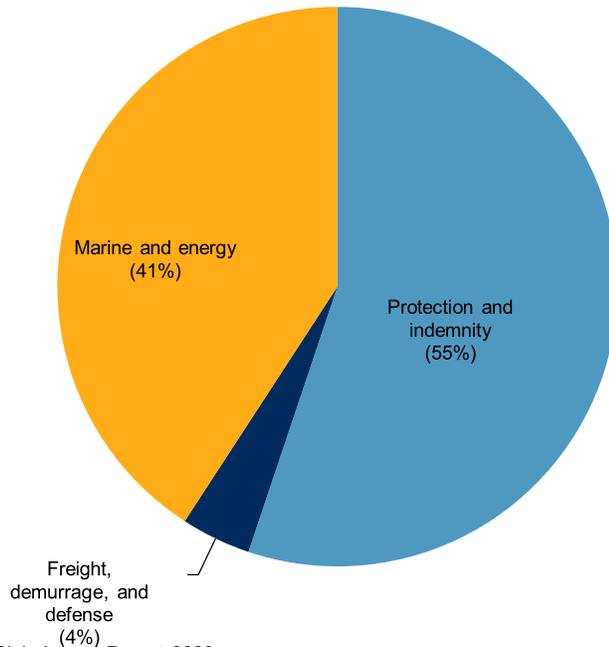
Source: S&P Global Ratings.

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Chart 3

The Swedish Club has diversified business activities

Gross premium by line of business



Source: The Swedish Club Annual Report 2022

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The club is one of the more diverse IGP&I players in that it offers hull and energy cover alongside P&I. Nonetheless, like many of its IG peers, we view its product diversification as limited, given that its activities are in the marine sector only.

Financial Risk Profile: Satisfactory

TSC's capitalization is a key ratings strength. Given underwriting losses in 2021 and important investment losses in 2022, we note the capital position has deteriorated and is now redundant at the 'AA' benchmark, as per our risk-based capital model. The club's free reserves declined to \$150 million in 2022, from \$196.5 million the year before. Moreover, we expect that TSC will maintain capital at the 'AA' benchmark in our model, over the ratings horizon.

As a member of the IGP&I, TSC's underwriting results are somewhat protected by the contribution to the IGP&I pool claims. The mechanism allows any club to share losses in case of large claims. However, this can also affect the results for other clubs' claims, as was the case for TSC in 2021 when record high pool claims were posted. Over the past year, TSC has significantly reduced its negative pool position, which we believe will reduce its contribution to future losses and support technical results in the years to come.

TSC has the option to call on its members for more capital if needed. In addition, TSC's risk controls should maintain its underwriting discipline and counterbalance its somewhat small absolute size in comparison with peers in the IGP&I. These elements are reflected in our rationale for the anchor selection.

The club has no debt outstanding, and we do not expect it will issue any.

Other Key Credit Considerations

Governance

TSC benefits from good governance. Its strategy is realistic and consistent with its capabilities, considering marketplace conditions.

Liquidity

Albeit slightly reduced in 2022, TSC has ample sources of liquidity because its asset portfolio is predominantly marketable securities and cash or cash equivalents. It also benefits from recurrent premium income.

Environmental, social, and governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of TSC.

Related Criteria

- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model , June 7, 2010

Related Research

- Comparative Statistics: Global Marine Protection And Indemnity Clubs, Nov. 16, 2022
- Sveriges Angfartygs Assurans Forening (The Swedish Club) Downgraded To 'BBB+' On Eroded Capital Adequacy; Outlook Stable, Oct. 21, 2022

Appendix

Sveriges Angfartygs Assurans Forening (The Swedish Club)--Credit metrics history

Ratio/metric	2022	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Excellent	Excellent	Excellent	Excellent
Total free reserves (mil. \$)	150.0	196.5	231.4	222.1	203.5	211.8
Gross premiums written (mil. \$)	229.7	200.5	178.9	165.3	143.3	151.0
Net premiums written (mil. \$)	171.7	157.0	139.0	126.0	108.6	115.5
Net premiums earned (mil. \$)	169.3	150.0	135.0	118.2	111.2	117.5
Reinsurance utilization (%)	25.3	21.8	22.0	23.8	24.2	23.5
EBIT (mil. \$)	(41.7)	(34.0)	3.0	24.6	(9.6)	18.8
Net income (attributable to all shareholders) (mil. \$)	(33.8)	(35.5)	0.4	18.5	(8.3)	17.7
Return on free reserves (%)	(20.1)	(17.4)	0.2	8.7	(4.0)	8.7
P/C: net combined ratio (%)	101.6	129.5	123.0	106.4	99.3	104.6
P/C: net expense ratio (%)	20.8	20.6	20.1	20.7	21.5	21.1
Net investment yield including investment gains/(losses) (%)	(9.7)	2.4	8.4	8.6	(1.5)	7.1

P/C--Property/casualty.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of May 17, 2023)*

Operating Company Covered By This Report

Sveriges Angfartygs Assurans Forening (The Swedish Club)

Financial Strength Rating

Local Currency

BBB+/Stable/--

Issuer Credit Rating

Local Currency

BBB+/Stable/--

Domicile

Sweden

Ratings Detail (As Of May 17, 2023)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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