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Research Update:

Insurer Tryggingamidstodin Ratings Raised To 'BBB' After Upgrade Of Iceland; Outlook Stable

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Overview

- On July 17, 2015, we raised our long-term sovereign rating on Iceland to 'BBB'.
- We assess the stand-alone credit profile of non-life insurer Tryggingamidstodin hf. (TM) at 'bbb', but our long-term ratings on the company are capped by the long-term sovereign rating on Iceland.
- Following the sovereign upgrade, we are therefore raising our ratings on TM to 'BBB' from 'BBB-'.
- The stable outlook on TM reflects our expectation that the company will continue to successfully implement its strategy, while maintaining moderately strong capital and earnings and its investment risk profile over the next two years.

Rating Action

On July 20, 2015, Standard & Poor's Ratings Services raised its long-term insurer financial strength and counterparty credit ratings on Iceland-based non-life insurer Tryggingamidstodin hf. (TM) to 'BBB' from 'BBB-'. The outlook is stable.

Rationale

The upgrade of TM follows a similar action on the sovereign on July 17, 2015 (see "Iceland Ratings Raised To 'BBB/A-2' On Proposals Toward Lifting Capital Controls; Outlook Stable," published on RatingsDirect).

The upgrade of Iceland reflects what we view as credible government proposals that will enable the eventual lifting of capital controls, which have been in place since the 2008 banking crisis. We believe that the proposals will address the country's sizable balance-of-payments vulnerability by relieving the latent pressure on the Icelandic krona exchange rate. As a result, we expect that foreign investor sentiment will strengthen and nonsovereign borrowers' access to international capital markets will improve.

Our view of TM's stand-alone credit profile is unchanged and reflects the company's fair business risk profile and upper adequate financial risk profile. We base our assessment of TM's business risk profile on our opinion of its moderate industry and country risk, which is unaffected by the sovereign rating action, and adequate competitive position. Regarding the financial risk profile, we consider that TM has moderately strong capital and earnings, reflecting a more shareholder-focused capital management strategy; a moderate risk position; and adequate financial flexibility. We combine these factors to derive a 'bbb' anchor for TM.

Outlook

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The stable outlook on TM reflects our expectation that TM's management will continue to successfully implement its strategy, sustain its moderately strong capital and earnings, and preserve its investment risk profile over the next two years. We also expect that TM's underwriting earnings will recover to levels commensurate with its competitive position.

Downside scenario:

We could lower the ratings on TM if we lowered the sovereign rating on Iceland over the next 12-24 months or if, contrary to our expectations:

- Risk in TM's investment portfolio materially increased;
- Capital adequacy deteriorated significantly below our 'A' confidence level, according to our risk-based capital model, for a long period, which could result from a leaner capital management strategy; or
- Liquidity weakened, such as after an increase in holdings of illiquid or high-risk assets.

Upside scenario:

We currently do not see any upside potential for the ratings over the next 12-24 months, given industry and country risks stemming from TM's concentration in Iceland.

Ratings Score Snapshot

	To	From
Financial Strength Rating	BBB/Stable	BBB-/Positive
Anchor	bbb	bbb
Business Risk Profile	Fair	Fair
IICRA	Moderate Risk	Moderate Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Upper Adequate	Upper Adequate
Capital and Earnings	Moderately Strong	Moderately Strong
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0

	To	From
Liquidity	Strong	Strong
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related Criteria

- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008

Related Research

- Iceland Ratings Raised To 'BBB/A-2' On Proposals Toward Lifting Capital Controls; Outlook Stable, July 17, 2015
- Iceland Property/Casualty Insurance Sector Carries A Moderate Industry And Country Risk Assessment, June 17, 2015

Ratings List

	Ratings	
	To	From
Tryggingamidstodin hf.		
Counterparty Credit Rating		
Local Currency	BBB/Stable/--	BBB-/Positive/--
Financial Strength Rating		
Local Currency	BBB/Stable/--	BBB-/Positive/--

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