MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 February 2019

Update

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RATINGS

OP Insurance Ltd

Domicile	HELSINKI, Finland
Long Term Rating	A2
Type	Insurance Financial Strength
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Christian Badorff +49.69.70730.961
VP-Senior Analyst
christian.badorff@moodys.com

Riccardo Ambrogi +44.20.7772.1564
Associate Analyst
riccardo.ambrogi@moodys.com

Antonello Aquino +44.20.7772.1582
Associate Managing Director
antonello.aquino@moodys.com

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Op Insurance Ltd

Update following upgrade to A2 IFSR

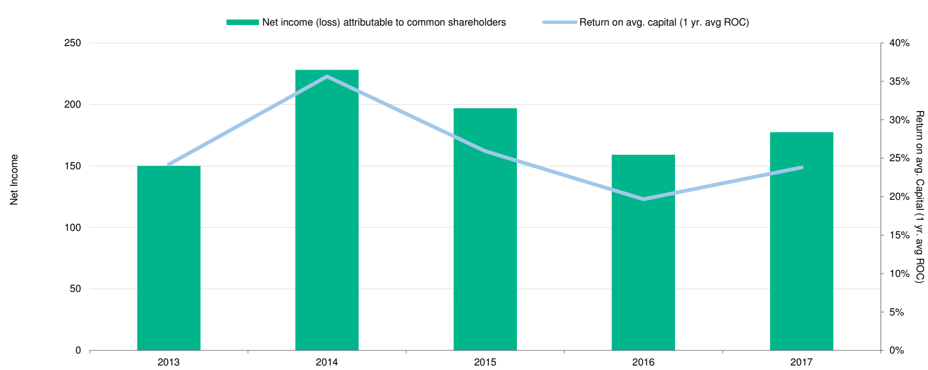
Summary

Moody's A2 (stable outlook) insurance financial strength rating (IFSR) on OP Insurance Ltd (OPIL) reflects its closer integration over recent years to its direct parent OP Corporate Bank plc (LT Bank Deposit and Senior Unsecured: Aa3; BCA: a3) and OP Financial Group in terms of both business and capital management. The rating also continues to reflect the strong non-life market position in Finland, as well as its good financial fundamentals with consistent profitability and limited financial leverage relative to the overall rating level.

These strengths are partially offset by its relative lack of brand reach and geographic diversification outside of Finland, a high proportion of high risk assets and a modest regulatory capital position, on a standalone basis, when compared to most Nordic and European peers.

On 15 January 2019 Moody's upgraded to A2 with a stable outlook from A3 the IFSR on OPIL. The upgrade reflected the mentioned rising integration with OPCB and OPFG, which strongly supports OPIL's standalone credit profile. Please refer to the PR for more details.

Exhibit 1
Net income and return on capital (1 yr. avg.)



Source: Company reports, Moody's Investors Service

Credit strengths

» Strong market position in Finland

» Very good profitability, although subject to volatility and historically reliant on investment result

» Relatively low, although increased financial leverage

» Importance to OP Financial Group in light of cross-selling opportunities

Credit challenges

» Lack of geographic diversification outside of Finland

» High proportion of high risk assets relative to the overall rating level

» Relatively low target for Solvency II coverage ratio, with meaningful dividend payments to parent a recent feature

Rating outlook

The rating outlook is stable.

Factors that could lead to an upgrade

In the medium term, positive rating pressure could arise from the following:

» an upgrade of OP Corporate Bank plc's ratings;

» a material reduction in high risk assets;

» meaningful geographic and product line diversification with no material impact on profitability

Factors that could lead to a downgrade

Negative pressure could arise from:

» a downgrade of OP Corporate Bank plc's ratings;

» material weakening of market position;

» a deterioration in capital adequacy with regulatory solvency coverage falling to levels below 120%;

» a deterioration in the level of capacity and/or willingness of its shareholders and affiliates to provide support

