Research Update:

Slovenia-Based Sava Insurance Group 'A' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

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Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Under our updated model, the Sava Insurance Group's capital buffers still meet the risk-based capital requirements in an extreme stress scenario (99.99% confidence level), and our base-case scenario assumes that this will persist.
- We therefore affirmed our 'A' long-term financial strength and issuer credit ratings on Sava Re and our 'A' long-term financial strength rating on the group's core entity Zavarovalnica Sava.
- The stable outlook reflects our view that Sava Insurance Group (Sava) will retain its strong earnings and maintain its excellent capital adequacy.

Rating Action

On June 3, 2024, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on Slovenia-based Sava Re. At the same time, we affirmed our 'A' financial strength rating on the group's core entity, Zavarovalnica Sava. The outlook remains stable.

Impact Of Revised Capital Model Criteria

- The criteria revision does not lead to any rating changes because Sava's risk-based capital adequacy continues to display sizable capital buffers in an extreme stress scenario (99.99% confidence level).
- We observed an increase in total adjusted capital under International Financial Reporting Standard (IFRS) 17, which brings greater visibility to future profits for the insurance sector through the contractual service margin (CSM). Under our revised capital model, we no longer

apply haircuts or capital charges to equity-like reserves such as the CSM and risk adjustment. We now recognize CSM for a combined after-tax amount of €149.4 million at year-end 2023.

- We've also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels partially offsets these improvements. Notably, equity charges and interest rate risk charges in Sava's case. Furthermore, liability charges under the new model are increasing, which also contributes to higher capital requirements.

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.
Sizable capital buffers, at the 99.99% level, coupled with a conservative investment strategy and limited underwriting risk.	
Prudent underwriting combined with a history of conservative reinsurance protection and prudent investment strategy, which supports a solid operating performance.	

Outlook

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. We expect Sava will 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 a prolonged loss of profitability, triggered for example by external conditions that also derailed macroeconomic development in Slovenia.

Upside scenario

In the next 24 months, we could consider raising the ratings in the following cases:

- If the group further improves its competitive position, for example if sustainable economic growth propels Slovenia's GDP per capita closer to the eurozone average and strengthens its prospects for profitable domestic growth.
- If Sava's absolute capital levels continue to increase while relative exposure to investment and

underwriting risks remains limited, supporting the sustainability of Sava's financial risk profile at above the 99.99% confidence level according to our model.

Rationale

Sava is well placed to continue to leverage the favorable market environment for its insurance and reinsurance business. The group showed exceptionally strong premium growth of 14.4% in 2023 and first-quarter 2024 growth continued at 18.3%. Growth was widespread in terms of products and geographies and stems from price increases--as higher inflation is passed on to policyholders--as well as some new risk additions in the insurance and reinsurance business. Due to significant natural catastrophes in Slovenia and the wider Adria region in 2023, the group is now also increasing prices in property and commercial lines. This has further boosted premium growth first-quarter 2024 and we expect this will continue in the next few quarters. That said, with inflation now reducing and given the already significant price increases in its Slovenian primary insurance business in the last two years, we now expect premium growth will moderate back to a more normalized 4%-8% in 2024-2026.

Sava made an exceptionally strong start to 2024 with a non-life combined ratio of 83.8%, solid CSM growth, and overall group net income of €29.8 million in the first quarter. These results reflected a benign level of large claims in the non-life primary and reinsurance business in the first quarter. We believe that with the normalization of larger claims frequencies for the rest of 2024, the combined ratio should return to 92%-95%. We also expect continued solid earnings from its life insurance and asset management business. Overall we think that Sava is well placed to post a net income of €60 million-€75 million, with a return on equity of 10%-13% in 2024 and beyond.

Sava's capital is a rating strength and we think it will remain so through 2026. The group's risk-based capital adequacy continues to display sizable capital buffers in an extreme stress scenario under the 99.99% confidence level. Our view is supported by Sava's very solid solvency ratio of 191% (based on the standard formula, no transitional adjustment) at year-end 2023. The group displays conservative capital and financial management including strong reserving practices. This contributed to the smooth transition to IFRS17, under which shareholders' equity has gone up by about 27% and total adjusted capital has increased. Sava's solidly profitable and stable life insurance business is also resulting in material CSM, which we now fully recognize as part of the capital position in our model. This said, we view Sava's consolidated capital as good quality because it still mostly stems from shareholders' equity.

We believe the group will maintain very strong capital and earnings in 2024 and beyond. Its sound earnings will enable it to finance strong growth and keep distributing moderate dividend payments. With capital adequacy now comfortably above the 99.99% confidence level, the group retains sizable capital buffers as a cushion against macroeconomic uncertainties and capital markets volatility. Overall, we expect the group will maintain capitalization at least in at 99.95% under our insurance capital model over the next two-to-three years.

Sava's risk profile has remained stable and supports its very strong financial profile. In our view, the group pursues a conservative investment strategy. We believe Sava will continue to benefit from a gradual rise in investment income because of higher reinvestment rates. The amount of higher risk investments remains limited. Following a very significant natural catastrophe season in 2023, we understand that Sava has managed to secure solid reinsurance protection for 2024, thereby protecting its balance sheet and earnings against volatility from natural catastrophes.

Ratings Score Snapshot

Financial strength rating	A
Anchor*	a
Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
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
Support	0
Group support	0
Government support	0

*Sava is relatively concentrated in Slovenia, with earnings diversity outside of Slovenia being narrower than higher-rated peers. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Sava Re	
Issuer Credit Rating	
Local Currency	A/Stable/--
Sava Re	
Zavarovalnica Sava d.d.	
Financial Strength Rating	
Local Currency	A/Stable/--
Sava Re	
Junior Subordinated	BBB+