S&P Global Ratings

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Research Update:

Gjensidige 'A' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

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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 have not changed our opinion of Gjensidige Forsikring ASA's capital position.
- We have thus affirmed our 'A' long-term issuer credit and financial strength ratings on Gjensidige.
- The stable outlook reflects our view that, over the next two years, Gjensidige will continue to produce strong technical results with combined ratios below 90% and capital levels in excess of the 99.95% benchmark in our model.

Rating Action

On April 30, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on Gjensidige Forsikring ASA. The outlook remains stable. We also affirmed our 'BBB+' issue ratings on Gjensidige's Tier 2 debt issues and the 'BBB' rating on its restricted Tier 1 subordinated issues.

Impact Of Revised Capital Model Criteria

- The application of our revised capital adequacy framework has no material effect on Gjensidige's capital adequacy. We expect capital adequacy will remain redundant at the 99.95% confidence level over the forecast period.
- Under the new criteria, we have captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements.

Credit Highlights

Overview

Key strengths	Key risks
Leading market position in the Norwegian property and casualty (P/C) market	Higher-than-average investment risk appetite
Consistently strong underwriting performance	Limited product and geographic diversification compared with higher rated peers

Outlook

The stable outlook on Gjensidige reflects our view that the group will continue to report excellent underwriting results and maintain levels of capital in excess of our 99.95% benchmark over the next two years. We expect the group will demonstrate its strong competitive position through recording combined ratios below 90% and return on equity in excess of 15% over the same period.

Downside scenario

We could take a negative rating action over the next 24 months if Gjensidige suffers significant underwriting or investment losses that drive its capital base consistently below our 99.8% benchmark.

Upside scenario

We could take a positive rating action over the next 24 months if Gjensidige continues to record combined ratios below 90% while consistently maintaining capital levels at the 99.99% level.

Rationale

Gjensidige is the leading P/C insurance provider in Norway, with a powerful brand and reputation evidenced by its very high retention rates (above 90%) in both private and commercial lines. While the majority of the group's income is sourced from nonlife products in Norway (67% of group revenue at year-end 2023), the group has some geographic diversification with sizable market shares in nonlife lines in Denmark (22% of group revenue) and Sweden (5%), as well as a presence in the Baltics (4%). Gjensidige is also active in the Norwegian pension and savings market (1% of group revenue). We do not expect Gjensidige to expand outside of its Scandinavian and Baltic focus over the next two years. While we expect its pensions and savings business to become a larger part of the group, we expect Gjensidige will remain an overwhelmingly nonlife focused insurer.

We expect that Gjensidige will continue to grow its top line over 2024-2025 but in a more moderated manner. The group has increased its gross premium by around 21% over the past two years in part due to rate increases driven by inflation. At the end of 2023, the group had grown insurance revenue by 9% with both strong renewals and volume growth. However, we would expect growth to temper over 2024-2025 as inflation reduces.

In 2023, Gjensidige again reported robust results, with profits before tax of Norwegian krone (NOK) 5.6 billion and a strong combined ratio of 87.6%. A higher frequency of claims in both personal and commercial lines driven by natural catastrophes had a negative impact on loss ratios. However, we expect Gjensidige's underwriting results will continue to compare very favorably with other 'A' rated peers such as Hiscox, Lansforsakringar, and Triglav.

Gjensidige's coverage of Solvency II capital requirements remained well within its target range at 166% at year-end 2023. Gjensidige continued to pay dividends in line with its strategy of a payout ratio of at least 80%. We expect the group to comfortably manage its Solvency ratio within management's target range of 140%-190% over 2024-2025. We expect that the group will also maintain capital levels at a comfortable margin above 99.8% in our risk-based model over the same period.

While Gjensidige is a public company, the Gjensidige Foundation retains majority ownership. The foundation aims to keep at least a 60% share of the group over time, though it could accept a temporarily reduced share should the need arise. We regard this facility as enhancing the financial flexibility of the group. Fixed charge coverage and leverage remained robust.

Ratings Score Snapshot

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

We consider Gjensidige's capital position to be weaker under both our model and Solvency 2 than A+ peers. Gjensidige is also less diversified than many of its A+ peers. 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	
Gjensidige	
Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--
Subordinated	BBB+
Junior Subordinated	BBB
Junior Subordinated	BBB+