Key indicators

Exhibit 2

OP Insurance Ltd [1][2]	2017	2016	2015	2014	2013
As Reported (Euro Millions)					
Total Assets	4,048	3,914	3,710	3,454	3,205
Total Shareholders' Equity	370	392	563	441	392
Net income (loss) attributable to common shareholders	178	159	197	228	150
Gross Premiums Written	1,280	1,281	1,257	1,259	1,149
Net Premiums Written	1,241	1,236	1,209	1,205	1,093
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	158.4%	168.3%	129.0%	142.7%	163.1%
Reinsurance Recoverable % Shareholders' Equity	16.7%	13.3%	13.9%	16.1%	15.4%
Goodwill & Intangibles % Shareholders' Equity	17.7%	15.7%	9.5%	9.6%	10.6%
Gross Underwriting Leverage	7.4x	7.0x	5.5x	6.6x	6.5x
Return on avg. capital (1 yr. avg ROC)	23.8%	19.7%	25.9%	35.6%	24.2%
Sharpe Ratio of ROC (5 yr. avg)	435.3%	381.9%	192.0%	181.2%	182.0%
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	2.2%	1.2%	0.4%	-0.1%	1.5%
Financial Leverage	18.8%	18.2%	15.2%	9.5%	9.3%
Total Leverage	18.8%	18.2%	15.2%	9.5%	9.3%
Earnings Coverage (1 yr.)	20.0x	28.4x	42.1x	73.3x	50.6x
Cash Flow Coverage (1 yr.)	NA	NA	NA	NA	NA

[1] Information based on IFRS financial statements as of Fiscal YE December 31
[2] Certain items may have been relabeled and/or reclassified for global consistency
Source: Company reports, Moody's Investors Service

Profile

OP Insurance Ltd is wholly owned by OP Corporate Bank plc (OPCB) which is part of the Finnish cooperative banking group OP Financial Group (OPFG), a leading cooperative financial conglomerate on its domestic market. OPIL represents the main legal entity within the non-life insurance operations of OP Financial Group (OPNLI), along with A-Insurance Ltd, which provides insurance for commercial truckers and taxi service branches, although all employees are employed by OPIL.

OPNLI is the leading Finnish non-life insurer with a market share of around 33% and reported gross written premiums in 2017 of €1.4 billion. At 9M 2018 OPNLI's business was split, in terms of net earned premiums, between private customers (55%), corporate customers (41%), with the remaining 4% from the Baltic States. In December 2017 OP Financial Group announced it would sell its Baltic non-life insurance operations Seesam Insurance AS with the aim of focusing on its core insurance business in Finland. The sale was completed in August 2018.

Since it has acquired the minority shares in OP Corporate Bank, OP Cooperative intends transferring ownership of the Non-life Insurance directly to itself in the future, while it has already transferred the Wealth Management segment at the end of 2015.

In October 2018, OP announced that it plans to re-adopt the Pohjola name in its non-life insurance business during 2019. Alongside the rebranding of non-life insurance business, Pohjola Health will be renamed Pohjola Hospital and it will revise it strategy by withdrawing from the medical center business and focusing on hospital operations in the future.

Detailed credit considerations

Moody's rates OPIL A2 for insurance financial strength which is one notch higher than the adjusted rating indicated by the Moody's insurance financial strength rating scorecard. The scorecard and associated text below are based on OP Insurance Limited on an unconsolidated basis unless otherwise stated.

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

Market Position, Brand and Distribution: Large market share though concentrated in a relatively small market

With its strong market position in Finland, in which it is currently the largest non-life player with around 33% market share in 2017, relative market share metrics are very good. Integration within OP Financial Group helps enhance the issuer's customer base and consolidate its market position (at 9M 2018 42% of OP Financial Group's clients are both banking and non-life insurance customers), however Moody's believes that it will be challenging for OPNLI to increase its market share meaningfully without compromising profitability. Moreover, notwithstanding its strong market position, following the sale of its Baltic operations OPNLI operates exclusively in the relatively small Finnish market which means it lacks the franchise strength and brand reach which characterises a number of other European P&C players including some Nordic peers.

In addition to that Moody's notes that OPNLI's operating expense ratio has continued to increase in the last 3 years to 20.4% at 9M 2018 from 17.7% in 2015, driven by higher ICT costs and the expansion of the health and well-being business.

