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Research Update:

Insurer Forsakringsaktiebolaget Alandia 'A-' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:

Simon Kristoferson, Stockholm (46) 8-440-5902; simon.kristoferson@spglobal.com

Secondary Contacts:

Erik Andersson, Stockholm + 46 84 40 5915; erik.andersson@spglobal.com

Ralf Bender, CFA, Frankfurt (49) 69-33-999-194; ralf.bender@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

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Overview

- We expect that Alandia can sustain a substantial margin above the 'AAA' level according to our risk-based capital model, despite expected growth in 2018 and over the next two to three years.
- As a result, we are affirming our 'A-' issuer credit and financial strength ratings on Alandia.
- The stable outlook reflects our expectations that Alandia will maintain technical profitability and perform in line with our expectations alongside capital substantially exceeding the 'AAA' level and its current investment risk appetite.

Rating Action

On Dec. 21, 2018, S&P Global Ratings affirmed its 'A-' issuer credit and financial strength ratings on Åland-based insurance group Forsakringsaktiebolaget Alandia. The outlook remains stable.

Rationale

Alandia's key rating strength is its robust capital buffer, which displays a substantial margin above the 'AAA' level according to our risk-based capital model. Although we expect the buffer to decrease due to growth, we anticipate the margin to remain ample over the next two to three years.

We forecast weak 2018 results for Alandia, partly due to historical pricing pressure on its commercial marine business lines and an extraordinarily warm summer that led to higher utilization of recreational vessels and, therefore, related claims. We anticipate that Alandia is likely to report a combined (loss and expense) ratio of about 110% for 2018, which we expect will improve to just below 100% in 2019 and 2020.

Since 2015, Alandia has materially derisked its investment portfolio by lowering its exposure to high-risk assets such as equities and unrated bonds. We expect its exposure to high-risk assets to stay below 100% of total adjusted capital over 2019-2020.

Outlook

The stable outlook reflects our expectation that Alandia's capital position will remain superior to that at the 'AAA' level, and it will maintain its current investment risk appetite and profitability-focused growth strategy.

Downside scenario

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

- Were unable to perform broadly in line with our expectations;
- Returned to more aggressive investment risk-taking;
- Experienced an unexpected loss of competitive strength in core business lines; or
- Faced challenges in meeting its life insurance guarantee commitments.

Upside scenario

We do not foresee any upside to the ratings within the next 12-24 months, due to Alandia's limited competitive position in terms of scale and diversity.

Ratings Score Snapshot

Financial Strength Rating: A-/Stable/--

Anchor: a-

Business Risk Profile: Satisfactory

- IICRA: Intermediate
- Competitive Position: Adequate

Financial Risk Profile: Strong

- Capital and Earnings: Strong
- Risk Position: Intermediate
- Financial Flexibility: Adequate

Modifiers: 0

- ERM and Management: 0
- Enterprise Risk Management: Adequate
- Management and Governance: Satisfactory

Holistic Analysis: 0

Liquidity: Exceptional

Support: 0

- Group Support: 0
- Government Support: 0

IICRA--Insurance Industry And Country Risk Assessment.

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

- Forsakringsaktiebolaget Alandia, Aug. 22, 2018

Ratings List

Ratings Affirmed

Forsakringsaktiebolaget Alandia

Issuer Credit Rating	A-/Stable/--
Financial Strength Rating	A-/Stable/--

Additional Contact:

Insurance Ratings Europe; insurance_interactive_europe@spglobal.com

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