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Sava Insurance Group

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Sava Insurance Group

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

\+

Support	0
Group support	0
Government support	0

=

Financial strength rating
A/Stable/--

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Established market credentials backed by its No.2 market position in Slovenia, with some additional diversification via the international reinsurance business.	Compared with higher-rated peers, lower geographic diversification of revenue and net income outside Slovenia.
Solid capital buffers, at the 'AAA' level, coupled with a conservative investment strategy and limited underwriting risk.	
Prudent underwriting combined with history of conservative reinsurance protection and prudent investment strategy, which supports solid operating performance.	

Strong growth in 2023 will limit the impact of inflation. We expect insurance revenue growth to jump to 10%-15% in 2023 before normalizing at 4%-7%. In our view, higher growth in 2023 will be on the back of Sava's non-life business, mainly in Slovenia where--in accordance with its solid underwriting controls--the company continues to actively adjust prices to reflect higher inflation. It is also benefiting from increased prices in international reinsurance in 2023, while passing these higher costs on through price increases in its non-life property lines. Beyond 2023, we expect further price increases due to still-expected relatively high inflation and further property insurance price increases after more frequent and severe natural catastrophes in Slovenia this year. We believe that some growth will also come from new risks being added to the portfolio. We think Sava will protect its strong competitive position in Slovenia and gradually further expand its presence in its target markets in the Adria region, the international reinsurance markets, and asset management business.

We believe that the impact of recent severe torrential floods in Slovenia will be manageable for Sava, with losses remaining inside the group's risk tolerances. Sava now estimates that for the group overall the net impact of the severe catastrophes in Slovenia and the wider region will be €30 million-€35 million. We believe that Sava's capital position will not be materially impacted, while its earnings will be affected but broadly contained this year. Sava's comprehensive reinsurance protection supports our view; it will provide a buffer to a large part of the catastrophe segment's significant gross claims. We note that the group strengthened its protection in the last decade and, even amid a hardening reinsurance market in 2023, has retained robust coverage from a panel of global reinsurance companies. The program's effectiveness has been tested recently, for example during Germany's floods in 2021 and hailstorms hitting several parts of Slovenia in 2019. In addition, Sava has retained some prudent margins on its P/C loss reserves that could also help to mitigate the impact of further catastrophes.

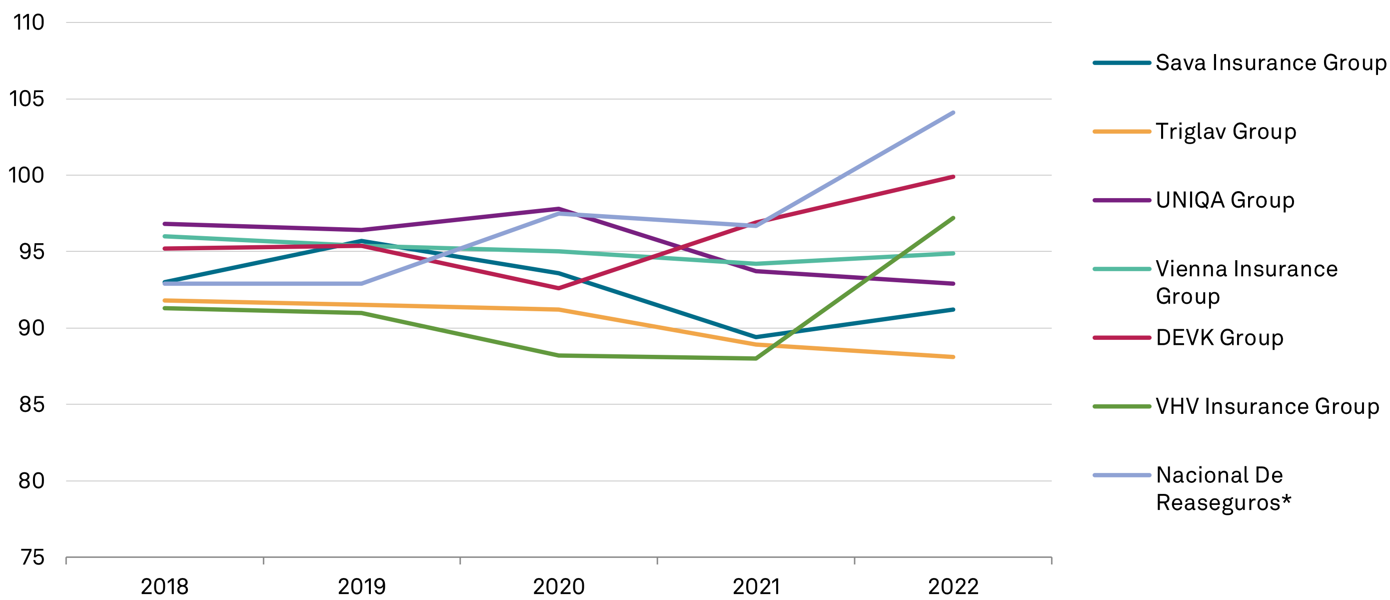
Natural catastrophes in Slovenia are set to reduce Sava's operating performance below its targets in 2023, to return on equity (ROE) of around 7%, with a recovery expected in 2024-2025. Catastrophes in its home market will burden the group's performance in second-half 2023. We note, however, that Sava's first-half 2023 earnings were very strong, with a net combined ratio of 89.9% and net income of €40 million. This was about 76% above the group's plan for the period. Although inflation remained elevated in Slovenia and Sava's other primary insurance markets, the group managed to mostly pass on higher claims costs through price increases, thereby largely protecting its underwriting profitability.

