

Research Update:

# Slovenia-Based Sava Insurance Group 'A' Ratings Affirmed; Outlook Stable

July 30, 2019

## Overview

- Sava Insurance Group (Sava) is the second-largest insurer in Slovenia, with further operations through the Adria region. The group is expanding its operations and has sustainably stable earnings in its domestic insurance business, while its international reinsurance business offers additional income diversification.
- In our view, sound macroeconomic conditions in Slovenia have strengthened the creditworthiness of Sava's Slovenian assets and are solidifying the group's risk profile. Sava continues to benefit from its robust capital position.
- While Sava's domestic competitive position is strong, its revenues and net income remain less geographically diversified than those of higher-rated peers.
- We are therefore affirming our 'A' ratings on Sava's core entities, Pozavarovalnica Sava and Zavarovalnica Sava.
- The stable outlook on the group's core entities reflects our expectations that management will continue pursuing profitable growth and diversifying group's premiums and income streams, while maintaining at least very strong capitalization and solid and stable earnings over the next two years.

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## Rating Action

On July 30, 2019, S&P Global Ratings affirmed its 'A' long-term insurer financial strength and issuer credit ratings on Pozavarovalnica Sava d.d. and Zavarovalnica Sava, the core subsidiaries of Slovenia-based Sava Insurance Group (Sava). The outlook on both entities is stable.

## Outlook

The stable outlook on Sava's core operating entities reflects our expectations that the group's management will continue to implement its strategy of profitable growth while further diversifying group's premiums and income streams. Despite growth, we expect Sava will sustain at least very

strong capitalization, while posting solid and stable earning over the next two years.

## **Upside scenario**

We consider a positive rating action remote at this time. An upgrade would require improvement of the group's competitive position, which could occur, for example, if sustainable economic growth propels Slovenia's income in GDP per capita terms further toward the eurozone average and strengthens prospects for profitable domestic growth, which we do not foresee over the next 12-24 months.

## **Downside scenario**

We could lower the ratings if Sava's competitive position were to weaken as a result of significant erosion of volumes or profitability triggered by external economic conditions that would also derail sound macroeconomic development in Slovenia.

## **Rationale**

The ratings are supported by our view of Sava's No. 2 position in the attractive Slovenian insurance market, with a significant expansion into insurance markets of the Adria region, and further diversification of income from its stable and soundly profitable international reinsurance business. Stable and attractive margins underline a better operating performance than most of its international peers, and the company has a solid risk profile. We believe that the group's capitalization is robust--above the 'AAA' range according to our risk-based capital model--and we expect it to remain at least in the 'AA' range, even with further domestic and international business expansion.

We expect that the group will maintain its competitive position in its domestic market of Slovenia, where it currently generates about 70% of premiums and about 70% of profits. In addition, we expect that its international reinsurance business will continue to contribute to diversification of its premiums and income streams. In our view, the group has good distribution capabilities, as well as good brand recognition in Slovenia and in a number of foreign markets in the Adria region. In its international reinsurance business, the company is leveraging its established and proven expertise as a service-driven coverage provider, through which it built strong and stable relationships with its cedents. We see positively that at the end of 2018, the group solidified its domestic competitive position with the acquisition of the fourth-largest asset-management firm in Slovenia. However, we consider that due to the comparably smaller size of the asset under management, income contribution from this business line will remain limited in 2019-2021.

In the past few years, the group materially solidified the underwriting performance of its Slovenian business, while its reinsurance operations remained stable with performance better than the overall market. This led to improvement of its overall combined ratio to 93.7% in 2018 with a five-year average combined ratio of around 95%, according to our calculation. Stronger underwriting results allowed the group to post continued growth of net income, which in 2018 reached €43 million and translated into a return on equity of 13.1%. We expect that profitability of the property and casualty segment will remain stable, with the combined ratio staying firmly below 95% in 2019-2021. Stable profitable performance, which in combination with its very strong capital position in our opinion, remains the group's key strength. This said, the company may use some of the currently extremely strong capital for business expansion, however, we expect that the group will maintain capitalization at least in the 'AA' range of our insurance capital model over

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the next two to three years. This is backed by our assumption of net income of at least €40 million and a publicly communicated dividend policy.

Sava's risk profile is very solid, benefiting from its conservative investment portfolio with high-quality investments broadly diversified across the eurozone, while Sava continues to limit the risk of catastrophes on its balance sheet. Exposure to Slovenian country risk is relatively low, making up only 16% of its investments at the end of first-quarter 2019. In our view, continued sound macroeconomic development in Slovenia strengthened creditworthiness of Slovenian assets and is solidifying the group's very conservative investment risk profile.

We continue to regard Sava as a government-related entity, chiefly because the Slovenian government is its largest shareholder. Moreover, Sava plays a key role in protecting Slovenians in a structured way from the impact of catastrophe events, to which the country is exposed. We consider that there is a moderately high likelihood that the government of Slovenia (AA-/Stable/A-1+) would provide timely and sufficient extraordinary support to Sava in the event of financial distress. Although we do not include any uplift for support in the ratings, a change in shareholding would have a negative impact on the ratings if Sava were to be taken over by a financially weaker group.

## Ratings Score Snapshot

<b>Business Risk Profile</b>	Strong
Competitive position	Strong
IICRA	Intermediate Risk
<b>Financial Risk Profile</b>	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor*	a
<b>Modifiers</b>	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
<b>Financial Strength Rating</b>	A

\*Reflects that Sava continues to have lower geographic diversification of revenues and net income than its regional competitors.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013

## Research Update: Slovenia-Based Sava Insurance Group 'A' Ratings Affirmed; Outlook Stable

- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### Ratings Affirmed

<b>Pozavarovalnica Sava d.d.</b>	
Issuer Credit Rating	
Local Currency	A/Stable/--
<b>Pozavarovalnica Sava d.d.</b>	
<b>Zavarovalnica Sava d.d.</b>	
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.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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