

Alandia Forsakring Abp

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Alandia Forsakring Abp

Anchor	a-	+	Modifiers	0	=	SACP	a-	
	▲			▲		+		
Business Risk	Satisfactory							
Competitive position	Satisfactory		Governance	Neutral		Support	0	
IICRA	Intermediate							
Financial Risk	Strong		Liquidity	Exceptional		Group support	0	
Capital and earnings	Very strong							
Risk exposure	Moderately high		Comparable ratings analysis	0		Government support	0	
Funding structure	Neutral							
								A-/Negative/--
								Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Well-established market position in smaller-tonnage coastal vessels and yacht segment in Finland, Sweden, and the Baltics, and a growing presence in Norway and Denmark.	Business profile is constrained by Alandia Forsakring Abp's (Alandia's) limited scale of operations and low geographic and product diversity.
Solid capital buffer above the 'AAA' level as per our risk-based capital model.	Potential earnings volatility from exposure to high-risk assets, as experienced during the COVID-19 pandemic.

In our opinion, Alandia will continue to maintain its prominent market position in Finland, Sweden, and the Baltics.

Alandia focuses mainly on marine insurance and has strong market credentials operating in both the smaller-tonnage coastal vessels and local yacht insurance industries. We believe this stems from the group's local expertise and presence, coupled with Alandia's loss prevention and claims-handling services, which results in high retention levels and overall business growth. Alandia has purposefully expanded its international presence in recent years..

We expect capitalization to remain--although weakened in 2019--above the 'AAA' level despite capital market turmoil caused by COVID-19 outbreak. Alandia's key rating strength remains its solid capital base, which was, according to our capital model, sustained above the 'AAA' level as of third-quarter 2020 despite investment market volatility caused by COVID-19 pandemic. Our anchor is influenced by our view of Alandia's capital surplus above the 'AAA' level according to our model.

Outlook: Negative

The negative outlook reflects our view that we could downgrade Alandia over the next two years.

Downside scenario

A downgrade could result if:

- Underwriting profitability does not improve in line with our expectations, with a combined ratio nearing 100%, or if operating performance does not improve, with Alandia posting losses;
- The capital position does not remain comfortable above the 'AAA' level of our risk-based capital model; or
- We observe any appetite for increased investment risk-taking.

Upside scenario

We could revise the outlook to stable if Alandia improves profitably and interest coverage, and rebuilds or at least maintains capital margins.

Key Assumptions

- Long-term interest rates on Nordic government bonds will remain low over 2020-2022.
- Marine insurance rates will continue to improve slowly, and cautious central bank monetary policy will limit investment yields.

Alandia Forsakring Abp--Key Metrics

	2021f	2020f	2019	2018	2017	2016
Gross premium written (mil. €)	>80	>80	80.5	69.1	54.9	53.6
Net income (mil. €)	5-8	5-8	2.2	18.0	19.3	15.2
P/C: Net combined ratio (%)	<99	~99	123	110	97	91
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

f--S&P Global Ratings forecast.

Business Risk Profile: Satisfactory

Alandia's main focus lies on Nordic marine insurance and it has a leading position in the smaller-tonnage coastal vessels insurance industry in both Finland, Sweden, and the Baltics and is a prominent player in the local yacht insurance industry. Additionally, Alandia has also established a healthy position in Norway and Finland and has a growing position in the large blue ship segment. We believe that the smaller marine tonnage underwritten by Alandia remains a key differentiator when it comes to comparison with international marine insurers and protection and indemnity (marine liability insurance) clubs. This, in our opinion, makes Alandia less exposed to the tough hull and

machinery market conditions and competitive pricing.

