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Research Update:

Marine Insurer The Swedish Club Upgraded To 'A-' On Expected Capital Stability Amid Tough Market Conditions

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Marine Insurer The Swedish Club Upgraded To 'A-' On Expected Capital Stability Amid Tough Market Conditions

Overview

- Through disciplined underwriting and strong risk controls The Swedish Club (the club) has continued to record combined (claims and expense) ratios close to 100% despite testing conditions in its main markets.
- These improvements, combined with a sturdy operating performance, should enable the club's capital position to remain resilient to market challenges over the next 24 months.
- Therefore, we are raising our ratings on The Swedish Club to 'A-' from 'BBB+' by modifying the anchor to capture a more holistic view of the club's creditworthiness.
- The stable outlook reflects our view that over the next two years, the club will continue to deliver robust underwriting performance and preserve extremely strong capital adequacy.

Rating Action

On Jan. 23, 2019, S&P Global Ratings raised its insurer financial strength and issuer credit ratings on marine insurer The Swedish Club (TSC or the club). The outlook is stable.

Rationale

The upgrade reflects our view that the club will maintain its robust operating performance and report net combined ratios close to 100%, despite difficult market conditions (see "The Global 2019 Protection And Indemnity Renewal: Who Will Blink First?," Oct. 5, 2018, and "Insurance Industry And Country Risk Assessment: The Global Marine Protection And Indemnity Industry," Jan. 31, 2018). In our view, this will allow TSC to maintain a capital base with a clear excess of capital above our 'AAA' benchmark based on our risk-based capital (RBC) model. We also expect that the club will benefit from lower volatility in earnings as a result of its improved position in the International Group's (IG) reinsurance pool (where members benefit from a substantial excess-of-loss reinsurance program and the pooling of large risks).

We consider that TSC's underwriting discipline in recent years reflects the

improvements it has made to its enterprise risk management (ERM) capabilities. In our opinion, the club's investment in ERM has allowed it to manage its risk/return profile effectively. Consequently, its capital position is less volatile and the club is well-positioned for profitable growth if the marine market turns. We currently assess the club's ERM as adequate with strong risk controls, one of the higher assessments of its peer group. Given all of these improvements, we have decided to apply a positive modifier to the club's anchor, giving it one notch of uplift to capture a more holistic view of the club's creditworthiness.

TSC is a relatively small player. Although we expect its declining premium base to stabilize in the next two-to-three years, we see a return to growth as important if the club is to support changes such as digitalization initiatives without materially affecting its combined (claims and expense) ratio.

Outlook

The stable outlook reflects our view that TSC will, over the next two years, maintain:

- Its current level of capital adequacy, which exceeds our 'AAA' benchmark according to our RBC model;
- Close to breakeven levels of underwriting performance, with net combined ratios of about 100% or below; and
- Its risk profile, with no material changes.

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

- Underwriting or investment losses, or a change in risk profile, caused a material reduction in the level of excess of capital held;
- Underwriting performance significantly deteriorated, leading to three-year average combined ratios above 105%; or
- The club's premium base continues to shrink, placing stress on its ability to efficiently cover its expense base.

We do not see any further upside to the ratings within the next 12-24 months due to TSC's limited scale and diversity, and its small balance sheet in absolute terms compared with that of higher-rated peers.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A-/Stable	BBB+/Positive
Anchor	bbb+	bbb+
Business Risk Profile	Satisfactory	Satisfactory

IICRA*	Intermediate Risk	Intermediate Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Moderately Strong	Moderately Strong
Capital & Earnings	Strong	Strong
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate, with strong risk controls	Adequate, with strong risk controls
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	1	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

*Insurance Industry And Country Risk Assessment. Note: Support does not consider the Ratings Above Sovereign criteria.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- The Global 2019 Protection And Indemnity Renewal: Who Will Blink First?, Oct. 5, 2018
- Insurance Industry And Country Risk Assessment: The Global Marine Protection And Indemnity Industry, Jan. 31, 2018

Ratings List

Upgraded; Outlook Action

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

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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. 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.

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