Overall, we consider the market position, brand and distribution to be consistent with an A rated company.

Product risk and Diversification: Commercial orientation and concentration in Finland remain features of the book of business

With commercial business accounting for approximately 38% of OPIL's book of business, Moody's views the portfolio as potentially more volatile than, for example, some of its Nordic peers. However, we note that the exposure to commercial/long-tailed lines has decreased in recent years (46% in 2015) and OPIL's overall product mix remains relatively less risky than the Finnish insurance industry.

Product diversification is considered good with four distinct lines of business - Motor, Workers Compensation, Accident and Health and Property- producing at least 10% of premium each. However, this is offset by the concentration in Finland, which itself is a very highly concentrated P&C insurance market. OPIL is focused on three business lines – Motor, Property and Accident and Health which together account for 68% of gross written premiums in 2017.

Overall, we consider the product focus and diversification to be consistent with a Baa rated company.

Asset Quality: Material proportion of high risk assets constrains asset quality

Moody's considers OPIL's overall asset quality to be good, albeit high risk assets remain elevated at OPIL. At year-end 2017, goodwill/ intangibles and reinsurance recoverables represented relatively low proportions of shareholders' equity at around 18% and 17%, respectively. Goodwill and intangibles, despite remaining relatively low in proportion to shareholders' equity, have increased since 2015 by 53% driven by higher development costs and goodwill.

However, the proportion of high risk assets at book value to equity remains significant, particularly at the OPIL level, at 158% as at year-end 2017 (year-end 2016: 168%). We note that by adding net unrealized gains to shareholders' equity and considering asset at fair value, the ratio increases further to 179% which is the highest level recorded in the period 2017-2012.

Within OPIL's high risk assets at book value, the largest holdings were equities (57%), not rated/non-investment grade fixed income securities (16%), real estate (14%) and investments in associates (14%).

Furthermore, at the OPNLI level Moody's notes the historically high equities concentration in the Finnish market, and the meaningful exposure to financials, including banks subordinated debt, in the bonds and bond funds portfolio which has increased further in 2015 and 2016 reaching 39% of the total investment portfolio at fair value at year-end 2016, before reducing at Q3 2018 to 31%. More positively, we note that at Q3 2018 equities exposure was stable at 8% of the total investment portfolio at fair value.

Overall, invested asset risk remains higher than for most of OPIL's Nordic insurance peers.

Capital Adequacy: Relatively low target Solvency II ratio. Meaningful dividend payments to the parent is a recent feature

The Solvency II ratio target for OPNLI -as set within OP Financial Group's centrally driven capital management policies- is 120% (excluding transitional provisions), which Moody's views as relatively low. At year-end 2017 the Solvency II ratio stood at 135% (year-end 2016: 143%, which included a 16 percentage points benefit from transitional provisions). At 9M 2018 the fully-loaded Solvency II ratio increased to 169%.