Meanwhile, we expect that non-catastrophe-affected lines will continue to deliver resilient underwriting performance in 2023. We do not expect ongoing Slovenian health reforms to affect the group because it does not write any of the impacted health insurance business (see "Slovenian Non-Life Insurers Can For Now Absorb Government's Price Cap On Discontinuing Health Insurance," published May 10, 2023, on RatingsDirect). Overall, we now think the group's net combined ratio will increase toward the upper end of our expectation for 2023. Improved investment results will provide some support to its overall performance in 2023 and beyond. We forecast that the group could deliver net income of around €40 million this year, which would be comparable with international peers' results in recent years.

Chart 1

Sava's P/C underwriting performance in 2023-2025 to stabilize in a range comparable to its international peers'

Net combined ratio in 2018-2022



*Combined ratio as reported. Source: S&P Global Ratings.

Capitalization remains one of Sava's key rating strengths. Despite increased interest rates in Eurozone, capital markets volatility, and solid business growth, the group's capital position remains above the 'AAA' level under our risk-based capital model. Despite an expected reduction in earnings in 2023, we think Sava's current capital buffers should absorb expected robust business development in 2023-2025, as well as provide a cushion against current macroeconomic uncertainties and moderate capital markets volatility. This said, we expect the group will maintain capitalization at least in the 'AA' range of our insurance capital model over the next two-to-three years.

Outlook: Stable

The stable outlook on Sava's core operating entities reflects our expectation that the group's management will continue to implement its strategy of solid operating performance and profitable growth, while further diversifying premiums and solidifying its income streams. Despite increased natural catastrophe claims and moderating macroeconomic conditions, we expect Sava to sustain a strong balance sheet with at least very strong capitalization and strong and stable earnings over the next two years, enabling it to continue developing its domestic and foreign operations.

Downside scenario

We could lower the rating in the next two years if Sava's competitive position weakened because of significantly eroded volumes or prolonged loss of profitability, triggered for example by external conditions that also derailed macroeconomic development in Slovenia.

Upside scenario

We are unlikely to take a positive rating action in the next two years. An upgrade would be contingent on the group further improving its competitive position, for example if sustainable economic growth propels Slovenia's GDP per capita income further toward the eurozone average and strengthens its prospects for profitable domestic growth. We do not foresee this over the next 12-24 months.

Key Assumptions

- After strong 5.4% growth in 2022, we now expect the Slovenian economy to moderate to 1.3% real GDP growth in 2023 before improving to 2.3% and 2.7% in 2024 and 2025.
- Inflation to remain elevated in 2023 at 6.8%, declining to 4.0% in 2024 and reducing further in 2025 to 2.5%.
- Unemployment to remain low at about 4.0% in 2023-2025.Some more interest rate increases as the European Central Bank is signaling further restrictive monetary policy to drive inflation down toward target ranges.

