

Sveriges Angfartygs Assurans Forening (The Swedish Club)

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Sveriges Angfartygs Assurans Forening (The Swedish Club)

Credit Highlights

Operating Company Covered
By This Report

Financial Strength Rating

Local Currency

A-/Negative/--

Overview

Strengths	Risks
Risk-based capital adequacy currently in line with our 'AA' requirements, albeit significantly reduced.	Recent years' poor underwriting results continue to put pressure on the club's capital surplus and its overall creditworthiness.
Strong risk-control framework.	Although The Swedish Club (TSC) is more diversified than other property and indemnity (P&I) clubs, its business is nearly all related to marine cover.
	Small absolute size.

We expect TSC's level of capital to remain a credit strength, though significantly reduced. Over the two-year outlook horizon, we expect TSC to be able to bring its risk-based capitalization back into line with our 'AAA' requirements, though significantly reduced during 2022. Technical profitability was under pressure in 2020 and in 2021 the club experienced further underwriting losses on the marine side, coupled with continued high pool claims in P&I policies. This prompted us to revise the outlook on our long-term ratings to negative from stable in October 2021. Moreover, 2021 underwriting losses wiped out the 'AAA' confidence level capitalization, as per our risk-based capital model. If not promptly remediated, this could weaken the club's overall creditworthiness and in turn influence the rating.

The operating performance of TSC, and the overall P&I sector, has been poor. Heightened claims activity over the past two years continues to negatively affect TSC's technical performance. In 2020, TSC reported a combined ratio of 123%, increasing to 129% at year-end 2021. However, we view positively that TSC has taken decisive measures to remediate its poor technical performance, and we expect supportive market conditions in 2022--and the net result to trend back to positive.

Outlook

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

Downside scenario

We could lower the ratings over the next two years 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; 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

Rating upside could build if TSC improves its operating performance in line with our base-case scenario, with combined ratios of 105%-110%, while maintaining a comfortable buffer above the 'AAA' benchmark under our risk-based capital model.

Key Assumptions

- In 2022, we estimate GDP to be 3.2% in the U.S. and 3.5% in the U.K.
- An uptick in marine rates in 2022-2023.
- No significant changes to the IGP&I pool structure or pool-sharing methodology.

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

	2024f	2023f	2022f	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Very Strong	Excellent	Excellent	Excellent	Excellent
Gross premium written (mil. \$)	241	230	219	200.5	178.8	165.3	143.3	151.0
Net income (mil. \$)	>15	~15	~5	(35.5)	0.4	18.5	(8.3)	17.7
Net combined ratio (%)	<100	<100	~105	129.5	122.9	106.4	99.3	104.6
Net investment yield including investment gains/(losses) (%)	~2-3	~2-3	~2-3	2.4	8.4	8.6	(1.5)	7.1
Free reserves (mil. \$)	~230	~215	>200	196.5	231.4	228.4	203.8	213.5

f--S&P Global Ratings forecast.

Business Risk Profile

TSC provides P&I and marine insurance to its members. In our view, the club benefits from its wide geographic footprint. 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.

