

Research Update:

Sveriges Angfartygs Assurans Forening (The Swedish Club) Downgraded To 'BBB+' On Eroded Capital Adequacy; Outlook Stable

October 21, 2022

Overview

- The Swedish Club's (TSC or the club) capitalization, as per our risk-based capital model, remains materially below the 'AAA' confidence level as of first-half 2022 after it was eroded by underwriting losses in 2021 and investment losses in first-half 2022.
- Despite improvements in underwriting, with a combined ratio of about 91% for first-half 2022, we do not consider this sufficient to restore the club's capital base to our 'AAA' benchmark in 2023.
- We therefore lowered our financial strength and issuer credit ratings on TSC to 'BBB+' from 'A-'.
- The outlook is stable, reflecting our expectation that the club will maintain capital at the 'AA' benchmark in our model, and that its operating performance will be in line with our expectations over the next two years.

Rating Action

On Oct. 21, 2022, S&P Global Ratings lowered to 'BBB+' from 'A-' its financial strength and long-term issuer credit ratings on The Swedish Club (TSC or the club). The outlook is stable.

Rationale

The club experienced poor underwriting performance in 2020 and 2021, with combined (loss and expense) ratios of 123% and 129%, respectively, due in part to continued high industry-wide pool claims in protection and indemnity (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. Consequently, TSC's 'AAA' confidence level capitalization, as per our risk-based capital model, eroded. Although, the club's technical profitability is showing signs of improvement, in line with our expectations, we do not believe this will offset losses on the

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investment side. Therefore, we envisage that the club will record another bottom-line loss at year-end 2022, which will further pressure its current capital level.

TSC's management has taken measures to improve technical performance, and the lack of pool claims in 2022 through September, in combination with our expectations of further rate increases at renewal, should translate into improved underwriting performance. Therefore, our base-case scenario is that the club will post a breakeven net combined ratio at year-end 2022, improving to about 98% by year-end 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. However, we do not consider such performance sufficient to restore TSC's capital base to the 'AAA' level.

We revised our liquidity score down to adequate from excellent because we note TSC's ability to cover its liquidity needs in a stress scenario has slightly deteriorated. However, we believe the club faces no material liquidity risks.

Outlook

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;
- The club'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.

Ratings Score Snapshot

	To	From
Financial strength rating	BBB+	A-
Outlook	Stable	Negative
Anchor*	bbb+	a-
Business risk profile	Satisfactory	Satisfactory

	To	From
IICRA	Intermediate risk	Intermediate risk
Competitive position	Satisfactory	Satisfactory
Financial risk profile	Satisfactory	Strong
Capital and earnings	Strong	Very strong
Risk exposure	Moderately high	Moderately high
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Exceptional
Comparable ratings analysis	0	0

*This is influenced by the club's very strong risk-based capital adequacy, sound underwriting controls, and ability to call on members for additional capital, all of which compare well against peers. IICRA--Insurance Industry And Country Risk Assessment.

ESG credit indicators: E-2, S-2, G-2

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

Ratings List

Downgraded; Outlook Action

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

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