

Research Update:

# Gjensidige Outlook Revised To Positive On Strengthening Capital; 'A' Ratings Affirmed

June 25, 2021

## Overview

- Norway-based non-life insurer Gjensidige Forsikring ASA (Gjensidige) strengthened its capital base materially over 2020-2021.
- Gjensidige has delivered strong and consistent technical profitability for the past five years. This, coupled with Gjensidige's conservative reserving, gives us confidence that it will maintain the enhanced capital strength.
- We have therefore revised the outlook on Gjensidige to positive from stable and affirmed our 'A' long-term issuer credit and financial strength ratings on Gjensidige.
- We have also affirmed our 'BBB+' issue rating on Gjensidige's tier 2 debt and our 'BBB' issue rating on its restricted tier 1 subordinated debt.
- The positive outlook reflects the possibility of an upgrade if Gjensidige continues to produce strong technical results and its exposure to investment risk remains the same.

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## Rating Action

On June 25, 2021, S&P Global Ratings revised the outlook to positive from stable on Gjensidige Forsikring ASA (Gjensidige). At the same time, we affirmed our 'A' long-term issuer credit and financial strength ratings on Gjensidige. We also affirmed our 'BBB+' issue rating on Gjensidige's tier 2 debt and our 'BBB' issue rating on its restricted tier 1 subordinated debt.

## Outlook

The positive outlook on Gjensidige reflects the insurer's strengthening capital position. We also expect that Gjensidige will continue to produce strong technical results and that its exposure to investment risk will remain the same.

## Upside scenario

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

- Capital remains above our 'AA' threshold;
- Earnings remain strong and diversified across its operations; and
- Investment risk does not increase materially.

## Downside scenario

We could revise our outlook to stable should Gjensidige suffer significant business volatility, or should claims or investment losses impair Gjensidige's capital base.

## Rationale

Gjensidige strengthened its capital base materially over 2020-2021, partly through strong retained earnings, with profit before tax of Norwegian krone (NOK) 6.3 billion in 2020 and NOK1.6 billion in the first quarter of 2021. Gjensidige also raised NOK2.4 billion of fresh capital through two hybrid issues in March 2021. As well as reinforcing capital as measured by our capital model, coverage of the Solvency II capital requirement rose to 215% by March 2021. Gjensidige has long delivered strong and consistent technical profitability, with combined ratios under 86% for each of the past five years. Coupled with conservative reserving, this gives us confidence that Gjensidige will maintain this enhanced capital strength.

We base our ratings on Gjensidige on its longstanding strong competitive position in the Norwegian property/casualty 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 ratings also reflect Gjensidige's healthy capitalization and its advanced risk controls. Its controls mitigate the risk of higher volatility in investments, as demonstrated in 2020. We view Gjensidige's majority ownership by the Gjensidige foundation as a positive for the rating and a potential source of financial flexibility, should this be required.

## Ratings Score Snapshot

### Gjensidige Forsikring ASA --Ratings Score Snapshot

	To	From
Business risk profile	Strong	Strong
Competitive position	Strong	Strong
IICRA	Low risk	Low risk
Financial risk profile	Very strong	Strong
Capital and earnings	Very strong	Strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral

## Gjensidige Forsikring ASA --Ratings Score Snapshot (cont.)

	To	From
Anchor*	a	a
<b>Modifiers</b>		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Financial strength rating	A	A

\*This is influenced by our view of Gjensidige's relatively narrow competitive position.

## 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 Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

### Ratings Affirmed

#### Gjensidige

Junior Subordinated	BBB
Junior Subordinated	BBB+

### Ratings Affirmed; Outlook Action

	To	From
<b>Gjensidige</b>		
Issuer Credit Rating	A/Positive/--	A/Stable/--
Financial Strength Rating	A/Positive/--	A/Stable/--

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