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# PRI Pensionsgaranti Mutual Insurance Co.

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# PRI Pensionsgaranti Mutual Insurance Co.

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

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

## 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. | High exposure to equities, with about 26% of the portfolio allocated to equities at year-end 2022. |
| Excellent capitalization, which is above the 'AAA' confidence level of our risk-based capital model, supports the business model, and provides a buffer in times of high market volatility. | Lack of scale and limited diversity, both in terms of geographic presence and product type, make the business susceptible to economic cycles in Sweden. |
| Benefits from the robust Swedish economy. | Exposure to volatile capital markets, elevated inflation, and the economic downturn in Sweden, which could hamper revenue and earnings profile. |

***S&P Global Ratings expects that PRI Pensionsgaranti Mutual Insurance Co. (PRI) will maintain a robust technical profitability thanks to its niche market position.*** In our view, PRI's competitiveness benefits from its long-standing role as the sole credit insurer and service provider of occupational pensions in Sweden. Furthermore, PRI can transform its expertise into sustainable long-term profitability and high operating margins, which helps the company deal with the volatile nature of credit insurance. Despite being very successful, we believe policyholders, business lines, and, to some extent, geography limit PRI's competitive position.

***We expect PRI will maintain a favorable combined profit and loss ratio.*** The company's combined ratio was 17.6% in 2022 and averaged 48% between 2018 and 2022. In our view, PRI's earnings remain resilient, but volatility in the financial markets has weighed on its investment results. Assuming no major losses, we anticipate a net combined ratio of approximately 45% in 2023-2024 and a return on investments of 1%-2%, although this is subject to volatility due to a material share of high-risk assets.

***Capital adequacy will remain a key strength over 2023-2024.*** Despite the net loss in 2022, PRI remains sufficiently capitalized, with a huge buffer on the 'AAA' confidence level. Thus, we consider PRI's very high capital buffer to be a key rating strength. It benefits from strong retained earnings and sustainably low claims ratios in recent years. Based on our expectations of the company's robust profitability, we assume in our base case that capitalization will remain in the 'AAA' range over the next two years. Furthermore, we consider PRI's strong capital buffers should temper volatility stemming from its exposure to equities. PRI's solid solvency ratio of 264% at year-end 2022 further supports our view of a strong capital position.

## Outlook: Stable

The outlook is stable because PRI has a material capital buffer above the 'AAA' level, and we anticipate that the company will maintain capital adequacy commensurate with our 'AAA' confidence level.

### Downside scenario

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

- Volatility stemming from macroeconomic uncertainties leads to a material increase of client defaults and consequently higher claims. This could erode capital below the 'AAA' confidence level in our risk-based capital model.
- An even stronger drop in equity markets than the one we saw in March 2020 occurs and materially dents the company's substantial excess capital position with regards to our 'AAA' confidence level.

### Upside scenario

We regard a positive rating action as remote over the next two years, in light of 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.

# Key Assumptions

- Swedish GDP to contract by 0.8% in 2023, followed by a growth of 1.3% in 2024 and 2.0% in 2025.
- Inflation to remain elevated at 7.6% in 2023, before going down to 3.2% in 2024 and 1.9% in 2025.
- Interest rates to increase. In the eurozone, we anticipate 10-year government bond yields of about 3.4% in 2023 and 3.7% in 2024.

**PRI Pensionsgaranti Mutual Insurance Co.--Key metrics**

| | 2024f | 2023f | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| S&P Global Ratings capital adequacy | Excellent | Excellent | Excellent | Excellent | Excellent | Excellent |
| Net premium written (mil. SEK) | >500 | >500 | 500.9 | 529.1 | 510.1 | 540.8 |

| PRI Pensionsgaranti Mutual Insurance Co.--Key metrics (cont.) | | | | | | |
|---|---|---|---|---|---|---|
| | **2024f** | **2023f** | **2022** | **2021** | **2020** | **2019** |
| Net income (mil. SEK) | 250-450 | 250-450 | (1,581.9) | 2,849.0 | 67.8 | 936.0 |
| Return on shareholders' equity (%) | >2 | >2 | (4.7) | 8.8 | 0.2 | 3.3 |
| Net investment yield (%)* | >1 | >1 | 1.1 | 1.0 | 0.7 | 1.1 |
| P/C net combined ratio (%) | <100 | <100 | 17.6 | 20.7 | 17.9 | 169.9 |

*Net investment yield excluding investment gains/(losses). f--Forecast. P/C-- Property/casualty. SEK--Swedish krona.

## Business Risk Profile: Strong

PRI is the main provider of credit insurance and administrative services for occupational pension plans in Sweden. It benefits from being the exclusive provider of credit insurance for "Industrins och handelns tilläggspension 2" (ITP 2) schemes. 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.