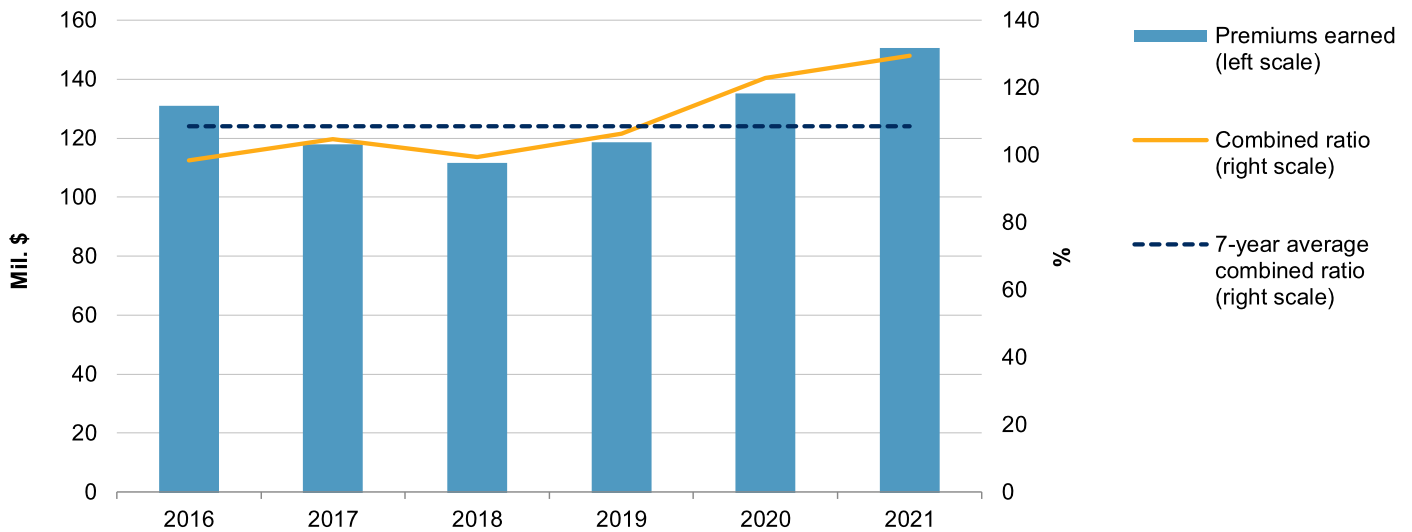
In 2020, TSC reported a net combined (loss and expense) ratio of 123%. Moreover, the club reported a combined ratio of 129% for year-end 2021, and an overall pretax loss of about \$34 million, which was partly offset by the club's favorable non-technical result of about \$10 million. The technical result was slightly worse compared to our base case assumption with a combined ratio about 125%. Moreover, increases in interest rates in late 2021 had a negative effect on the investment result, which also came in somewhat short relative to our earlier expectations.

The 2021 underwriting losses stemmed from high-profile claims on the marine side, coupled with continued high pool claims in P&I policies. We expect that the club's underwriting performance will remain under pressure but improve in 2022-2023, with a combined ratio of about 105% by year-end 2022. Furthermore, we believe management will continue to take decisive measures to strengthen its underwriting performance.

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

Chart 1

Sveriges Angfartygs Assurans Forening (The Swedish Club): Profitability Under Pressure



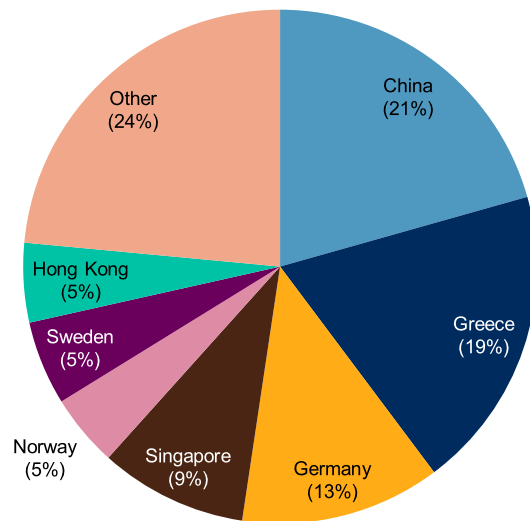
Source: S&P Global Ratings.

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We believe TSC's competitive position benefits from a geographically diverse client base in China (21%), Greece (19%), Germany (13%), Singapore (9%), Norway (5%), Hong Kong (5%), Sweden (5%), and Other (24%). Furthermore, the club also maintains a very close relationship with its members and, like other IGP&I insurers, has significantly higher retention rates than most nonlife insurers in Europe, the Middle East, and Africa, with about 98% of members renewing each year.

