S&P Global Ratings

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Sava Re

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Sava Re

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

=

A/Stable/--

Financial strength rating

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

Credit Highlights

Overview

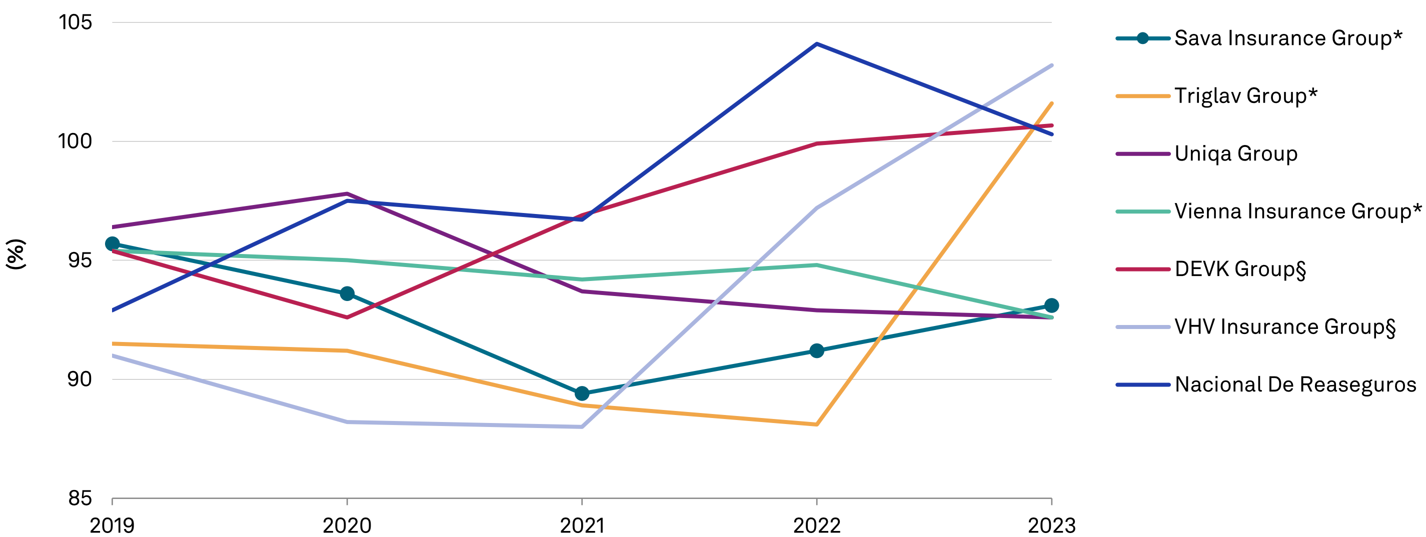
Key strengths	Key risks
Established market credentials backed by its No. 2 market position in Slovenia, with some additional diversification via the international reinsurance business and expanding operations in the Adria region.	Compared with higher-rated peers, geographic diversification by revenue and net income is limited outside Slovenia.
Solid capital buffers, at the 99.99% level, coupled with a very conservative investment strategy and limited underwriting risk.	
Prudent underwriting, combined with solid reinsurance protection and a conservative investment strategy, which supports strong operating performance.	

Sava Re's profit in the first half increased by 11% to €44.5 million and we expect full-year 2024 profit to remain strong at €60 million-€76 million. Despite still-elevated inflation in Slovenia and other insurance markets, the group effectively mitigates the impact of elevated claim costs through consistent price adjustments, thereby safeguarding its underwriting profitability. As a result, its underwriting and operating performance was solid in the first half of 2024 and it reported a non-life combined ratio of 89.7% (under 100% indicates an underwriting profit). Given its performance in the first half of 2024, S&P Global Ratings anticipates that the group will achieve its targeted full-year profit of €70 million.

The group also posted continued strong and stable results in life insurance and in its asset management business. We expect the frequency of larger claims to normalize over the rest of 2024; the combined ratio for the full year is expected to be 92%-95%. Investment results are also gradually increasing as the group continues to reinvest in higher-yielding, fixed-income instruments. Credit risk in Sava's investment portfolio remains conservative.

Chart 1

Net combined ratio (2019-2023)



*Combined ratio for 2023 as reported by the respective companies. §Combined ratios for DEVK and VHV are based on local generally accepted accounting principles. Source: S&P Global Ratings.

We expect revenue growth in 2024 to be solid at about 10% and that it will gradually moderate during 2025 and 2026. Insurance revenue growth remained exceptional during the first half of 2024, at 18%. Meanwhile, gross premium written rose by 13.9%, to €550.6 million. Non-life insurance in Slovenia saw especially strong growth across all major lines. Sava's domestic motor insurance business grew disproportionally fast as the group actively increased prices to offset the impact of inflation. In the second half, we expect domestic non-life business to grow at a more normal rate of below 10%.

