Research Update:

Gjensidige 'A' Ratings Affirmed; Restricted Tier 1 Instrument Upgraded To 'BBB' Under Revised Criteria; Outlook Stable

July 18, 2019

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Overview

- Gjensidige continues to deliver excellent underwriting results, supported by its strong competitive position in the Norwegian P/C insurance market.
- At the same time, Gjensidige's capitalization and its advanced risk controls practices support its strong financial risk profile.
- We are affirming our 'A' ratings on Gjensidige Forsikring ASA and upgrading Gjensidige's restricted Tier 1 (RT1) instrument to 'BBB', following a change to our criteria.
- The stable outlook reflects our view that Gjensidige will maintain its strong competitive position and sound capitalization.

Rating Action

On July 18, 2019, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on Gjensidige. The outlook is stable.

We also upgraded the RT1 instrument issued in September 2016 to 'BBB', from 'BBB-'.

This rating action follows a review of Gjensidige's hybrid instruments under our revised criteria (see "General Criteria: Hybrid Capital: Methodology And Assumptions," published on July 1, 2019).

Outlook

The stable outlook on Gjensidige reflects our view that the insurer will maintain capital adequacy at the 'A' level, according to our risk-based capital model. We also expect Gjensidige's competitive position will remain strong and its exposure to investment risk will remain at present levels.

Downside scenario

We currently regard downside risk for the ratings over the next 12-24 months as remote, considering Gjensidige's longstanding, strong competitive position in the Norwegian property/casualty (P/C) insurance market and its strong earnings and enterprise risk management (ERM).

Upside scenario

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

- Gjensidige's exposure to investment risk decreases. This could result from a reduction in the group's investment risk appetite to a level more in line with other highly rated European P/C peers; or
- Gjensidige committed to managing its capital adequacy above or close to the 'AA' level, as per our capital model.

Rationale

We base our rating on Gjensidige on its longstanding strong competitive position in the Norwegian P/C insurance market. In Norway, Gjensidige's brand and reputation underpin its leading market share and sustainably strong earnings throughout cycles. Additionally, Gjensidige is growing its business in Denmark, Sweden, and the Baltic countries.

The strong financial risk profile reflects Gjensidige's healthy capitalization and its advanced risk controls. We embed this in our view of its risk exposure as moderately low, even though its investment risk appetite is higher-than-average. Its controls mitigate the risk of seeing higher volatility in investment.

Following the implementation of our revised criteria, our rating on the RT1 notes is now three notches below the long-term issuer credit rating (ICR) on Gjensidige Forsikring:

- One notch to reflect the notes' subordination to the company's senior obligations;
- One notch to reflect the risk of a potential temporary write-down of principal; and
- One notch to reflect the payment risk created by the mandatory and optional coupon cancellation features

The rating on these notes was previously one notch lower as we considered the payment risk higher than for the company's other hybrid instruments. We no longer consider the payment risk on these notes to be materially greater than for the company's Tier 2 hybrids, which would also be required to defer coupons upon a breach of Gjensidige's Solvency Capital Requirement (SCR). We view one notch as sufficient to reflect the payment risk on these notes, as well as on the group's other hybrids. In part, we base this on the SCR coverage level in the past year, moderate SCR sensitivity, and management's intent to maintain a healthy SCR. The SCR stood at 248% on March 31, 2019.

We will monitor Gjensidige's SCR coverage and capital plans to assess whether the ICR adequately incorporates the payment risk associated with Gjensidige's hybrid instruments. An unexpected deterioration in the group's regulatory solvency position that is not accompanied by a rating action, or increased sensitivity to stress, could lead us to lower the rating on the notes by widening the notching between them and the ICR, to ensure the hybrid instrument ratings would follow a measured transition to default.

Ratings Score Snapshot

Business risk profile	Strong
Competitive position	Strong
IICRA	Low risk
Financial risk profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
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 Gjensidige's strong position in the highly profitable Norwegian P/C market.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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

Ratings List

Upgraded

	To	From
Gjensidige		
Junior Subordinated (RT1)	BBB	BBB-

Ratings Affirmed	
Gjensidige	
Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.