

## Sveriges Angfartygs Assurans Forening (The Swedish Club)

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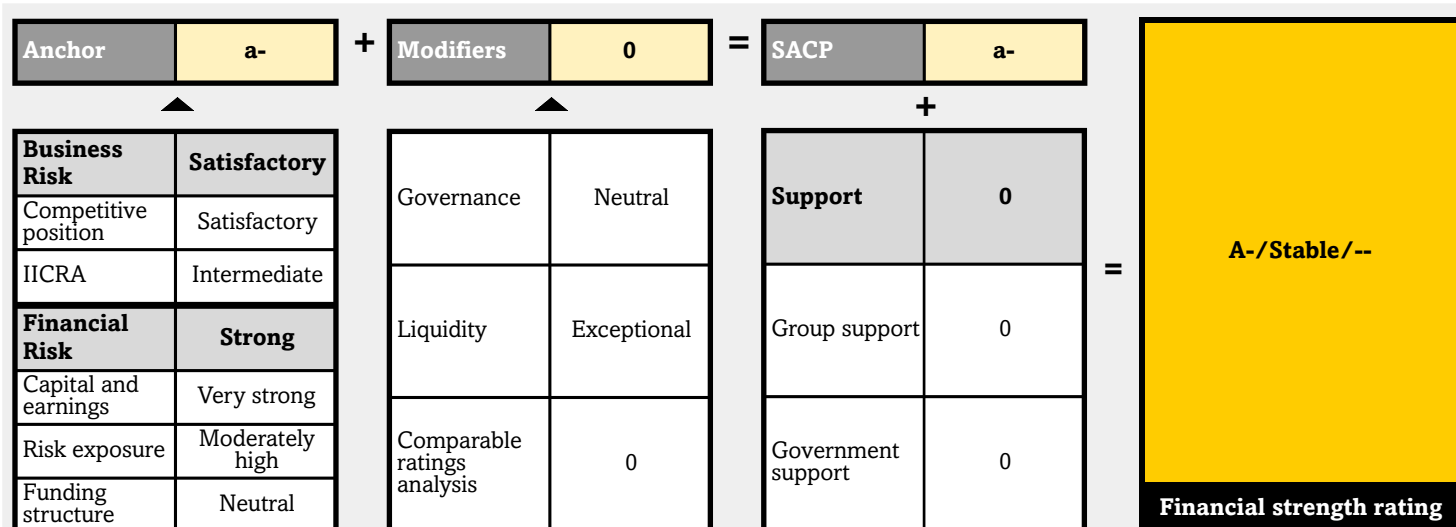
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IICRA--Insurance Industry And Country Risk Assessment.  
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## Credit Highlights

### Overview

| Strengths  | Risks   |
|--|---|
| Excellent level of capital, enabling The Swedish Club (TSC) to withstand extreme stress. | Although TSC is more diversified than other property and indemnity (P&I) clubs, its business is nearly all related to marine cover. |
| Strong risk-control framework.   | Small absolute size.  |

*We expect TSC's level of capital to remain a solid credit strength.* Despite challenging underwriting conditions and COVID-19-related investment market volatility, we expect the club will maintain its excellent capital adequacy over 2020-2022. In our view, the club has a sufficient cushion to absorb our estimation of losses for 2020. The club benefits from strong risk controls and underwriting discipline. In case of need, it can call on members for more capital, but we do not expect this over the next two years. These three elements constitute our rationale for the strong financial risk profile, but also influence the overall rating, since they lead us to select the higher 'a-' anchor. We view the small absolute size of TSC's capital of as a limiting factor to a stronger financial risk profile, as per our criteria.

*In our view, TSC will leverage its strengths to mitigate the adverse operating environment and will likely continue to post favorable underwriting results compared with most of its peers.* Even though we expect the club to post losses in 2020 due to unprofitable underwriting results that have not been sufficiently compensated by financial results, TSC compares well with its peers. We note that a meaningful part of 2020's underwriting losses will come from claims pooled by other clubs of the International Group of P&I clubs (IGP&I). In 2020, the club continued developing services by deploying its Trade Enabling Loss Prevention program to assist its members in avoiding hazards in identified locations. The club has managed to deliver robust underwriting performance in recent years with seven-year average combined ratios (loss and expense) of 98%. However, for 2020, we expect TSC to record a weaker combined ratio of 115%. We expect hardening market conditions will support reversion to breakeven in 2021 and 2022. The club has

announced a 5% general increase for 2021 for P&I and a 10% general increase for freight, demurrage, and defense (FD&D).

### Outlook: Stable

The stable outlook reflects our view that over the next two years the club will:

- Maintain its current level of excellent capital adequacy according to our risk-based capital model;
- Improve its underwriting performance in line with our expectations; and
- Keep its risk profile largely unchanged.

### Downside scenario

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

- Underwriting or investment losses, or a change in risk profile, caused a material reduction in the level of excess of capital held, putting excellent capital adequacy at risk; or
- Underwriting performance did not improve in line with our expectations and/or compares unfavorably with other P&I clubs.

