

Research Update:

Alandia Outlook Revised To Stable On Improved Technical Profitability And Solid Capitalization; Affirmed At 'A-'

October 4, 2022

Overview

- During the past two years, Nordic insurance company Alandia has taken actions to remediate its technical underperformance, which led to improved underwriting results that we expect will continue.
- Alandia's capital adequacy has also proven resilient to market volatility and its buffer over our 'AAA' benchmark has remained comfortable.
- As a result, we have revised our outlook on Alandia to stable from negative and affirmed our 'A-' ratings.
- The stable outlook indicates our expectation that Alandia can maintain its current underwriting performance, robust capital comfortably exceeding our 'AAA' benchmark, and investment risk appetite.

Rating Action

On Oct. 4, 2022, S&P Global Ratings revised its outlook on Finland-based property/casualty insurance provider, Alandia Forsakring Abp, to stable from negative. At the same time, we affirmed our 'A-' financial strength and long-term issuer credit ratings on Alandia.

Rationale

In the first half of 2022, Alandia's technical result improved to around €6 million, with the combined (loss and expense) ratio at about 81%. We understand the sale of Alandia's statutory accident portfolio to LocalTapiola General Mutual Insurance Co. contributed to this positive development. Excluding the transfer, however, the combined ratio still showed an improvement to 92% from 106.7% in the first half of 2021. The overall net result for the period was about €1,5 million, including a negative investment return at about 0.6%. We anticipate that management will

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deliver on its strategic initiatives and report a net combined ratio of 95%-96% throughout 2022-2024. That said, we believe the group's business profile is now narrower because of recent divestments, which could result in more volatile operating performance.

This performance contrasts with Alandia's results over the past few years. Heightened claims activity put pressure on Alandia's technical performance in 2018 and 2019. This prompted the group to implement changes to its underwriting, loss-prevention, and claims processes. In our view, these measures, combined with a general hardening of the marine insurance market, have notably improved Alandia's underwriting profitability. Yet, after a solid performance in 2020 with a combined ratio of 95%, Alandia's underwriting result in 2021 was disappointing, owing chiefly to an increase in the number of semi-large claims in the hull and machinery book during the first three quarters. Alandia's bottom-line result remained robust however, since the poor underwriting result was offset by a strong investment return, resulting in net profit of about €17.5 million.

Alandia's key rating strength remains its solid excess capital above the 'AAA' confidence level in our risk-based capital model. We view as positive that the company's capitalization has remained stable even through the COVID-19 pandemic-related market volatility. Nevertheless, we believe that present external market conditions could still cause volatility in capital and earnings, since the group's investment portfolio has a larger share of equities, real estate, and private funds than many of its peers'. Alandia also has a significant amount of outstanding hybrid debt, which if not replaced by other forms of capital at maturity, would put pressure on its capital position. Alandia, however, intends to replace outstanding hybrids with retained earnings as they expire

Outlook

The outlook is stable because we expect that, over our two-year outlook horizon, Alandia can maintain its current underwriting performance and robust capital comfortably exceeding our 'AAA' benchmark. We also anticipate no increase in Alandia's investment risk appetite from the current level.

Downside scenario

We could lower the ratings over the next two years if:

- Contrary to our expectations, Alandia's capital position fell below the 'AAA' benchmark in our risk-based capital model for a prolonged period of time;
- Alandia's underwriting performance drops and stays below our base-case expectations; or
- We observe fresh significant investment risk-taking, or high volatility in the group's investment result.

Upside scenario

We are unlikely to raise our ratings in the next two years, primarily because Alandia's business profile is constrained by the limited scale of its operations and low geographic and product diversity.

Environmental, Social, And Governance:

ESG credit indicators: E-2, S-2, G-2

Ratings Score Snapshot

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

*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: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, 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

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Alandia Forsakring Abp		
Issuer Credit Rating		
Local Currency	A-/Stable/--	A-/Negative/--
Financial Strength Rating		
Local Currency	A-/Stable/--	A-/Negative/--

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