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## Research Update:

# Insurer Tryggingamidstodin 'BBB' Ratings Affirmed After Upgrade Of Iceland; Outlook Stable

### Primary Credit Analyst:

Anna Glennmar, Stockholm (46) 8-440-5922; [anna.glennmar@standardandpoors.com](mailto:anna.glennmar@standardandpoors.com)

### Secondary Credit Analyst:

Alexander Altinisik, Stockholm (46) 8-440-5902; [alexander.altinisik@standardandpoors.com](mailto:alexander.altinisik@standardandpoors.com)

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## Research Update:

# Insurer Tryggingamidstodin 'BBB' Ratings Affirmed After Upgrade Of Iceland; Outlook Stable

## Overview

- The downward pressure on our ratings on Icelandic non-life insurer Tryggingamidstodin hf. (TM), from being capped by our ratings on Iceland, has reduced significantly in view of the upgrade of Iceland to 'BBB+' on Jan. 15, 2016.
- We continue to assess TM's stand-alone credit profile at 'bbb', one notch below the long-term sovereign credit rating.
- Therefore we are affirming our 'BBB' ratings on TM.
- The stable outlook reflects our expectation that TM will continue to successfully implement its strategy, while maintaining moderately strong capital and earnings and its investment risk profile over the next two years.

## Rating Action

On Feb. 9, 2016, Standard & Poor's Ratings Services affirmed its 'BBB' long-term insurer financial strength and counterparty credit ratings on Iceland-based non-life insurer Tryggingamidstodin hf. (TM). The outlook is stable.

## Rationale

The affirmation of TM follows our upgrade of the sovereign on Jan. 15, 2016 (see "Iceland Ratings Raised To 'BBB+' On Further Progress Toward Capital Account Liberalization And Declining Debt Levels," published on RatingsDirect).

Our view of TM's stand-alone credit profile is unchanged at 'bbb'. In our view, the company has a fair business risk profile, with an approximate 25% market share of the Icelandic non-life insurance markets and good operating performance, reflected in an average combined (loss and expense) ratio of 94% over 2010-2014. We expect TM to report a weaker operating performance in 2015, with the combined ratio at about 103%, due to high weather-related claims in the first half of the year after several storms in Iceland. We still consider that TM's limited geographic diversity beyond Iceland exposes it to moderate insurance industry and country risk, despite the sovereign upgrade, and this constrains our view of TM's business risk profile.

We continue to regard TM's financial risk profile as upper adequate, reflecting the company's moderately strong capital and earnings and its increasingly shareholder-focused capital management strategy. Moreover, in our view, the small absolute size of TM's capital leaves it vulnerable to losses from single events. Another constraint is TM's underwriting and investment concentrations in Iceland, which expose the company to further potential volatility in its capital base.

TM's high exposure to Iceland, where about 90% of its business and assets were located in 2015, leads us to cap our long-term ratings on the company at the level of our long-term foreign currency ratings on Iceland. However, following the upgrade of Iceland, TM's 'bbb' stand-alone credit profile is now below our 'BBB+' long-term foreign currency ratings on Iceland. This means that the pressure on our long-term ratings on TM has significantly reduced.

## Outlook

The stable outlook on TM reflects our expectation that TM's management will continue to successfully implement its strategy, sustain the company's moderately strong capital and earnings, and preserve its investment risk profile over the next two years. We also expect TM's underwriting earnings to recover to levels commensurate with its competitive position.

Downside scenario:

We could lower the ratings on TM if, contrary to our expectations:

- Risk in TM's investment portfolio materially increased;
- Capital adequacy deteriorated significantly below our 'A' confidence level, according to our risk-based capital model, for a long period, which could result from a leaner capital management strategy; or
- Liquidity weakened, for example after an increase in holdings of illiquid or high-risk assets.

Upside scenario:

We currently do not see any upside potential for the ratings over the next 12-24 months, given industry and country risks stemming from TM's concentration in Iceland.

## Ratings Score Snapshot

	To	From
<b>Financial Strength Rating</b>	BBB/Stable	BBB/Stable
<b>Anchor</b>	bbb	bbb
Business Risk Profile	Fair	Fair
IICRA	Moderate Risk	Moderate Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Upper Adequate	Upper Adequate
Capital and Earnings	Moderately Strong	Moderately Strong
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
<b>Modifiers</b>	0	0
ERM and Management	0	0

	To	From
Enterprise Risk Management	Adequate	Adequate
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
<b>Liquidity</b>	Strong	Strong
<b>Support</b>	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment

## Related Criteria And Research

### Related Criteria

- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

### Related Research

- Iceland Ratings Raised To 'BBB+' On Further Progress Toward Capital Account Liberalization And Declining Debt Levels - January 15, 2016

## Ratings List

	Rating	
	To	From
Tryggingamidstodin hf.		
Counterparty Credit Rating		
Local Currency	BBB/Stable/--	BBB/Stable/--
Financial Strength Rating		
Local Currency	BBB/Stable/--	BBB/Stable/--

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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](http://www.standardandpoors.com) for further information.

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**Additional Contact:**

Insurance Ratings Europe; [InsuranceInteractive\\_Europe@standardandpoors.com](mailto:InsuranceInteractive_Europe@standardandpoors.com)

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