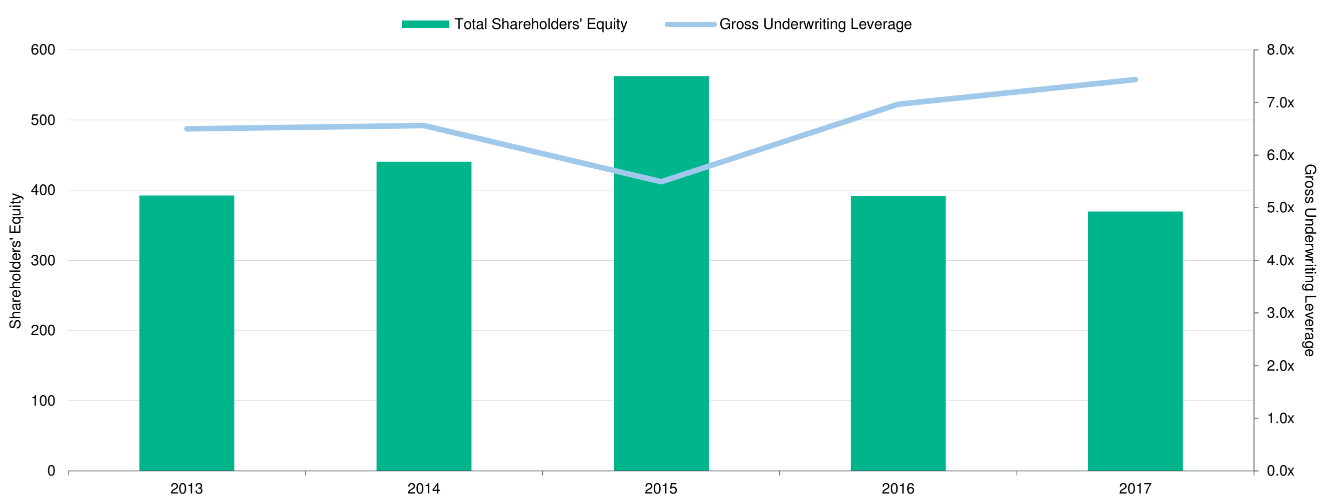
We note that in the past the regulatory coverage ratio had dropped below the target level (year-end 2014: 117%) due to the combined impact of lower interest rates and a higher dividend payment. The ratio was later strengthened in Q2 2015 with the issuance of a new Tier II subordinated loan of €85 million.

Meaningful dividend payments to its parent have been a recent feature for OPIL with an average payout ratio in the last 6 years (2017-2012) of 101%, in contrast to capital injections provided to OPNLI during 2008. In 2018 OPIL distributed a dividend of €200 million which represented a payout ratio of 113% over 2017 reported profit (125% at prior year). We expect OPIL to report an upstreamed dividend of similar materiality on account of its 2018 net income.

In 2015 following the issuance of the Tier II subordinated debt, OPIL repaid equity capital for €75 million. Including the equity repayment the total payout ratio in 2015 was 104%.

OPIL's gross underwriting leverage (GUL) in 2017 modestly deteriorated to 7.4x (2016: 7x). GUL would increase further to around 7.7x in 2017 if the difference between fair value and carrying amount of investments was added to equity.

Exhibit 3
Shareholders' equity and gross underwriting leverage



Source: Company reports, Moody's Investors Service

Moody's also considers OPIL's business to be higher risk than some of its Nordic peers in view of the liability and commercial account orientation, although notes that OPIL has consistently delivered bottom-line profits and has meaningful reinsurance cover.

Profitability: Very good profitability and underwriting performance, although historically subject to volatility

OPIL's 2017 five-year average return on capital (excluding fair value gains/losses) is an excellent 26% although this has been historically offset by a relatively high volatility due to the impact of investment gains and losses. For example, in the period 2011-2012, ROC was very volatile with a weak return (2011: 4%) impacted by fair value investment losses followed by a very strong return (2012: 37%). In the last 5 years the Sharpe ratio, a statistical measure of volatility, improved significantly following more stable returns in 2013-2017.

Furthermore, the underwriting environment for Nordic P&C players in recent years has been very favourable. Notwithstanding this, we recognise that OPNLI's recent underwriting performance has been very good with an average operating combined ratio of 89.8% over the period 9M 2018-2012. In 2017 the reported operating combined ratio was relatively high at 96.1% (2016: 87.6 %) due to the reserve strengthening following the reduction of the discount rate. Until Q3 2016 OPNLI had a publicly disclosed target for its operating combined ratio and operating expense ratio of respectively below 92% and 18%. The overall combined ratio, which includes changes in reserving basis and amortization on intangible assets arising from the corporate acquisition, stood at 97.6% in 2017 (2016: 89.1%).

In 2017 OPNLI reported weaker earnings before tax of €210 million (2016: €244 million), impacted by lower technical result by 14% (down to €459 million) and higher other operating expenses (operating expense ratio increased by 180bps to 20.3%), only partially offset by higher net investment income. 2017 Earnings before tax at fair value decreased more markedly to €119 million (2016: €311 million).

