

Pohjola Insurance Ltd

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Credit Highlights

The 'A+' ratings on Pohjola Insurance Ltd. (Pohjola) are based on our view of its role as a core subsidiary of OP Financial Group. From our perspective, Pohjola is integral to the overall group's bancassurance strategy and an important earnings contributor. However, we anticipate that the Finnish resolution authority would exclude insurance activities from a bail-in process and as such we do not believe that Pohjola would benefit from the banking group's additional loss-absorbing capacity in resolution. Therefore, we equalize our long-term ratings on the subsidiary with our 'a+' assessment of OP Financial Group's unsupported group credit profile (UGCP).

Despite current market challenges, we believe Pohjola benefits from a strong market position. With a solid market share of above 30%, Pohjola remains one of the leading non-life insurance companies in Finland, and continues to enjoy a well-known brand. In non-life, Pohjola and some peers have seen claims rise back to their pre-pandemic level as restrictions in society have been phased out. This leads to a higher combined (loss and expense) ratio of 89.6% as of Sept. 30, 2022, compared with last year (81.8%). However, we continue to regard the company's underwriting as sound, offsetting weak investment income (-€161 million on Sept. 30, 2022) and resulting in €261 million of earnings as of Sept. 30, 2022, for the non-life segment. The decline in stock markets and the prevailing uncertainty also affects the life insurance segment, which showed a drop in unit-linked assets of almost 14% to €11.4 billion and reduced earnings of €49 million per Sept. 30, 2022, compared with €92 million in the prior year.

We expect the solvency positions of OP Financial Group's life and non-life insurance entities will remain healthy. Thanks to higher interest rates, the solvency ratios of the insurance entities increased significantly to 256% (non-life) and 252% (life; excluding transitional measures) as of Sept. 30, 2022. We understand that the group targets solvency levels of about 170%. Overall, we do not expect the banking group to overcapitalize its insurance subsidiaries and therefore we anticipate regular dividend payouts to the group and a relatively stable development of capitalization levels, barring any extraordinary event.

Operating Company Covered
By This Report

Financial Strength Rating

Local Currency

A+ / Stable / --

Outlook

Our stable outlook on Pohjola reflects the creditworthiness of OP Financial Group. This is because we regard Pohjola as a core subsidiary of the group, and as such, we believe it would receive support under all foreseeable circumstances if needed.

Downside scenario

We could lower the ratings over the next 12-24 months if we revised our assessment of OP Financial Group's UGCP downward. We could also lower the ratings if we no longer regarded Pohjola as core to the group. While unlikely at this stage, this could result from a significant weakening of Pohjola's operating performance or group integration, or any indications of OP Financial Group's reduced commitment to Pohjola.

Upside scenario

Although unlikely currently, we could raise the ratings over the next 12-24 months if we revised our assessment of OP Financial Group's UGCP upward.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment Update: October 2022, Oct. 27, 2022
- Insurance Industry And Country Risk Assessment: Finland Property / Casualty, April 25, 2022
- Insurance Industry And Country Risk Assessment: Finland Life, April 25, 2022
- OP Corporate Bank PLC, May 20, 2022

Ratings Detail (As Of November 9, 2022)***Operating Company Covered By This Report****Pohjola Insurance Ltd**

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

Domicile

Finland

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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