Research Update:

Marine Insurer The Swedish Club Outlook Revised To Negative On Weak Operating Performance; Affirmed At 'A-'

October 20, 2021

Overview

- Sveriges Angfartygs Assurans Forening's (The Swedish Club) technical performance was under pressure in 2020, and we expect it to be significantly below our forecasts for the full year 2021.
- We anticipate that the club will post technical losses this year that will likely erode the excess capital it currently holds above the 'AAA' confidence level in our risk-based model.
- We are therefore revising our outlook on The Swedish Club to negative and affirming our 'A-' ratings.
- The negative outlook indicates the possibility of a downgrade if the club's technical performance remains lower than we expect in our base case, reducing the company's risk-based capital adequacy.

PRIMARY CREDIT ANALYST

Andreas Lundgren Harell
Stockholm
+ 46 8 440 5921
andreas.lundgren.harell@spglobal.com

SECONDARY CONTACT

Mark D Nicholson
London
+ 44 20 7176 7991
mark.nicholson@spglobal.com

ADDITIONAL CONTACT

Insurance Ratings Europe
insurance_interactive_europe@spglobal.com

Rating Action

On Oct. 20, 2021, S&P Global Ratings revised to negative from stable its outlook on marine insurer Sveriges Angfartygs Assurans Forening (The Swedish Club; TSC or the club). At the same time, we affirmed our 'A-' long-term insurer financial strength and issuer credit ratings on TSC.

Rationale

In 2020, TSC reported a net combined (loss and expense) ratio of 123%, which did not meet our expectations. Moreover, the club reported a combined ratio of 132% for the first half of 2021, and an operating deficit of $13.7 million. These results were much worse than we expected, and we don't believe they will improve in line with our year-end 2021 forecasts. The underwriting losses stemmed from high-profile claims on the marine side, coupled with continued high pool claims in protection and indemnity (P&I) policies. We note, however, that the P&I sector has struggled to post a technical profit in recent years, and that TSC's technical performance was similar to the average for the International Group (13 rated global marine and P&I clubs) over 2016-2020. We believe continued poor earnings is likely to eat into the club's capital surplus, as measured by our risk-based capital model, and could therefore weaken its overall creditworthiness.

The club's favorable investment return of about $9,5 million in the first half of 2021 will help partly offset the loss. This implies that the club can maintain a small excess of capital over our 'AAA' confidence level. Moreover, we expect that the club's underwriting performance will be under pressure throughout 2021 but improve in 2022-2023, since we believe management will continue to take decisive measures at the 2022-2023 renewal period to strengthen its underwriting performance.

Additionally, we expect rates to increase somewhat across the P&I market. In our base-case scenario, we expect the club will report a combined ratio of 120%-125% in 2021, which should allow it to report an overall pretax loss of $15 million-$25 million. However, we expect the combined ratio to improve to 105%-110% in 2022-2023, and hence the net result to show a positive trend.

Outlook

The negative outlook reflects TSC's recent underperformance, which, if not remediated, may put pressure on the group´s current 'AAA' capital position in our risk-based model.

Downside scenario

We could lower the ratings over the next 12-24 months if TSC's:

- Risk-based capital adequacy falls significantly and stays below the 'AAA' benchmark in our risk-based capital model. This would likely follow continued poor underwriting performance, including considerable losses in financial years 2021-2022 and/or 2022-2023; or
- Operating performance does not improve, such that the combined ratio is 105%-110% or lower by year-end 2022, or underwriting performance significantly lags that of peers with the combined ratio in the weakest quartile among international group peers.

Upside scenario

We could revise the outlook to stable in the next 12-24 months if:

- TSC improves its operating performance in line with our base-case scenario, with combined ratios in the 105%-110% range in 2021-2022, while maintaining a comfortable buffer above the 'AAA' benchmark in our risk-based capital model.

Ratings Score Snapshot

	To	From
Financial strength rating	**A-/Negative**	**A-/Stable**
Anchor*	a-	a-
Business risk profile	Satisfactory	Satisfactory

	To	From
Financial strength rating	**A-/Negative**	**A-/Stable**
IICRA	Intermediate risk	Intermediate risk
Competitive position	Satisfactory	Satisfactory
Financial risk profile	Strong	Strong
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately high	Moderately high
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0

*This is influenced by our view that the surplus of capital above the 'AAA' level according to our model, the sound underwriting controls, and the ability to call on members for additional capital all compare well against peers. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers 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, Oct. 11, 2021

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Sveriges Angfartygs Assurans Forening (The Swedish Club)		
Issuer Credit Rating		
Local Currency	A-/Negative/--	A-/Stable/--
Financial Strength Rating		
Local Currency	A-/Negative/--	A-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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) 783-4009.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.