At 9M 2018 OPNLI reported modestly lower earnings before tax of €131 million over prior year (9M 2017: €137 million), driven by improving technical result (operating combined ratio declined to 90.5% from 97% at 9M 2017), which almost entirely offset higher expenses (expense ratio increased by 70bps to 20.4%) and materially lower investment result (down 73% to €34 million compared to 9M 2017). We expect OPIL's 2018 profitability to be negatively impacted by the further weakening of the investment income in Q4 due to unfavorable market movements.

Overall, Moody's considers profitability to be consistent with an A rated company. Going forward, Moody's expects OP Insurance to continue to benefit from the relatively stable market conditions in Finland and the strengthening of the Finnish economy and therefore expects its underwriting performance to remain good.

Reserve Adequacy: Relatively predictable reserving. Exposure to longevity and discount rate risk remain a feature

The reserve adequacy metric is good, driven by a small net reserve deterioration on a weighted average basis of 1.2% of opening net reserves over the last five years, based on IFRS loss development triangles for the 2013-2017 accident years. We note that during the period 2015-2017 there were adverse claims developments with an overall reserve strengthening of €85 million, thereof €50 million in 2017, which was the largest reserve strengthening in 6 years.

At 9M 2018 the run-off result was positive and improved to €33 million (3% pts of combined ratio) compared to €25 million at 9M 2017 (2.3% points of combined ratio, excluding the impact of a lower discount rate).

OPNLI's reserves are vulnerable to longevity risk and to further decreases of the discount rate. In terms of sensitivities, in 2017 an increase of 1 year in life expectancy for discounted insurance liabilities would have a negative impact on shareholders' equity by €45 million and on combined ratio by 3.1% points. Similarly, a 10bps decrease in the discount rate would have a negative impact on shareholders' equity by €27 million and on combined ratio by 1.9% points.

Since 2011 the discount rate has been reduced progressively from 3.3% to 1.50% at Q3 2017 which has led to a cumulative pre-tax charge of €430 million or 26% of OPNLI's earnings before taxes (excluding reserving charges). In 2017 the discount rate was lowered to 1.50% from 1.97% with a pre-tax charge of €102 million (7.1% points of combined ratio).

The discount rate currently used by OPNLI is the second lowest in the Finnish insurance market. At this level, and in a context of generally tighter monetary policies in Europe, we do not expect OPNLI to further cut its discount rate by a material amount in the short term.

Financial flexibility: Excellent metrics although access to capital markets more restricted than listed peers

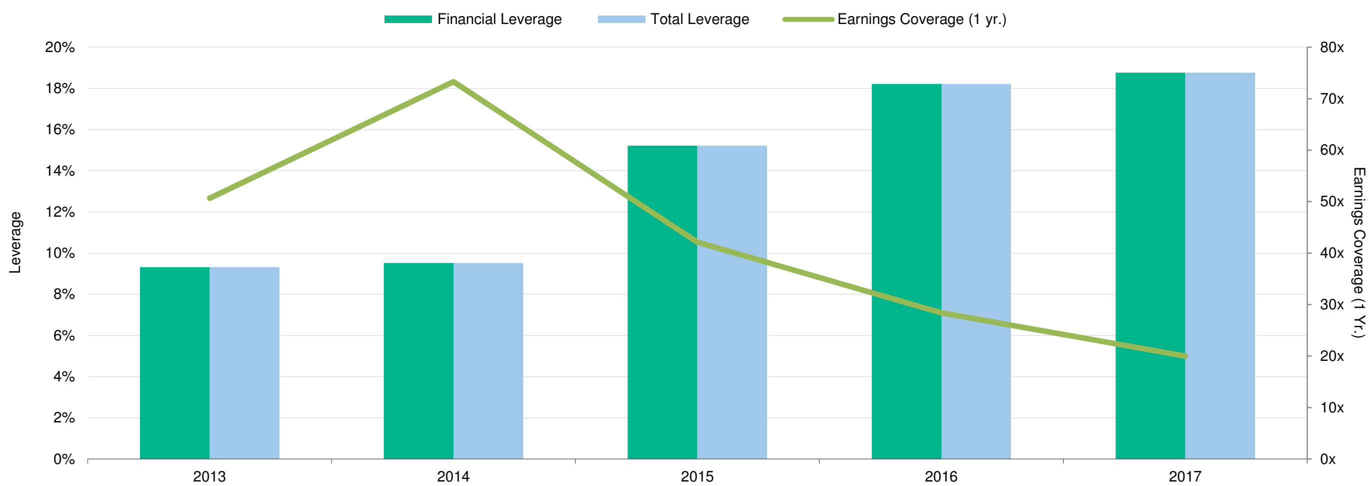
Overall financial flexibility is considered good. Financial leverage remains relatively low at 18.8% (year-end 2017). Financial debt includes a €50 million internal subordinated loan (grandfathered Tier 1) issued in 2008 to improve the solvency position and more recently a €75 million Tier II dated subordinated loan issued in Q2 2015, which replaced equity for the same amount.