Sava Insurance Group--Key metrics

(Mil. €)	2025f	2024f	2023f	H1 2023*	2022	2021	2020	2019	2018	2017
Gross premiums written (Mil. €)	N/A	N/A	N/A	824.4	774.1	729.9	679.7	598.5	546.3	517.2
Net premiums earned (Mil. €)	N/A	N/A	N/A	N/A	701.4	686.6	635.4	548.0	504.7	470.9
Insurance revenus (Mil. €)	~ 710	~ 680	~ 640	328.4						
Net income (Mil. €)	55 - 70	50 - 63	~ 40	40.0	68.2	76.2	56.4	50.2	43.0	31.1
Return on shareholder equity (reported, %)	9 - 12	9 - 11	~ 7	13.3	14.9	15.8	13.3	13.8	13.1	10.1

Sava Insurance Group--Key metrics (cont.)										
(Mil. €)	2025f	2024f	2023f	H1 2023*	2022	2021	2020	2019	2018	2017
P/C net combined ratio (%)	at or below 95	at or below 95	95 - 97	89.9	91.2	89.4	93.6	95.7	93.0	94.8
Net investment yield (%)	1.6 - 2.5	1.5 - 2.5	1.4 - 2.2	2.2	1.3	1.3	1.4	1.7	1.7	1.8
Fixed-charge coverage	23 - 28	23 - 28	17 - 24	N/A	30.1	34.2	25.7	101.8	2,128.4	66.9
Financial leverage (%)	12 - 14	12 - 14	12 - 14	N/A	16.4	13.8	15.0	17.8	0.1	0.0
S&P Capital Adequacy	At least Very Strong	At least Very Strong	At least Very Strong	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

*Gross premiums written are based on trailing 12 months, other H1 2023 figures are as reported by Sava Insurance Group on IFRS17.
f--Forecast under S&P Global Ratings' base-case scenario. N/A--Not applicable.

Business Risk Profile: Strong

Sava is the second-largest multiline insurance group in Slovenia. It has a market share of about 20% and is also the fourth-largest asset manager. It has international reinsurance operations, mainly in Asia and EMEA, and some primary insurance operations in the Adria region (the former Yugoslavia). Sava has a track record of profitable business growth, with an average five-year combined ratio of 92.6%, which enables the group to continue generating strong earnings. That said, compared with higher-rated peers', Sava's premiums and net income rely more on domestic market developments.

In our view, the insurance sector in Slovenia in 2022 performed well and underwriting performance remained resilient, which allowed robust sector profitability. In 2023, however, Slovenia's property/casualty (P/C) sector will perform less well than in recent years due to intense natural catastrophes and the temporary effects of health reforms. The normalization of catastrophe claims, alongside the retention of good underwriting controls and continued disciplined underwriting, should help the sector improve its performance in 2024-2025.

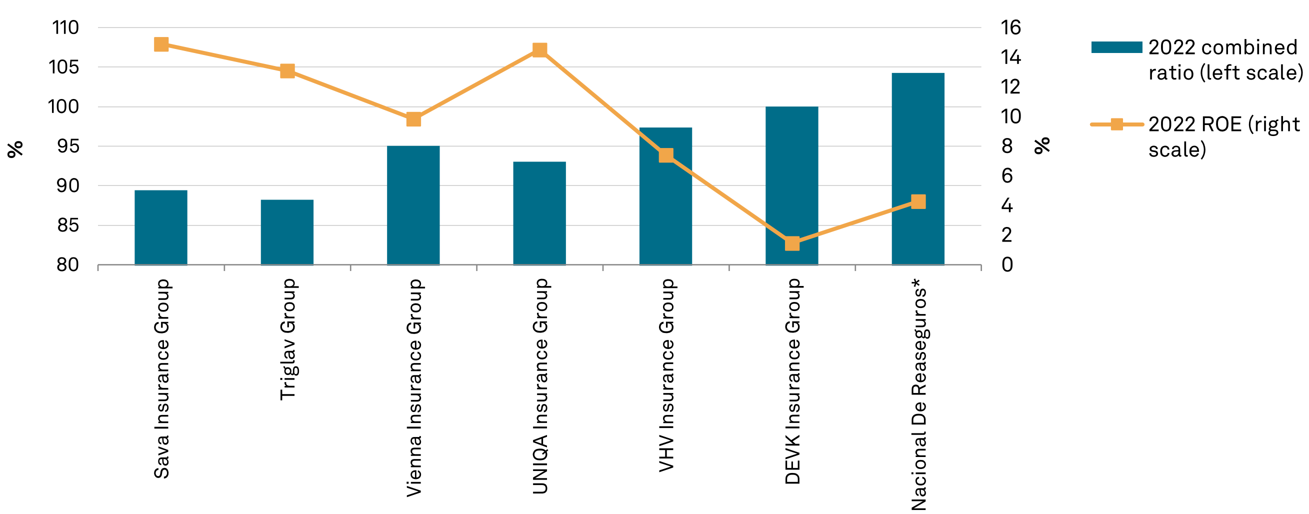
In our view, Sava's strong domestic market position, through its entity Zavarovalnica Sava d.d. (financial strength rating: A/Stable/--), will remain the group's key strength. For 2022, Sava's overall P/C operations recorded premium growth of 8% while life segment premiums reduced by around 5%. Growth in non-life was supported by a price adjustment due to higher inflation and material price increases in property insurance. The group also added some new risks, which supported robust growth momentum in 2022. The group has recently benefited from its stronger focus on non-life, particularly given that it is slightly overweight in motor business compared with direct domestic peer, Triglav. Sava also writes around 20% of its direct insurance business in the Adria region. It is well represented in smaller, less developed regional markets including North Macedonia, Montenegro, and Kosovo, which offers the group long-term growth opportunities. It is also striving to strengthen its position in larger markets like Croatia and Serbia.