### Upside scenario

We do not see any upside to the ratings within the next two years due to TSC's limited scale and diversity compared with higher-rated peers.

## Key Assumptions

- In 2020, we estimate GDP fell by 1% in the U.S., 7.2% in the eurozone, and 11% in the U.K.
- An uptick in marine rates in 2021-2022.
- No significant changes to the IGP&I pool structure or pool-sharing methodology.
- Loose central bank monetary policy, which will keep interest rates low if not negative.

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

|  | 2021f     | 2020e     | 2019      | 2018      | 2017      | 2016      |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| S&P Global Ratings capital adequacy                          | Excellent | Excellent | Excellent | Excellent | Excellent | Excellent |
| Gross premium written (mil. \$)                              | ~195      | ~185      | 165.3     | 143.3     | 151.0     | 163.2     |
| Net income (mil. \$)   | 5-10      | (10)-(12) | 18.5      | (8.3)     | 19.9      | 11.0      |
| Return on free reserves(%)                                   | 2-3       | (5.0)     | 8.7       | (4.0)     | 9.8       | 5.9       |
| Net combined ratio (%)                                       | ~105      | ~115      | 106.4     | 99.3      | 104.6     | 98.4      |
| Net investment yield including investment gains/(losses) (%) | ~2.5      | (2)-(4)   | 8.6       | (1.5)     | 7.1       | 2.5       |

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

|                         | 2021f | 2020e | 2019  | 2018  | 2017  | 2016  |
|-------------------------|-------|-------|-------|-------|-------|-------|
| Free reserves (mil. \$) | ~230  | ~225  | 228.4 | 203.8 | 213.5 | 194.9 |

f--S&P Global Ratings forecast. e--S&P Global Ratings estimate.

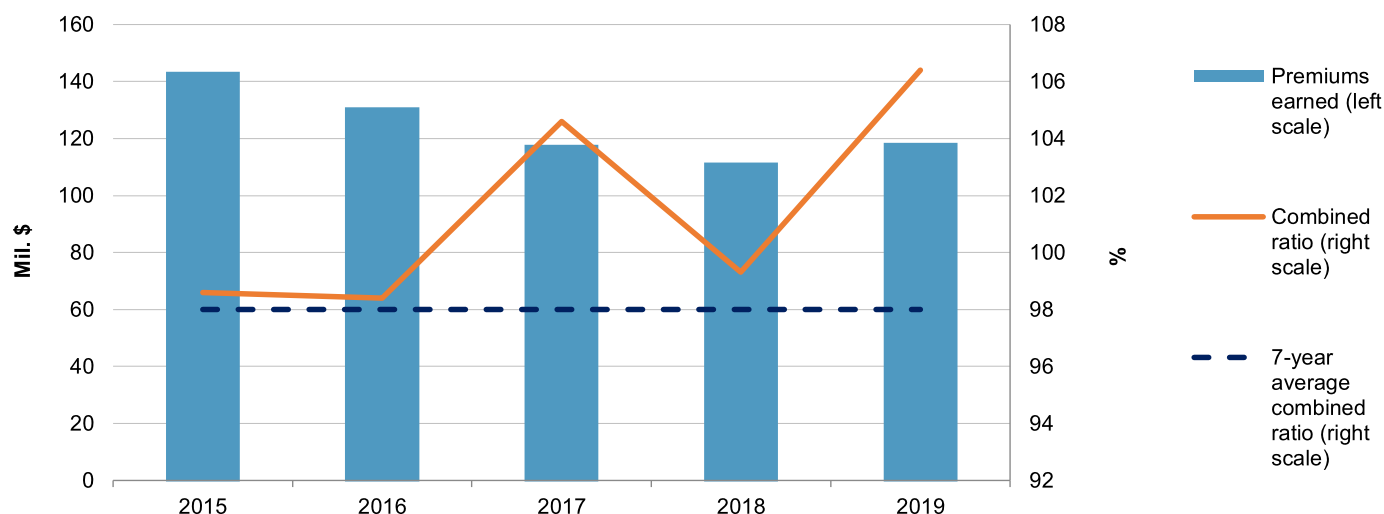
## Business Risk Profile: Satisfactory

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 the concentration of activities in the marine sector only. The club regularly posts more favorable operating performance than peers, despite representing a relatively small share (4%) of the market.

In our view, the club's robust operating performance is shown by its reported seven-year average combined ratio of 98%, which we consider is better than the P&I sector average (chart 1). Furthermore, TSC's underwriting performance has demonstrated the strength of its strong risk controls, which supports its overall competitiveness.

Chart 1

### Sveriges Angfartygs Assurans Forening (The Swedish Club): Resilient Profitability Through The Cycle



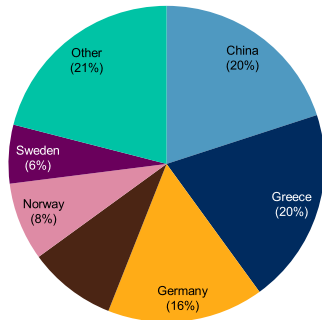
Source: S&P Global Ratings.

