

Research

Alandia Forsakring Abp

Primary Credit Analyst:

Andreas Lundgren Harell, Stockholm + 46 8 440 5921; andreas.lundgren.harell@spglobal.com

Secondary Contact:

Mark D Nicholson, London + 44 20 7176 7991; mark.nicholson@spglobal.com

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Alandia Forsakring Abp

Anchor	a-	+	Modifiers	0	=	SACP	a-	
Business Risk	Satisfactory					Support	0	
Competitive position	Satisfactory		Governance	Neutral				
IICRA	Intermediate							
Financial Risk	Strong					Group support	0	
Capital and earnings	Very strong		Liquidity	Exceptional				
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

Key strengths	Key risks
Noteworthy position in the small-tonnage coastal vessels and yacht segment in Finland, Sweden, and the Baltics, and a growing presence in Norway and Denmark.	Business profile constrained by limited scale of operations and low geographic and product diversity.
Healthy capital buffer above the 'AAA' level as per our risk-based capital model.	Investment portfolio composition that could lead to volatile earnings.

S&P Global Ratings believes Alandia will preserve its noteworthy market position in Finland, Sweden, and the Baltics. With its focus on marine insurance, Alandia has built strong market credentials operating in both the small-tonnage coastal vessels and local yacht insurance industries, as well having a presence in the largest segment in these markets. In our opinion, this is a result of the group's local expertise and presence, coupled with its development of competitive marine insurance conditions. Moreover, Alandia has successfully expanded its international presence in recent years.

We expect Alandia to maintain its healthy capital buffer above the 'AAA' level according to our risk-based capital model. We view Alandia's healthy capital base above the 'AAA' level, according to our capital model, as a key rating strength, which also influences the anchor for our rating. Furthermore, the company's capitalization has remained rather resilient to market volatility caused by the COVID-19 pandemic.

Alandia will likely post technical losses for 2021. After a solid performance in 2020, Alandia's underwriting has been unprofitable in 2021, mainly due to a greater number of fairly large claims in the first half of the year. We believe technical performance will remain under pressure for the rest of this year, and therefore not meet our year-end 2021 expectations of a break-even combined (loss and expense) ratio. We note Alandia has taken measures to remediate the underperformance.

Outlook: Negative

The negative outlook indicates that we could lower our ratings on Alandia over the next 12 months if the company's technical performance remained loss-making and below our expectations.

Downside scenario

We could downgrade Alandia by one notch over the next 12 months if:

- Underwriting profitability does not improve in line with our expectations, or if Alandia posts overall pretax losses;
- The capital position does not remain comfortably above our 'AAA' benchmark in our risk-based capital model; or
- We observe any appetite for increased investment risk-taking.

Upside scenario

We could revise the outlook to stable should Alandia's combined ratio improve more permanently to 103% or lower, while the company maintains a comfortable buffer above the 'AAA' benchmark in our risk-based capital model.

Key Assumptions

- Long-term interest rates on Nordic government bonds will remain low over 2021-2023.
- Marine insurance rates will continue to improve slowly, and sustained cautious central bank monetary policy will limit investment yields.

Alandia Forsakring Abp--Key Metrics

	--Fiscal year ended--							
	2023f	2022f	2021f	2020	2019	2018	2017	2016
Gross premium written (Mil. €)	>90	~90	85-90	87.0	80.5	69.1	54.9	53.6
Net income (Mil. €)	6-9	5-8	>10	20.1	2.3	18.0	19.3	15.2
P/C: Net combined ratio (%)	<100	~100	~105-110	95.3	122.9	109.7	96.8	91.3
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

P/C--Property and casualty. f--S&P Global Ratings forecast.

Business Risk Profile: Satisfactory

Alandia's chief focus lies on Nordic marine insurance, and it has a strong reputation and leading position in the small- and medium-tonnage coastal vessels insurance industry in Finland, Sweden, and the Baltics. Through its local

knowledge and digital distribution strategy, Alandia is a noteworthy player in the local yacht insurance industry. Moreover, Alandia's presence in Norway and Denmark, and its position in the large blue ship segment will continue to strengthen. We continue to view the smaller marine tonnage that Alandia underwrites as a feature that sets the company apart from international marine insurers and protection and indemnity (marine liability insurance) clubs. We believe this makes Alandia somewhat less exposed to the tough hull and machinery market conditions and competitive pricing. However, we understand the majority of Alandia's hull and machinery premiums are sourced from outside Finland and Sweden and targeted to increase further; consequently, the company is fully exposed to competitive market conditions.

In realizing its strategy of becoming a European marine insurance specialist, Alandia is broadening its business in and outside the Nordic region, in particular seeking growth from writing hull and machinery policies, which we believe to be important when executing on its future strategy. We view the company's ongoing growth in the international market as evidence of its strategy being materialized. We understand this growth is facilitated via an increased share of brokered business, and partnership distribution, coupled with Alandia's underwriting team capitalizing on long-term relationships and market knowledge. Moreover, we believe it could support Alandia's geographic diversification. Nevertheless, the group is among the smallest players in its similarly rated peer group and the current geographic and business concentration constrains our overall view of its overall business position.