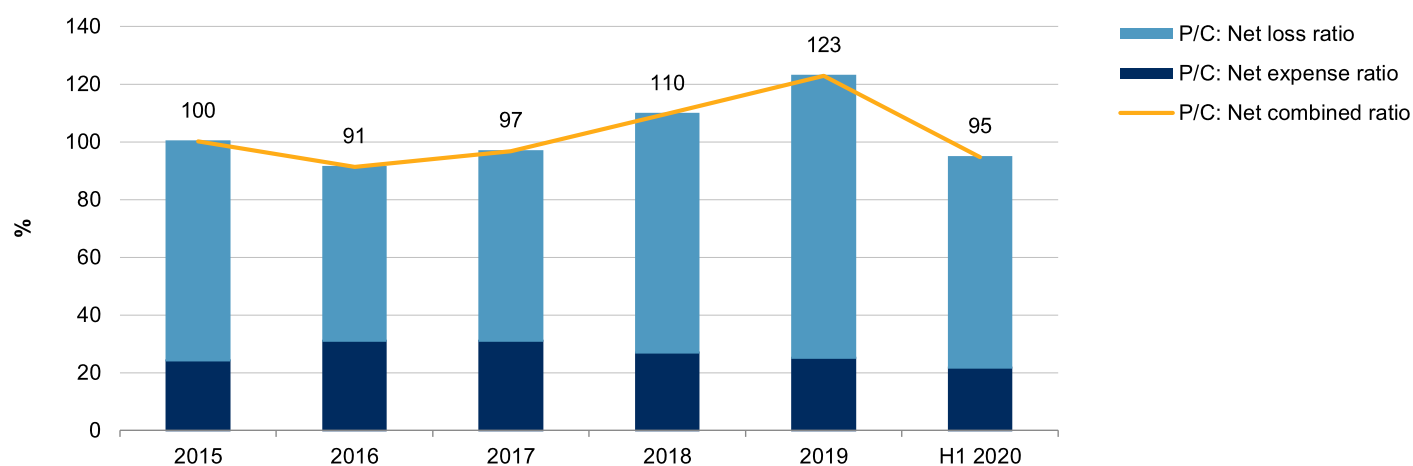
In line with its growth strategy, to become a European marine insurance specialist, Alandia seeks to target new marine product lines and expand its business further in and outside of the Nordic region, especially seeking growth from writing hull and machinery policies which we believe to be of importance when executing on its future strategy. This has explicitly been materialized through the recent growth in the international market, which we view as supportive for Alandia's geographical diversification. We understand this growth is facilitated via an increased share of brokered business, partnership distribution, and improved Internet-based facilities. Nevertheless, the group is among the smallest players in our similarly rated peer group and the current geographic and business concentration constrains our overall view of the group's overall business position. As expected, Alandia divested its life book on May 31, 2020.

Gross written premiums increased in 2019 and totaled at €80.5 million (€69.1 million in 2018), and the premium growth has been sustained in 2020.

Alandia has experienced unfavorable underwriting results during 2019, mainly on the back of business written in underwriting year 2018 together with a claims-intensive year in general. At the same time, the marine market was hit by poor profitability and softer market conditions. However, for the first nine months of 2020, the marine market continued to harden and Alandia has been able to achieve good terms on renewals. Additionally, the technical performance has specifically been addressed and management actions have been implemented to improve underwriting profitability. We believe this will add positive effects in the forthcoming years. The group posted a combined ratio of about 95% for the first six months of 2020 (about 123% as per year-end 2019). Although this somewhat eases our concerns regarding Alandia's profitability, we believe the group's operations still face some heightened risks in the current environment. We are therefore forecasting a combined (loss and expense) ratio of about 99% over 2020-2022.

Chart 1

Underwriting Performance



H--Half. P/C--Property casualty. Source: S&P Global Ratings.

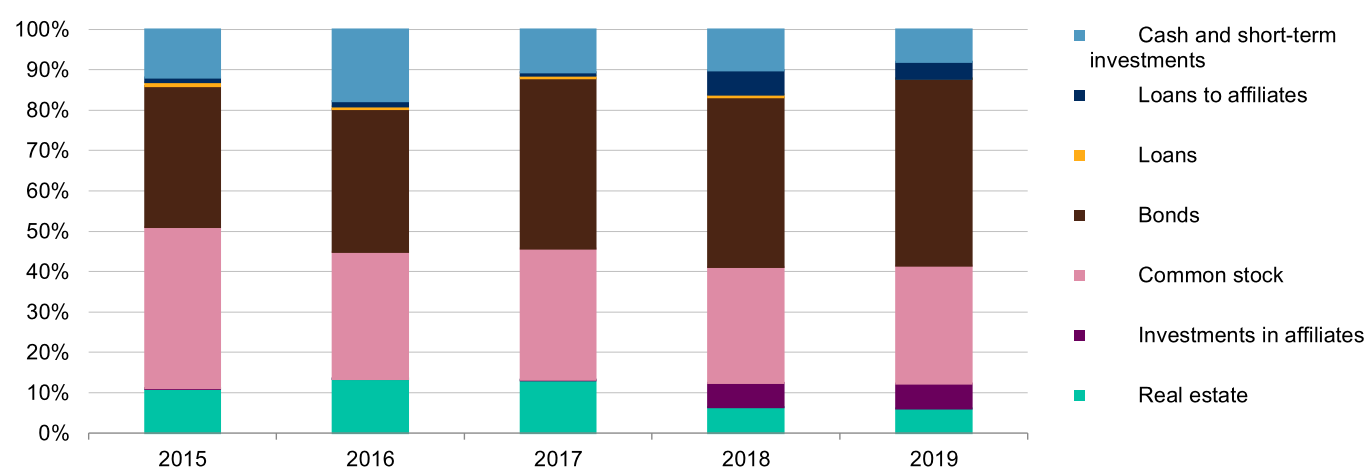
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Financial Risk Profile: Strong

Alandia benefits from sound capital adequacy at the 'AAA' level under our YE2019 risk-based capital model and we expect it to remain above this level over 2020-2022 despite the unfavorable market conditions recently experienced. Our assumption is supported by the divestment of Alandia's life business. However, we also expect some downward pressure on the capitalization owing to possible volatility from the group's higher-than-average, high-risk asset allocation.