Sava's international reinsurance operations continue to perform soundly. Gross written premiums in the reinsurance business grew by 8% to €121 million and delivered a combined ratio at 96.4% in 2022. These favorable trends continued in the first half of 2023 with reinsurance growing at 9%, while performance doubled compared to the same period in 2022. In the international reinsurance business, the group continues to leverage its established and proven expertise as a service-driven coverage provider through Sava Re (A/Stable/--), which has built strong and stable relationships with its cedents. We expect Sava's reinsurance operations in 2023-2025 will benefit from more favorable international reinsurance market pricing. We also think Sava will continue to solidify its geographic footprint in EMEA while retaining a solid position in Asian markets. As such, Sava's reinsurance operations remain an additional business and earnings diversifier for the group.

Sava's solid buffers, and its ability and willingness to react quickly, prevented it from suffering any material effects from underwriting and economic challenges in 2022 and first-half 2023. In 2022, the group reported a very strong return on equity (ROE) of 14.9%, with net income remaining very solid. Good underwriting profitability both in non-life and life supported these results. Investment remained low, but stable, reflecting Sava's conservative investment allocation. This has paid off in 2023--Sava has felt only limited effects from interest rate rises and capital markets volatility. Motor-claim-frequency normalization and high inflation had limited impact thanks to Sava's solid underwriting controls, quick reactions to changing trends, and use of the reserve buffers it had built in previous years. Very favorable economic developments and a strong household position in Slovenia also helped to push through timely price adjustments, which safeguarded Sava's robust non-life combined ratio of 91.2% in 2022. We note that the group's life business remained resilient and reported an 11% increase in earnings before taxes of €18.5 million. The pension and asset management business remained stable and contributed around 6% of group earnings in 2022.

Chart 2

Sava's 2022 operating and underwriting performance remained comparably favourable to international peers'



*Combined ratio as reported. ROE--Return on equity. Source: S&P Global Ratings.

Financial Risk Profile: Very Strong

Sava's financial profile features a strong and resilient balance sheet with a solid capital position according to our capital model and Solvency II. Its expected operating performance in 2023 should still support moderate dividend payments and generate some capital to support growth financing, in our view. Its underwriting and investment risks, as well as its funding structure, are neutral to our assessment of a very strong financial risk profile.

Sava managed to maintain a robust capital position above the 'AAA' level, according to our risk-based capital model, through the end of 2022. The group also achieved a solid Solvency II ratio of 183% at year-end 2022, remaining 183%-189% at mid-year 2023, based on a standard formula and using no transitional adjustments. Before 2022, Sava's capital buffer had been strong at the 'AAA' level. In 2022, this cushioned the impact of interest rate rises in the eurozone and significant capital markets volatility, with widening credit spreads and downturned equity markets. The group distributed moderate dividends in 2023, under its strategy, and we expect these to continue. We do not expect recent natural catastrophes to materially dilute Sava's capital strength and we think its capitalization will remain a key strength through 2025. We also view Sava's consolidated capital as good quality, mainly stemming from shareholders' equity and very prudent margins on its P/C loss reserves.

Sava's risk profile has remained stable and supportive of its very strong financial profile. In our view, the group pursues a conservative investment strategy and has solid reinsurance protection. In light of the intense natural catastrophe season in 2023, Sava's reinsurance protection costs could rise but we expect in future years it will maintain effective reinsurance protection, thereby protecting its balance sheet and earnings against significant volatility.

In our view, Sava's balance sheet remains less sensitive to market volatility than European peers' at similar rating levels. Its investment strategy is conservative. Most of its assets are fixed-income securities with a portfolio strongly diversified across high rated issuers in the eurozone. At mid-year 2023 around 68% of the fixed income portfolio is rated 'A' or above and in the last few quarters the group has further reduced the portfolio's credit risk. Exposure to less liquid assets such as property, private debt, and private equity is comparably low at around 6% of invested assets.