PRI has about 1,200 policyholder owners, including many major Swedish companies. PRI's business concept is based on issuing credit insurance covering the owners' pension liabilities, which enables the owners to retain their pension capital in their business operations. In our view, PRI's mutual status, its longstanding relationship with its policyholder owners, and its broad range of products (which include financial reporting services, pension fund administration, and other pension administration services) support its overall strong position in the Swedish market. In addition, PRI continues to focus on increasing sales of pension administration services through other distribution channels, such as brokers and consultants.

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.

PRI experienced no COVID-19-related losses for 2022 and reported a combined ratio of about 27% and technical profit of Swedish krona (SEK) 408.4 million in 2022. Moreover, we consider that PRI's capital buffer supports its business model, even in severe stress scenarios. The volatility of PRI's performance is part of the credit insurance business. Given the very profitable years since 2011, PRI has built a strong redundancy at the 'AAA' level and this redundancy helps to cover above-average losses in a recession.

## Financial Risk Profile: Strong

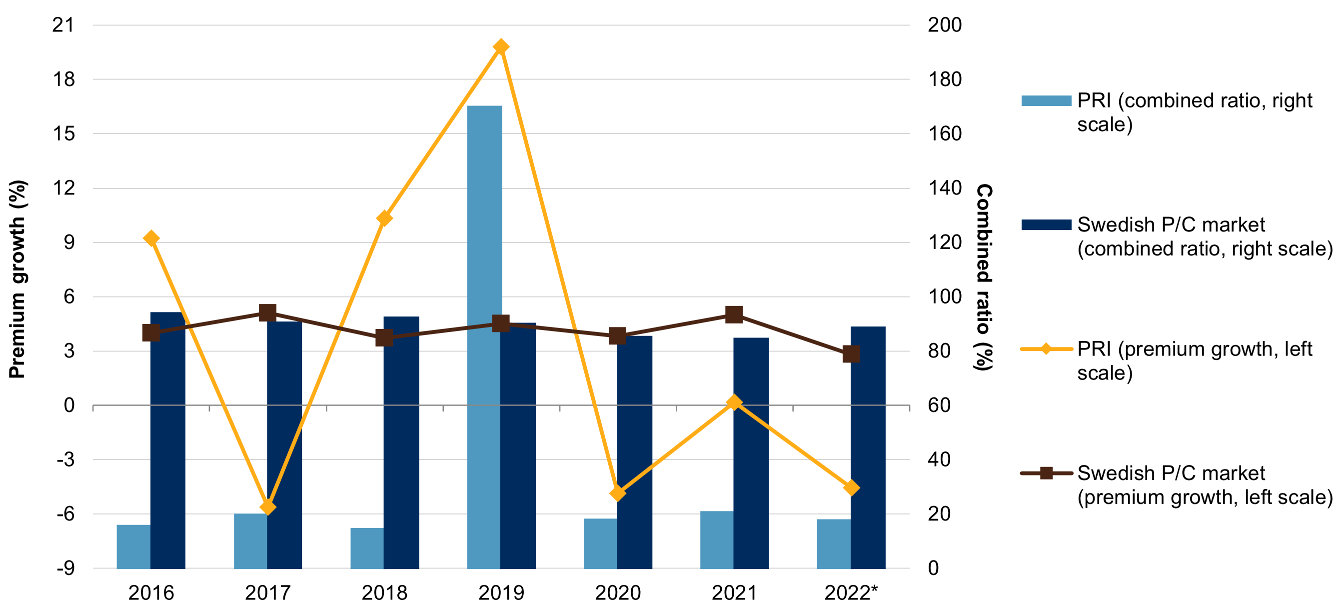
Because of PRI's very sound capital buffers, its capital adequacy has remained above the benchmark of our 'AAA' category under our risk-based capital model. However, we acknowledge that our estimates of PRI's capital requirements, based on historical loss levels, may underestimate the sensitivity of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

Moreover, our view of PRI's capitalization was unchanged, even after the Swedish Financial Supervisory Authority (Finansinspektionen) decided to include a capital add-on for capital requirements under the standard formula for Solvency II. Excluding the capital add-on from the regulator, PRI's regulatory Solvency II ratio was 535% at the end of 2020, up from 509% at the end of 2019. The regulator applied its capital add-on in 2020 and, as a result, PRI's Solvency II ratio was 257%. The company has confirmed that its regulatory Solvency II ratio at the end of 2022 was 264%, including the add-on from the regulator. It has demonstrated a very stable and robust Solvency II ratio, with almost no volatility.

PRI experienced minimal claims in 2022. None of the claims related to COVID-19. However, volatility in claims is in the nature of PRI's business model as a credit insurer. Over the years, PRI built up a sustainable capital base with very low combined ratios. On average, PRI's combined ratio was 48% between 2018 and 2022, compared with 88% in the Swedish property/casualty market. This underlines the very high profitability of PRI's unique business model.

**Chart 1**

**PRI demonstrates robust profitability levels**




*Estimates for Swedish P/C market for 2022. P/C--Property/casualty. Sources: S&P Global Ratings, Swedish Insurance Association.