The relatively low leverage is reflected in an excellent 43x five-year earnings coverage (2013-2017).

Moody's notes that on a stand-alone basis, none of the OP Insurance non-life companies are listed in their own right. Therefore, access to capital is not viewed as comparable to larger European players. However, OPNLI benefits from being part of the OPFG. Through OP Corporate Bank, which is a regular issuer, OPNLI has received capital in the form of subordinated loans and we expect OPFG to continue support non-life insurance operations, if needed.

Exhibit 4

Financial leverage



Source: Company reports, Moody's Investors Service

Support and structural considerations

The A2 IFSR of OPIL receives a one notch uplift as a result of its ownership by OP Corporate Bank plc (LT Bank Deposits and Senior Unsecured: Aa3; BCA: a3) reflecting the closer integration over recent years between OPIL and its immediate and ultimate parents OPCB and OPFG in terms of both business and capital management.

Moody's however notes that OP Financial Group's support mechanism in which all the member banks provide each other with joint liability providing immediate and direct support in case of distress, does not cover, by law, insurance operations.

Rating methodology and scorecard factors

Exhibit 5

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	A
Market Position and Brand (25%)								Aa	A
- Relative Market Share Ratio			X						
- Underwriting Expense Ratio % Net Premiums Written	19.3%								
Product Focus and Diversification (10%)								A	Baa
- Product Risk			X						
- P&C Insurance Product Diversification		X							
- Geographic Diversification						X			
Financial Profile								A	A
Asset Quality (10%)								A	Baa
- High Risk Assets % Shareholders' Equity				158.4%					
- Reinsurance Recoverable % Shareholders' Equity	16.7%								
- Goodwill & Intangibles % Shareholders' Equity	17.7%								
Capital Adequacy (15%)								Ba	A
- Gross Underwriting Leverage					7.4x				
Profitability (15%)								Aaa	A
- Return on Capital (5 yr. avg)	25.8%								
- Sharpe Ratio of ROC (5 yr. avg)	435.3%								
Reserve Adequacy (10%)								A	A
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)			1.2%						
Financial Flexibility (15%)								Aa	A
- Financial Leverage		18.8%							
- Total Leverage		18.8%							
- Earnings Coverage (5 yr. avg)	42.9x								
- Cash Flow Coverage (5 yr. avg)									
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								A1	A3

[1] Information based on IFRS financial statements as of Fiscal YE December 31

[2] The Scorecard is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis

Source: Company reports, Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
OP INSURANCE LTD	
Rating Outlook	STA
Insurance Financial Strength	A2
OP CORPORATE BANK PLC	
Rating Outlook	STA
Senior Unsecured	Aa3
Senior Unsecured MTN	(P)Aa3
Subordinate	Baa1
Commercial Paper	P-1
LT Issuer Rating	Aa3
LT Bank Deposits	Aa3

Source: Moody's Investors Service

Moody's related publications

Special reports:

» Nordic Non-Life Insurance Stability and Underwriting Outperformance to Continue (May 2016)

Industry outlook:

» Insurance - Europe: 2018 outlook stable as economic growth, financial stability and underwriting discipline partly offset low rates (November 2017)

» Global P&C Insurance – 2018 Outlook stable as further premium growth offsets investment and reserving headwinds (December 2017)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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