

Research Update:

The Swedish Club Affirmed At 'BBB+' Following Revised Capital Model Criteria; Outlook Stable

March 12, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The revised criteria did not impact our capital position assessment of Sveriges Angfartygs Assurans Forening (The Swedish Club).
- We have affirmed our 'BBB+' ratings on the club.
- The stable outlook reflects our expectation that the club will maintain capital at the 99.95% benchmark in our model, and that its operating performance will improve over the two-year outlook horizon.

Rating Action

On March 12, 2024, S&P Global Ratings affirmed its 'BBB+' issuer credit and insurer financial strength ratings on Sveriges Angfartygs Assurans Forening (The Swedish Club; TSC). The outlook is stable.

Impact Of Revised Capital Model Criteria

- Applying the revised capital model criteria did not materially affect our view of the club's creditworthiness.
- Under the revised criteria, the club's total adjusted capital increased slightly, mainly due to the non-life reserve surplus. The company has also benefited from the increased diversification in our model.
- The recalibration of our capital charges to higher confidence levels partly offsets these improvements. Overall, we expect TSC will maintain capital at the 99.95% benchmark in our model, over the ratings horizon.

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Credit Highlights

Overview

Key strengths	Key risks
Very strong risk-based capital adequacy, as per our model.	More diversified than other property and indemnity (P&I) clubs, but nearly all business is related to marine cover.
A strong risk control framework	Small in absolute size.

Outlook

The stable outlook reflects our expectation that the club will maintain capital at the 99.95% 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 further deteriorates and falls below the 99.95% level in our model for a prolonged period;
- TSC's operating performance does not improve in line with our base case, notably comprising 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 99.99% requirements, while maintaining underwriting performance in line with our expectations and similarly rated peers in the P&I sector.

Rationale

We believe TSC's competitive position will continue to benefit from its wide geographical footprint providing P&I and marine insurance. After opening its full-service office in Singapore and further ramping up teams in London and Hong Kong, we anticipate the club's position will strengthen further.

TSC regularly posts more favorable operating performance than peers, despite representing a small share (4%) of the market. However, the club experienced poor underwriting performance in 2020 and 2021, with combined ratios of 123% and 129% respectively. This was due in part to continued high industry-wide pool claims in P&I policies. The bottom-line loss in 2021, coupled with investment losses in 2022 amid challenging market conditions, led to a sharp decrease in the

club's equity.

That said, we trust TSC's management has taken important measures to improve technical performance. As such, we note combined ratio in the first half of 2023 improved significantly, coming in at 98%. Our base-case scenario of a more stable claims environment and our assumption of further healthy rate increases at renewal should translate into improved underwriting performance. Therefore, we expect combined ratios to be at about break even for 2023, improving to about 97%-99% in 2024 and 2025. 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.

We expect the solvency ratio to remain at healthy levels, standing at 173% at year-end 2022.

Ratings Score Snapshot

Financial strength rating	BBB+/Stable
Anchor	bbb+
Business risk	Satisfactory
IICRA	Intermediate
Competitive position	Satisfactory
Financial risk	Satisfactory
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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

Ratings List

Ratings Affirmed

Sveriges Angfartygs Assurans Forening (The Swedish Club)

Issuer Credit Rating

Local Currency BBB+/Stable/--

Financial Strength Rating

Local Currency BBB+/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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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