Chart 2

General Account Invested Assets



Source: S&P Global Ratings.

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In addition, we expect Alandia's solvency ratio will remain at robust levels. In June 2020, it stood at 288%.

The group has reduced its reinsurance protection over the years, with reinsurance utilization falling to 10% in 2019, compared with over 40% in 2014. In our opinion, the reduction in reinsurance protection can lead to the potential for higher underwriting and earnings volatility. However, we draw comfort from the fact that Alandia is participating with fairly small portions of total underlying value for larger vessels as well as the quite minor risk stemming from smaller coastal vessels and yachts businesses. Furthermore, compared to the protection and indemnity clubs, Alandia is not exposed to potential pool claims. This makes it less vulnerable to adverse developments in the marine insurance market when compared to its peers.

The divestment of the life business was part of Alandia's strategic initiative to streamline activities toward its core property/casualty business. However, the divestments were coupled with issuance of hybrid loans to keep the assets that were previously backing life liabilities post divestment, thus creating a leveraged balance sheet. We expect financial leverage for 2020 will be about 39%, without taking into account the equalization reserve nor the valuation differences, which in our opinion is somewhat high when compared with peers and can negatively impact its financial

profile. Also, in our opinion, this level of leverage leaves less flexibility to face an adverse macroeconomic and financial-market environment.

Other Key Credit Considerations

Governance

Alandia has a comprehensive risk management framework in place and the group, in our opinion, has managed its key risks quite well. The management is well experienced and has historically achieved its set goals. Our favourable opinion is backed by the successful execution of Alandia's demutualization process and the sale of the pension and the accident and health businesses to focus on marine insurance. However, we believe that Alandia's small size leaves it susceptible to key person risk, which could temporarily negatively affect operations.

Liquidity

We do not foresee any liquidity or refinancing concerns owing to the strength of available liquidity sources and we expect the group would, in the case of a stress scenario, withstand severe liquidity stresses.

Accounting considerations

The consolidated financial statements published by Alandia are prepared in accordance with the Finnish Financial Services Authority directives.

Ratings Score Snapshot

Business Risk Profile	Satisfactory
Competitive position	Satisfactory
IICRA	Intermediate
Financial Risk Profile	Strong
Capital and earnings	Very Strong
Risk exposure	Moderately High
Funding structure	Neutral
Anchor*	a-
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A-

*This is influenced by our view of Alandia's capital surplus above the 'AAA' level according to our model. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- 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

- Research Update: Finnish Insurer Alandia Forsakring Abp Ratings Affirmed At 'A-'; Off CreditWatch; Outlook Negative, June 15, 2020
- Research Update: Alandia Forsakring Abp 'A-' Ratings Placed On CreditWatch Negative After Negative Underwriting Performance, March 17, 2020

Appendix

Credit Metrics History			
Ratio/Metric	2019	2018	2017
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent
Total invested assets	280.1	275.7	288.6
Total shareholder equity	85.3	85.0	69.1
Gross premiums written	80.5	69.1	54.9
Net premiums written	72.3	62.9	49.1
Net premiums earned	68.3	55.6	43.0
Reinsurance utilization (%)	10.19%	8.98%	10.52%
EBIT	2.8	21.7	24.4
Net income (attributable to all shareholders)	2.2	18.0	19.3
Return on revenue (%)	-7.01%	3.56%	5.46%
Return on shareholders' equity (reported) (%)	2.60%	23.41%	29.91%
P/C: net combined ratio (%)	122.86%	109.65%	96.82%
P/C: net expense ratio (%)	25.17%	26.95%	31.11%
P/C: return on revenue (%)	-3.09%	36.19%	27.14%
Life: Net expense ratio (%)	24.93%	24.66%	12.91%
Net investment yield (%)	3.95%	2.35%	0.81%
Net investment yield including investment gains/(losses) (%)	5.13%	1.78%	5.48%

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-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/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 December 21, 2020)***Operating Company Covered By This Report****Alandia Forsakring Abp**

Financial Strength Rating

Local Currency

A-/Negative/--

Issuer Credit Rating

Local Currency

A-/Negative/--

Domicile

Finland

*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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