Chart 2

Sveriges Angfartygs Assurans Forening (The Swedish Club): Geographically Diverse Client Base



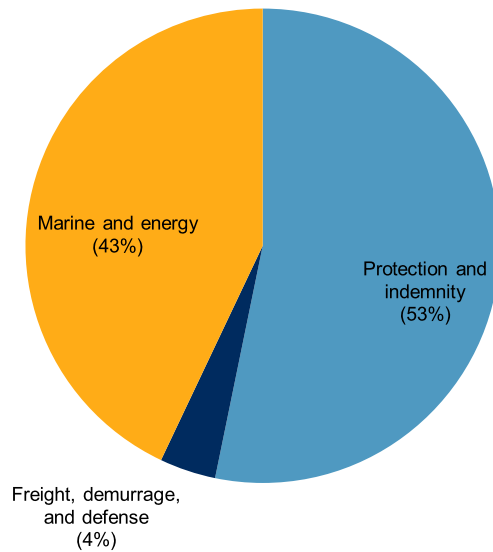
Source: S&P Global Ratings.

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Chart 3

Sveriges Angfartygs Assurans Forening (The Swedish Club): Diversified Business Activities

Gross premium by line of business



Source: The Swedish Club Annual Report 2021

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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

TSC's capitalization is a key ratings strength. Given the heightened claims activity over the past two years, the club has recorded technical losses in 2020 and 2021, and we note the 'AAA' level capitalization, as per our risk-based capital model, has been eroded. Nevertheless, over the next two years we expect the club will be able to reinstate its capitalization, and rebuild a comfortable buffer above our 'AAA' requirement. Consequently, we anticipate capitalization to hover around the borderline 'AAA' level in 2022 but be reinforced in 2023.

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 club's claims, as was the case in 2021 for TSC. Over the past year, TSC has significantly improved its negative pool position to neutral, which 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 anchor selection.

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

Other Key Credit Considerations

Governance

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

We view TSC's risk culture as a strength. The experienced management team articulates and maintains conservative risk tolerances. The club has an internal capital model, used daily, which greatly assists informed business and risk-related decisions.

Liquidity

TSC has abundant sources of liquidity because its asset portfolio is predominantly marketable securities and cash or cash equivalent. It also benefits from recurrent premium income.

Environmental, social, and governance

ESG Credit Indicators



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 the Swedish Club (Sveriges Angfartygs Assurans Forening).

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
- [Marine Insurer The Swedish Club Outlook Revised To Negative On Weak Operating Performance; Affirmed At 'A-', Oct 20, 2021](#)

Appendix

The Swedish Club--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Excellent	Excellent	Excellent	Excellent
Total free reserves (mil. \$)	196.5	231.4	228.4	203.5	213.5
Gross premiums written (mil. \$)	200.5	178.8	165.3	143.3	151.0
Net premiums written (mil. \$)	156.7	139.5	126.0	108.6	115.5
Net premiums earned (mil. \$)	150.1	134.7	118.2	111.2	117.5
Reinsurance utilization (%)	21.8	22.0	23.8	24.2	23.5
EBIT (mil. \$)	(34.3)	3.0	24.6	(9.6)	18.8
Net income (attributable to all shareholders) (mil. \$)	(35.5)	0.4	18.5	(8.3)	17.7
Return on free reserves (%)	(17.4)	0.2	8.7	(4.0)	8.7
P/C: net combined ratio (%)	129.4	122.9	106.4	99.3	104.6
P/C: net expense ratio (%)	20.6	20.1	20.7	21.5	21.1
Net investment yield including investment gains/(losses) (%)	2.4	8.4	8.6	(1.5)	7.1

Ratings Detail (As Of May 25, 2022)*

Operating Company Covered By This Report

Sveriges Angfartygs Assurans Forening (The Swedish Club)

Financial Strength Rating

Local Currency

A-/Negative/--

Issuer Credit Rating

Local Currency

A-/Negative/--

Domicile

Sweden

*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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