Gjensidige's Restricted Tier 1 Notes Rated 'BBB'

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LONDON (S&P Global Ratings) March 5, 2024--S&P Global Ratings today assigned its 'BBB' issue rating to the Norwegian krone (NOK) 800 million restricted tier 1 subordinated notes issued by Norwegian insurance company Gjensidige (A/Stable/--).

We classify the notes as having intermediate equity content, as per our hybrid capital criteria. We include securities of this nature--up to a maximum of 30% of adjusted common equity--as the basis of our consolidated risk-based capital analysis of insurance companies. The inclusion is subject to the notes being considered eligible as the company's regulatory own funds.

We rate the notes three notches below the 'A' long-term issuer credit rating on Gjensidige. We deduct:

- One notch to reflect the risk of a potential temporary write-down of principal;
- One notch to reflect the notes' subordination to Gjensidige's senior creditors; and
- One notch to reflect payment risk arising from the mandatory and optional coupon cancellation clauses in the documentation. Interest cancellation is mandatory in the event of a breach of either the solvency capital requirement (SCR) or the minimum capital requirement under Solvency II.

Gjensidige's SCR coverage ratio remains robust and was 166% at year-end 2023. We will monitor the group's SCR coverage and capital plans to assess whether the issue rating adequately captures the payment risk associated with the hybrid instrument. A deterioration of the group's regulatory solvency position that is not accompanied by a change in the issuer credit rating, or increased sensitivity to stress, could lead us to lower the issue rating on the notes by increasing the notching between the issue rating and the issuer credit rating to reflect the heightened payment risk.

We understand that the notes are perpetual but can be called at par 5.75 years after the settlement date and on every subsequent business day to and including the next interest payment date, or on any interest payment date thereafter. The coupon will carry a variable rate based on the three-month Norwegian inter-bank offer rate (NIBOR) plus a margin. This coupon has a floor of zero, should the NIBOR plus the margin fall below zero. There is no step-up in the coupon rate if the bonds are not called at the first call date.

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