

Research Update:

PRI Pensionsgaranti Mutual Insurance Co. 'A' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

March 15, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The revised criteria did not affect our assessment of PRI Pensionsgaranti Mutual Insurance Co.'s (PRI) capital and earnings.
- PRI retains its profitable niche position in the Swedish occupational pensions market, while maintaining disciplined underwriting standards and an excellent and resilient capital position.
- We therefore affirmed our 'A' long-term issuer credit and financial strength ratings on PRI.
- The stable outlook reflects our expectation that PRI will maintain its strong operating performance and an excess of capital above our 99.99% confidence level over the next two years.

Rating Action

On March 15, 2024, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on PRI. The outlook remains stable.

Impact Of Revised Capital Model Criteria

The revised criteria have no material effect on PRI's risk-based capital adequacy because the latter already exceeds our highest confidence level.

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

RESEARCH CONTRIBUTOR

Nadeem Shaikh
CRISIL Global Analytical Center, an
S&P affiliate, Mumbai

Credit Highlights

Overview

Key strengths	Key risks
Sustainable and profitable business model, thanks to a niche position in the Swedish occupational pensions market as the sole provider of credit insurance for pensions funded by the credit insurance model under the "Industrins och handelns tilläggspension 2" (ITP 2) scheme.	Elevated exposure to equities, with about 28% of the portfolio allocated to equities at year-end 2023.
Excellent capitalization, which is well above our 99.99% confidence level.	Limited scale and diversity in terms of geographical presence and product types.
Robust economic standing of Swedish corporate pension clients.	Exposure to volatile capital markets and the economic downturn in Sweden, which could hamper revenues and earnings.

Outlook

The stable outlook reflects our expectation that PRI will maintain its strong operating performance and material capital buffer above our 99.99% confidence level over the next two years.

Downside scenario

We could lower the ratings over the next 12-24 months if PRI's capital declines below the 99.99% confidence level. This could happen if a macroeconomic downturn leads to a material increase in client defaults and consequently higher claims, or if a sharp decline in equity markets results in a material loss.

Upside scenario

We see the likelihood of a positive rating action as remote over the next two years, considering the concentration of PRI's business in and exposure to a niche product that is highly sensitive to the economic conditions of a single country.

Rationale

PRI maintained its niche position as the main provider of credit insurance and administrative services for occupational pension plans in Sweden. PRI benefits from the fact that it is the exclusive provider of credit insurance for the ITP 2 scheme. Funding is based on a book reserve system, for which credit insurance is compulsory. ITP 2 is a defined-benefit pension scheme for private-sector white-collar workers born in or before 1978.

In our view, PRI's unique position in a niche segment of the Swedish insurance market drives its stable income streams and healthy underwriting profitability. That said, we believe the company is highly exposed to Sweden's economic development, because its insurance business is closely linked to economic cycles. Furthermore, PRI's business is also concentrated in terms of products, policyholders, and geography, with Swedish exposures representing about two-thirds of the total

business.

Despite an economic slowdown and high inflation in Sweden during 2023, PRI experienced an immaterial number of claims and, as such, reported a robust combined ratio of about 36%, excluding bonus payouts for 2023 of Swedish krona (SEK) 400 million. We positively view the strong five-year average (2019-2023) combined ratio of about 39%. Technical profit amounted to about SEK272 million (excluding bonus payouts) and net income was about SEK1.9 billion, further boosting the company's capital.

Based on our prudent assumptions, we forecast a combined ratio of about 50% over 2024-2026. At the end of 2023, about 54% of PRI's investment portfolio was allocated to equities and alternative investments, such as real estate funds and hedge funds. In our base case, we therefore expect PRI will report robust net income over the next two years, with an annual income of SEK350 million (about €31 million).

Given PRI's very robust capital buffers, its capital adequacy remained well above our 99.99% benchmark. However, we acknowledge that our estimates of PRI's capital requirements, based on historical loss levels, may underestimate the sensitivity of PRI's gross exposure to potential economic shocks. We incorporated these uncertainties in our conservative assessment of the financial risk profile. That said, we expect PRI will maintain its excellent capital position over the forecast period, not least due to its retained earnings and sustainably low claims ratios. The redundancy at the 99.99% level is slightly larger than PRI's entire equity exposure, which underlines PRI's resilience against volatile equity markets.

PRI's Solvency II ratio is very stable and robust, with almost no volatility. In the first nine months of 2023, the ratio stood at 256%, including the add-on from the regulator.

Ratings Score Snapshot

Financial strength rating	A
Anchor	a
Business risk	Strong
IICRA	Low
Competitive position	Strong
Financial risk	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
PRI Pensionsgaranti Mutual Insurance Co.	
Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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