Gross written premiums increased in 2020 and totaled at about €87 million (about €81 million in 2019), the growth has continued up to half-year 2021 and we believe it will last throughout the year.

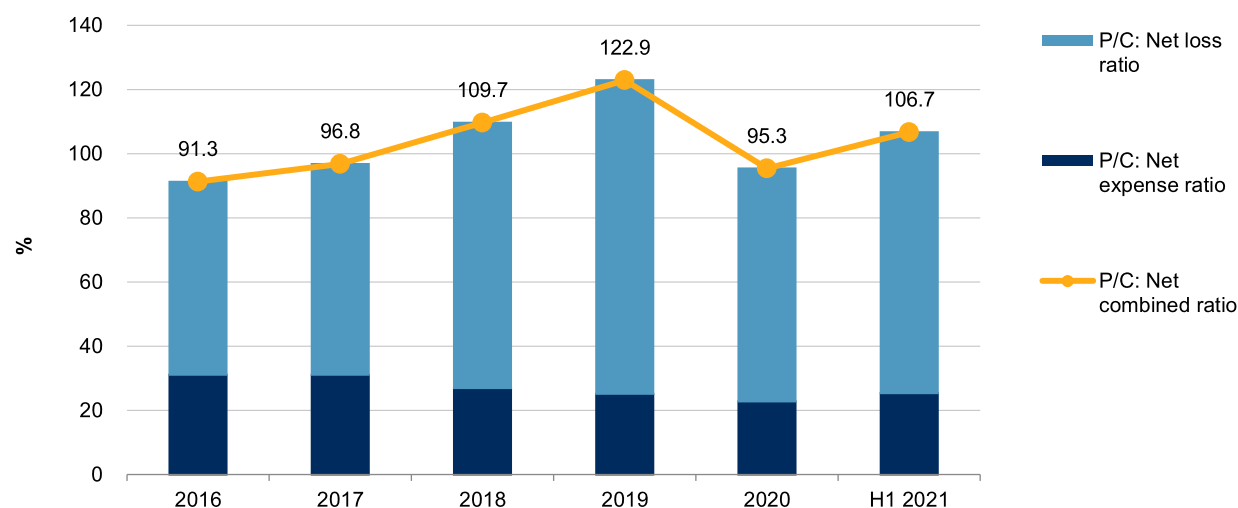
Alandia experienced challenging underwriting years in 2018 and 2019, mainly due to business written in 2018 and more claims-intensive years in general. Simultaneously, the marine market was hit by poor profitability and softer market conditions. In 2020, and despite market uncertainty related to the COVID-19 pandemic, Alandia's operations developed positively, thanks to successful measures with respect to underwriting, loss prevention, and claims processes. The group posted a combined ratio of about 95% at year-end 2020 (about 123% at year-end 2019). Moreover, the marine market continued to harden throughout the year, and Alandia was able to achieve healthy terms on renewals. We believe this will add positive effects also in the coming years, and hence somewhat eases our concerns regarding Alandia's profitability.

However, we believe the group's operations still face some heightened risks in the current environment. The first half of 2021 was challenging from a claims perspective, with Alandia posting a negative technical result of about €2.5 million and a combined ratio of around 107%, owing to an increase in the number of fairly large claims. However, Alandia's favorable investment return of about €16 million during the same period offset the technical loss. We believe technical performance will remain under pressure for the rest of 2021; hence we forecast a combined ratio of 105%-110% this year, improving to about 100% in 2022-2023.

We note Alandia announced a change in ownership whereby the largest shareholder Rettig Group sold all its shares (24,9%) to the new holding company Alandia Holding AB. The new company was established by new and existing shareholders, and we understand the new shareholders consider Alandia to be a long-term investment. Moreover, we view this change as neutral to Alandia's credit profile.

Chart 1

Alandia--Underwriting Performance



H1--First half. Source: S&P Global Ratings and company financials.