Based on our assumptions, we forecast a combined ratio of about 45% over 2023-2025. At the end of 2022, about 48% of the investment portfolio was allocated to equities and alternative investments, such as real estate funds and hedge funds. Consequently, in our base case, we expect PRI to report robust net income for the coming period, with income levels of SEK340 million-SEK360 million (about €32 million-€35 million) a year.

Even though the 10 largest policyholders represent only 38% of the company's net exposure, we consider policyholder concentration as one of PRI's main risks. We maintain this view, despite PRI's purchase of additional reinsurance for its peak exposures and the requirement that policyholders increase collateral to reduce customer concentration and overall net exposure.

The company has no debt on its balance sheet, and we expect its earnings will meet capital needs for future organic growth. Another strength, in our view, is the company's flexible bonus policy toward its mutual policyholders, as a result of which it had made no bonus payouts until 2021. In 2022, PRI made a bonus payout of SEK400 million to policyholders. The company has not announced any bonus for 2023.

## Other Key Credit Considerations

### Governance

PRI benefits from what we see as a highly experienced, stable management team. It has a strong governance track record and solid expertise in both the Swedish pension system in general and, more specifically, in credit insurance for pensions that rely on the book reserve system.

Given the company's relatively small size, we see some operational risk since it will be difficult to replace key personnel immediately.

### Liquidity

We consider PRI's liquidity exceptional, owing to its solid available liquidity sources. These make PRI more than capable of dealing with any unexpected increases in the size or frequency of claims.

### Environmental, social, and governance

**ESG Credit Indicators**

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| E-1 | **E-2** | E-3 | E-4 | E-5 | S-1 | **S-2** | S-3 | S-4 | S-5 | G-1 | **G-2** | G-3 | G-4 | G-5 |

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of PRI.

### Accounting considerations

PRI is regulated by the Swedish Financial Supervisory Authority and its accounts are prepared under International Financial Reporting Standards.

A key treatment within our risk-based capital model relates to the fact that the Swedish contingency reserve (säkerhetsreserv), which stood at SEK25.4 billion at year-end 2022, fully covers shareholders' equity.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Related Research

- Insurance Industry And Country Risk Assessment: Sweden Property/Casualty, March 29, 2023

## Appendix

| PRI Pensionsgaranti Mutual Insurance Co.--Credit metrics history | | |
|---|---|---|
| **Ratio/Metric** | **2022** | **2021** |
| S&P Global Ratings capital adequacy* | Excellent | Excellent |
| Total invested assets | 34,537.0 | 35,606.0 |
| Total shareholder equity | 33,564.0 | 33,617.0 |
| Gross premiums written | 537.6 | 563.2 |
| Net premiums earned | 491.1 | 592.0 |
| Reinsurance utilization (%) | 6.8 | 6.1 |
| EBIT | (1,934.2) | 4,027.0 |
| Net income (attributable to all shareholders) | (1,581.9) | 2,849.0 |
| Return on shareholders' equity (reported) (%) | (4.7) | 8.8 |
| Return on revenue (%) | 73.2 | (11.1) |
| P/C: net combined ratio (%) | 17.6 | 20.7 |
| P/C: net expense ratio (%) | 22.4 | 17.0 |
| Net investment yield (%) | 1.1 | 1.0 |
| Net investment yield including investment gains/(losses) (%) | (2.4) | 9.2 |

P/C--Property/casualty.

## Business And Financial Risk Matrix

| Business risk profile | Financial risk profile | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Excellent | Very Strong | **Strong** | Satisfactory | Fair | Marginal | Weak | Vulnerable |
| Excellent | aa+ | aa | aa- | a+ | a- | bbb | bb+ | b+ |
| Very Strong | aa | aa/aa- | aa-/a+ | a+/a | a-/bbb+ | bbb/bbb- | bb+/bb | b+ |
| **Strong** | aa-/a+ | a+/a | **a/a-** | a-/bbb+ | bbb+/bbb | bbb-/bb+ | bb/bb- | b+/b |
| Satisfactory | a | a/a- | a-/bbb+ | bbb+/bbb | bbb/bbb- | bb+/bb | bb-/b+ | b/b- |
| Fair | a- | a-/bbb+ | bbb+/bbb | bbb/bbb- | bbb-/bb+ | bb/bb- | b+/b | b- |
| Weak | bbb+/bbb | bbb/bbb- | bbb-/bb+ | bb+/bb | bb/bb- | bb-/b+ | b/b- | b- |
| Vulnerable | bbb-/bb+ | bb+/bb | bb/bb- | bb-/b+ | b+/b | b/b- | b- | b- |

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of June 12, 2023)*

| | |
|---|---|
| **PRI Pensionsgaranti Mutual Insurance Co.** | |
| Financial Strength Rating | |
| *Local Currency* | A/Stable/-- |
| Issuer Credit Rating | |
| *Local Currency* | A/Stable/-- |
| **Holding Company** | None |
| **Domicile** | Sweden |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.