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Research Update:

Icelandic Insurer Tryggingamidstodin Outlook Revised To Positive After Same Action On Iceland; 'BBB-' Ratings Affirmed

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Overview

- On July 18, 2014, we revised our outlook on Iceland to positive from stable because we think Iceland's economic prospects have strengthened and its fiscal position continues to improve.
- Tryggingamidsodin hf.'s exposure to Iceland, both in terms of business and assets, means that we cap the ratings on Tryggingamidsodin at the level of the rating on Iceland.
- We are therefore revising our outlook on Tryggingamidstodin to positive from stable and affirming our 'BBB-' ratings on the company.
- The positive outlook reflects that on Iceland.

Rating Action

On July 24, 2014, Standard & Poor's Ratings Services revised its outlook on Iceland-based non-life insurer Tryggingamidstodin hf. to positive from stable and affirmed its 'BBB-' insurer financial strength and counterparty credit ratings on the company.

Rationale

The outlook revision was triggered by a similar action on the Republic of Iceland, reflecting Tryggingamidstodin's material exposure to the sovereign's credit quality. Because Tryggingamidstodin writes almost all of its business in Iceland and has an investment portfolio consisting largely of Icelandic assets, we cap the ratings on Tryggingamidstodin at the level of the long-term rating on the sovereign.

On a stand-alone basis, our view of Tryggingamidstodin is unchanged and reflects the company's fair business risk profile and upper adequate financial risk profile. We base our assessment of Tryggingamidstodin's business risk profile on our opinion of an adequate competitive position and unchanged moderate industry and country risk for Iceland's non-life insurance sector, which derive primarily from prevailing financial system risk and inherent volatility risk in Iceland because of the non-life insurance sector's small size, concentrated market structure, high market competition, track record of volatile returns, and investment concentration in Iceland. As regards Tryggingamidstodin's 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 Tryggingamidstodin.

For more information, please refer to "Iceland-Based Non-Life Insurer Tryggingamidstodin Ratings Affirmed at 'BBB-'; Outlook Stable," published on June 20, 2014, on RatingsDirect.

Outlook

The positive outlook on Tryggingamidstodin reflects that on Iceland. Any rating action on Iceland will trigger a similar action on Tryggingamidstodin. We expect that Tryggingamidstodin'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 Tryggingamidstodin's capital and earnings and competitive position.

We could raise the ratings on Tryggingamidstodin by one notch within the next 24 months if we raised the long-term foreign currency rating on Iceland. Absent an upgrade of the sovereign, we see no upside potential for the ratings on Tryggingamidstodin over the next 12-24 months, given that the ratings on Tryggingamidstodin are constrained by the long-term foreign currency rating on Iceland.

We could revise the outlook to stable within the next 12-24 months if we took a corresponding action on the sovereign or if the company's stand-alone characteristics weakened and, contrary to our expectations:

- Risk in the investment portfolio materially increased;
- Capital adequacy deteriorated to levels significantly below our 'A' confidence level, according to our risk-adjusted capital model, for a prolonged period. This could result from an unexpectedly sharp increase in claims or high investment losses; or
- Liquidity weakened, which could result from an increase in holdings of illiquid or higher-risk assets.

Ratings Score Snapshot

Operating Company Rating	Tryggingamidstodin hf.
Financial Strength Rating	BBB-/Positive/--
BRP/FRP 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

Rating Score Snapshot Continued...

Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Strong
Support	-1

Related Criteria And Research

Related Criteria

- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- General Criteria: Group Rating Methodology - 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

Related Research

- Iceland Outlook Revised To Positive On Strong Growth And Improving Public Finances; 'BBB-/A-3' Ratings Affirmed, July 18, 2014
- Iceland-Based Non-Life Insurer Tryggingamidstodin Ratings Affirmed at 'BBB-'; Outlook Stable, June 20, 2014

Ratings List

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

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