We believe Sava's financial strength will help safeguard its funding capacity in case of need. After the spike in interest rates last year, Sava recorded some unrealized losses and triggered a decline in shareholders' equity. The group's leverage at year-end 2022 remained stable at about a favorable 16%, while fixed-charge coverage was about 30x. With the introduction of a new accounting standard (IFRS17) shareholders' equity has increased by around 27% to €525 million. The increase in shareholder equity will prospectively reduce leverage toward the low end of our forecast range. Despite lower expected profits in 2023 we expect fixed charge coverage to slightly reduce but remain solid and improve in the following years. The group retains adequate financial flexibility to issue further debt, if needed.

Other Key Credit Considerations

Governance

We consider Sava's governance stable and comparable with its peers'. Governance and disclosure standards in Slovenia are comparable with the rest of the eurozone. Sava has clear and credible strategic planning and conservative financial management. The board is experienced and capable of executing the group's business strategy, as its very strong business development and group performance in recent years shows.

Liquidity

We regard Sava's liquidity as exceptional and do not expect any liquidity constraints to keep it from meeting its obligations, given the substantial liquid assets it holds. Its expanding operations also provide constant cash inflows. Moreover, most of the business is short tail, with larger risks heavily reinsured. Therefore, we do not expect that 2023's natural catastrophes claims will be a significant drag on its cash position.

Government support

We continue to regard Sava as a government-related entity, chiefly because the Slovenian government is its largest shareholder. Moreover, the group plays a key role in protecting Slovenians in a structured way from the impact of the catastrophe events to which the country is exposed. We believe there is a moderately high likelihood that the government of Slovenia (AA-/Stable/A-1+) would provide timely and sufficient extraordinary support to Sava in the event of financial distress. Although we do not include any uplift for support, a change in shareholding would have a negative impact on the ratings if a financially weaker group takes over ownership of Sava.

Environmental, social, and governance

ESG factors have no material influence on our credit rating analysis of Sava insurance group.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Research Update: Slovenia 'AA-/A-1+' Ratings Affirmed; Outlook Stable, June 2023
- Slovenian Non-Life Insurers Can For Now Absorb Government's Price Cap On Discontinuing Health Insurance, May 10, 2023
- Full report Sava Insurance Group, Sept. 5, 2022
- Insurance Industry And Country Risk Assessment: Slovenia Property/Casualty, Sept. 5, 2022

- Insurance Industry And Country Risk Assessment: Slovenia Life, Sept. 5, 2022

Appendix

Sava Insurance Group--Credit key metrics	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Total invested assets	2135.5	2316.3	2146.9	1572.9	1464.6
Total shareholder equity	412.0	504.1	460.2	384.8	340.2
Gross premiums written	774.1	729.9	679.7	598.5	546.3
Net premiums written	722.5	683.8	638.7	562.4	519.4
Net premiums earned	701.4	686.6	635.4	548.0	504.7
Reinsurance utilization (%)	6.7	6.3	6.0	6.0	4.9
EBIT	87.2	96.7	70.9	61.4	55.3
Net income (attributable to all shareholders)	68.2	76.2	56.4	50.2	43.0
Return on shareholders' equity (reported) (%)	14.9	15.8	13.3	13.8	13.1
P/C: net combined ratio (%)	91.2	89.4	93.6	95.7	93.0
P/C: net expense ratio (%)	33.3	33.3	32.3	33.2	35.1
P/C: return on revenue (%)	11.7	14.2	8.5	9.8	10.1
Life: Net expense ratio (%)	28.5	27.2	29.7	32.2	30.2
EBITDA fixed-charge coverage (x)	30.1	34.2	25.7	101.8	2128.4
EBIT fixed-charge coverage (x)	27.1	30.9	22.5	90.1	1943.7
Financial obligations / EBITDA adjusted	0.8	0.8	1.0	1.2	0.0
Financial leverage including pension deficit as debt (%)	16.4	13.8	15.0	17.8	0.1
Net investment yield (%)	1.3	1.3	1.4	1.7	1.7
Net investment yield including investment gains/(losses) (%)	-2.6	6.4	2.8	4.0	1.0

Business And Financial Risk Matrix

Business risk profile	**Financial risk profile**							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	**a+/a**	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of September 4, 2023)*	
Operating Company Covered By This Report	
Sava Re	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
Related Entities	
Zavarovalnica Sava d.d.	
Financial Strength Rating	
Local Currency	A/Stable/--
Domicile	Slovenia

*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.