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Research Update:

Outlook On Icelandic Insurer Tryggingamidstodin hf. Revised To Negative; Ratings Affirmed At 'BBB-'

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Overview

- On July 26, 2013, we revised the outlook on Iceland to negative from stable because the household debt forgiveness being considered could pose a significant fiscal risk.
- Tryggingamidsodin hf.'s exposure to Iceland means that its rating is limited to that on Iceland.
- We are therefore revising our outlook on Tryggingamidstodin to negative from stable and affirming our 'BBB-' ratings on the company.
- The negative outlook mirrors that on Iceland and is expected to continue to do so, although on a stand-alone basis we expect Tryggingamidstodin's management to continue to successfully implement its strategy and sustain moderately strong capital and earnings.

Rating Action

On Aug. 2, 2013, Standard & Poor's Ratings Services revised to negative the outlook on the long-term ratings on Iceland-based non-life insurer Tryggingamidstodin hf. (TM). At the same time, we affirmed our 'BBB-' insurer financial strength and counterparty credit ratings on the company.

Rationale

The outlook revision was triggered by a similar action on Iceland, reflecting TM's material exposure to the sovereign's credit quality. Because TM writes almost all of its business in Iceland, its long-term rating is limited to that on the sovereign.

On a stand-alone basis, our view of TM 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 and adequate competitive position. As regards its financial risk profile, we factor in our view of its moderately strong capital and earnings, moderate risk position, and adequate financial flexibility. We combine these factors to derive a 'bbb' anchor for TM.

For more information, please refer to "Icelandic Insurer Tryggingamidstodin hf. Affirmed At 'BBB-' After Insurance Criteria Change; Outlook Stable," published on July 5, 2013, on RatingsDirect.

Outlook

The negative outlook reflects that on the long-term rating on Iceland. Any rating action on Iceland will trigger a similar action on TM.

We expect that TM's management will continue to successfully implement its strategy and sustain moderately strong capital and earnings and maintain or lower its investment risk profile. We also expect that the strong earnings that form part of our base-case assumptions will continue to support TM's capital and earnings and competitive position.

We could lower the ratings on TM if we lowered the rating on Iceland. We do not anticipate lowering the ratings based on the company's stand-alone characteristics. However, we could consider doing so if we saw a material increase in risk in the investment portfolio, a material deterioration of capital adequacy, or if liquidity becomes a concern for TM.

We could revise the outlook on TM to stable if we take a similar rating action on the sovereign.

Ratings Score Snapshot

Financial Strength Rating	BBB-/Negative
Anchor	bbb
Business Risk Profile	Fair
IICRA	Moderate Risk
Competitive Position	Adequate
Financial Risk Profile	Upper Adequate
Capital & Earnings	Moderately Strong
Risk Position	Moderate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Strong
Sovereign risk	-1
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related research

- Republic Of Iceland Outlook Revised To Negative On Fiscal Risk; 'BBB-/A-3' Ratings Affirmed, July 26, 2013
- Icelandic Insurer Tryggingamidstodin hf. Affirmed At 'BBB-' After Insurance Criteria Change; Outlook Stable, July 5, 2013

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

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

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