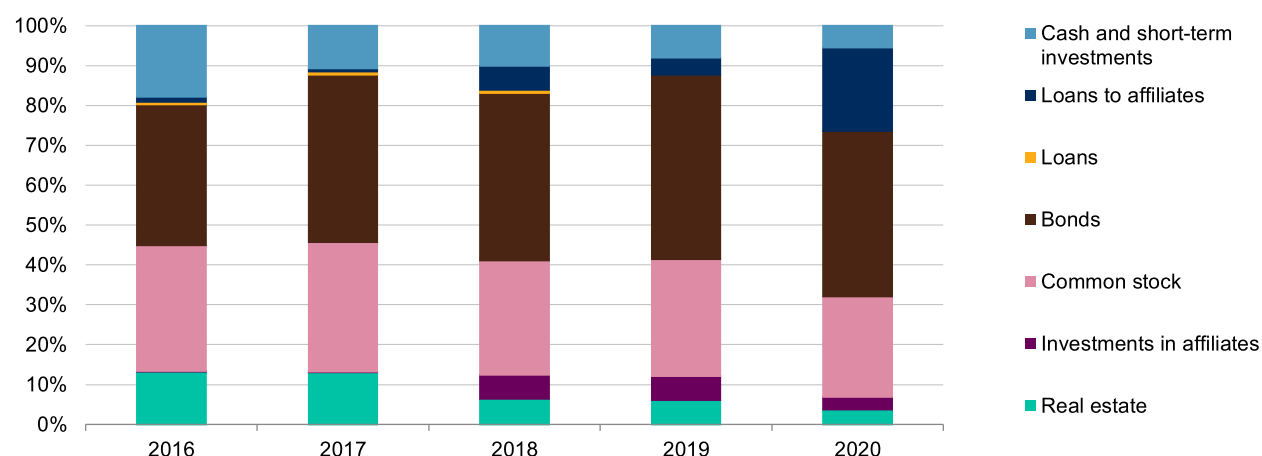
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Financial Risk Profile: Strong

Alandia benefits from healthy capital adequacy at the 'AAA' level under our year-end 2020 risk-based capital model, and we expect it to remain comfortably above this level over 2021-2023. Nonetheless, we believe capitalization faces downward pressure owing to potential volatility from the group's investment allocation, comprising equities, real estate, and private funds. However, Alandia is continuously monitoring and evaluating the exposure, which we view as positive. In addition, we expect Alandia's solvency ratio will remain robust; as of June 30, 2021, it was a healthy at 252%.

Chart 2

Alandia--General Account Invested Assets



Source: S&P Global Ratings and company financials.

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Over the years, Alandia has reduced its reinsurance protection, with reinsurance utilization stabilizing at about 10% in 2020. We believe the reduction in reinsurance protection can lead to greater underwriting and earnings volatility. However, Alandia is participating with minor portions of the total underlying value of blue-water vessels. Furthermore, we view as positive that Alandia is not exposed to potential pool claims, as is the case for protection and indemnity (P&I) clubs. In our opinion, this makes Alandia less vulnerable to adverse developments in the marine insurance market when compared with peers in the P&I sector, which have experienced substantial pool claims lately.

Alandia has restructured in line with its strategy to become a pure marine insurer after divesting its accident and health business in 2019, the life business in 2020, and merging Alandia Försäkring Abp with the former Försäkringsaktiebolaget Liv-Alandia. The divestment in 2020 was coupled with issuance of hybrid loans to keep the assets that were previously backing life liabilities after the divestment. We understand the loans are loss absorbing in the event of a solvency stress. Moreover, we expect Alandia to maintain prudent financial leverage below 30%, and favorable fixed-charge coverage of about 7x over 2021-2023.

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. Management is well experienced and has historically achieved its set goals. Our favorable opinion is backed by the successful execution of Alandia's demutualization process and the sale of its pension, 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 hamper its operations. In 2021, Alandia became a signatory to the U.N.'s

Principles for Sustainable Insurance.

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

We base our analysis on Alandia's financial statement which is prepared in accordance with EU-approved International Financial Reporting Standards.

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: 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: Hybrid Capital: Methodology And Assumptions, 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

- Alandia Forsakring Abp Ratings Affirmed At 'A-'; Outlook Remains Negative On Subdued Technical Performance , Nov 15, 2021.
- Finnish Insurer Alandia Forsakring Abp Ratings Affirmed At 'A-'; Off CreditWatch; Outlook Negative, June 15, 2020.
- Alandia Forsakring Abp 'A-' Ratings Placed On CreditWatch Negative After Negative Underwriting Performance, March 12, 2020.

Appendix

Alandia Forsakring Abp--Credit Metrics History			
Ratio/Metric	2020	2019	2018
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent
Total invested assets	329.7	280.1	275.7
Total shareholder equity	105.5	85.3	85.0
Gross premiums written	87.0	80.5	69.1
Net premiums written	77.7	72.3	62.9
Net premiums earned	74.7	68.3	55.6
Reinsurance utilization (%)	0.1	0.1	0.1
EBIT	25.0	2.8	21.7
Net income (attributable to all shareholders)	20.1	2.3	18.0
Return on revenue (%)	31.6	(7.0)	3.6
Return on shareholders' equity (reported) (%)	21.1	2.7	23.4
P/C: net combined ratio (%)	95.3	122.9	109.7
P/C: net expense ratio (%)	22.7	25.2	27.0
P/C: return on revenue (%)	9.8	(3.1)	36.2
Life: Net expense ratio (%)	30.0	24.9	24.7
Net investment yield (%)	1.8	3.9	2.4
Net investment yield including investment gains/(losses) (%)	1.5	5.1	1.8
P/C--Property and casualty.			

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 7, 2021)***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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