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We believe TSC's competitive position benefits from a geographically diverse client base in China (20%), Greece (20%), Germany (16%), Singapore (9%), Norway (8%), and Sweden (6%). 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**

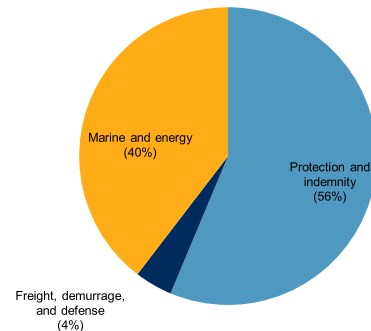
Sveriges Angfartygs Assurans Forening (The Swedish Club): Geographically Diverse Client Base



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 2019  
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The club is one of the more diverse players in the IGP&I in that it offers hull and energy cover alongside P&I. For 2020, we expect an overall premium growth of 10%-12%, driven by strong growth in not only P&I but also the marine and energy segment. 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: Strong**

TSC's abundance of capital is a key strength to its ratings. We expect the club will maintain its excellent capital adequacy over the next two years, meaning that it is capable of withstanding extreme stress, including the adverse environment resulting from the pandemic. We expect the club will have a large enough buffer to absorb negative results that we estimate for 2021; and to reinforce its capital base in the subsequent years.

At half-year 2020, the club recorded a weaker combined ratio of 107%, followed by lower investment returns due to pandemic-led financial market volatility. For full-year 2020, we anticipate the combined ratio will further deteriorate to 115%, partly due to claims arising from the pool. Investment performance will also be affected, due to fair value losses on its investment portfolio. Overall, we expect TSC will record a loss of \$10 million-\$12 million in 2020, followed by some recovery thanks to hardening market conditions that will see price increases in 2021 and 2022, with combined ratios of 105% and 100%, respectively, and profit of about \$5 million-\$10 million.

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 will be the case in 2020 for TSC. Over past year, TSC has significantly reduced its negative pool position, 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.

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, taking into account 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 enjoys abundant sources of liquidity since its asset portfolio is predominantly marketable securities and cash or cash equivalent. It also benefits from recurrent premium income.

## Related Criteria

- 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

- Difficult Decisions Lie Ahead For Protection And Indemnity Mutuals At The 2021 Renewal, Oct 21, 2020
- Comparative Statistics: Global Marine Protection And Indemnity Clubs, Sept. 8, 2020
- Insurance Industry And Country Risk Assessment: Global Marine Protection And Indemnity, Sept 4, 2020

## Appendix

| The Swedish Club--Credit Metrics History |           |           |           |
|--|-----------|-----------|-----------|
| Ratio/Metric                             | 2019      | 2018      | 2017      |
| S&P Global Ratings capital adequacy      | Excellent | Excellent | Excellent |
| Total free reserves (mil. \$)            | 222.1     | 203.5     | 211.8     |
| Gross premiums written (mil. \$)         | 165.3     | 143.3     | 151.0     |
| Net premiums written (mil. \$)           | 126.0     | 108.6     | 115.5     |

## The Swedish Club--Credit Metrics History (cont.)

| Ratio/Metric   | 2019  | 2018  | 2017  |
|--|-------|-------|-------|
| Net premiums earned (mil. \$)                                | 118.2 | 111.2 | 117.5 |
| Reinsurance utilization (%)                                  | 23.8  | 24.2  | 23.5  |
| EBIT (mil. \$)   | 24.6  | (9.6) | 18.8  |
| Net income (attributable to all shareholders) (mil. \$)      | 18.5  | (8.3) | 19.9  |
| Return on free reserves (%)                                  | 8.7   | (4.0) | 9.8   |
| P/C: net combined ratio (%)                                  | 106.4 | 99.3  | 104.6 |
| P/C: net expense ratio (%)                                   | 20.7  | 21.5  | 21.1  |
| Net investment yield including investment gains/(losses) (%) | 8.6   | (1.5) | 7.1   |

## 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-/bbb- | bb-/bb+ | b+/b       |
| <b>Satisfactory</b>   | a                      | a/a-        | <b>a-/bbb+</b> | bbb+/bbb     | bbb/bbb-  | bbb-/bbb- | bb+/bb  | bb-/b+     |
| Fair                  | a-                     | a-/bbb+     | bbb+/bbb       | bbb/bbb-     | bbb-/bbb- | bbb-/bbb- | bb+/bb  | b+/b       |
| Weak                  | bbb+/bbb               | bbb/bbb-    | bbb-/bbb+      | bb+/bb       | bb/bb-    | bb-/bb+   | bb-/b+  | b-/b       |
| Vulnerable            | bbb-/bbb+              | bb+/bb      | bb/bb-         | bb-/b+       | 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 February 10, 2021)\*

## Operating Company Covered By This Report

## Sveriges Angfartygs Assurans Forening (The Swedish Club)

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/--

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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