Increased sales of unit-linked policies and term business boosted growth in Sava's life business. As a result, the contractual service margin (CSM) expanded steadily--as of June 30, 2024, it stood at €171 million, indicating growth of 10%. Sava's asset management unit benefited from strong inflows of new money in Slovenia as well as growth in its North Macedonian pension business. We expect the group to see continued strong growth in its foreign primary insurance operations in Adria until 2026. By contrast, growth in its reinsurance operations is likely to be only modest, given Sava's focus on solid performance over the reinsurance cycle.

Sava's capital is a rating strength and we think it will remain so through 2026. According to our risk-based capital model, Sava's capital position remained robust and it had sizable buffers above the 99.99% threshold at the end of 2023. In our view, the group has sufficient capital buffers to support the robust organic business expansion and we anticipate that it will continue to distribute moderate dividend payments until 2026. Sava's capital buffers also offer a cushion against potential moderate macroeconomic uncertainties and capital market volatility. We expect that the group will maintain a capitalization level of at least 99.95% over 2024-2026 according to our insurance capital model.

Outlook: Stable

The stable outlook on Sava's core operating entities reflects our expectation that management will maintain its strategy of focusing on solid operating performance and profitable growth, while further diversifying premium and solidifying its income streams. We expect Sava to sustain a strong balance sheet, with capitalization of at least 99.95% and strong and stable earnings over the next two years. This would enable the group to develop its domestic and foreign operations further.

Downside scenario

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

Upside scenario

Over the next 24 months, we could consider raising the ratings 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).
- Increases its absolute capital levels further while limiting its relative exposure to investment and underwriting risks--this would support the sustainability of Sava's financial risk profile at above the 99.99% confidence level, according to our model.

Key Assumptions

- Moderate economic growth in Slovenia so that real GDP increases by 2.3% in 2024 and remains relatively stable at 2.3%-2.5% in 2025-2026.
- Inflation to decline in 2024 to 3.3% (from the 7.2% seen in 2023), and to decline further to 2.5% by 2026.
- Unemployment in Slovenia to remain at 3.5%-3.7% until 2026, materially below the eurozone average.
- Long-term interest rates in the eurozone to remain relatively stable at about 3.1%.

Sava Insurance Group--Key metrics

(Mil.€)	2025f	2024f	H1 2024*	2023	2022‡	2021‡
S&P Global Ratings capital adequacy	At least 99.95%	At least 99.95%	99.99%	99.99%	AAA	AAA
Gross premium written§	~ 1,000	~ 940	551	885	774	730
Insurance revenue	~ 800	~ 770	388	698	N/A	N/A
Net income	63 - 80	60 - 76	44.5	64.7	68.2	76.2
Return on equity (%)	10 - 13	10 - 13	13.8	11.6	14.9	15.8

Sava Insurance Group--Key metrics (cont.)						
(Mil.€)	**2025f**	**2024f**	**H1 2024***	**2023**	**2022‡**	**2021‡**
Net investment yield (%)	~ 2	~ 2	2.5	1.8	1.3	1.3
P/C: net combined ratio (%)†	# 95	# 95	89.7	93.1	91.2	89.4
Financial leverage (%)	10 - 13	10 - 13	N/A	12.5	16.7	14.0
EBITDA fixed-charge coverage (x)	25 - 35	25 - 35	N/A	29.8	30.1	34.2

*Data for H1 2024 is as reported by Sava Insurance Group. ROE for H1 2024 is annualized. §Gross premium written is not part of IFRS 17. †Combined ratio for 2023 is as reported by Sava Insurance Group. ‡Data prior to 2023 is based on IFRS 4. S&P Global Ratings capital adequacy from 2023 onward is in accordance with our criteria, "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions," published on Nov. 15, 2023.

Business Risk Profile: Strong

Sava is the second-largest multiline insurance group and the fourth-largest asset manager in Slovenia. Its international reinsurance operations through Sava Re (A/Stable/--) are relatively small, but it is well represented across Asia, Europe, the Middle East, and Africa. The group is expanding its primary insurance operations in the Adria region (formerly Yugoslavia). Sava has a record of profitable business growth, with an average five-year combined ratio of 92.6%. This has enabled the group to continue generating strong earnings, although Sava's operations and net income rely more heavily on domestic market developments than those of its higher-rated peers.

During 2024, we expect performance in Slovenia's property/casualty (P/C) sector to recover strongly and that in the life sector to remain stable. We anticipate that return on equity in the Slovenian non-life market will return to around its 10-year average of about 11%. The normalization of catastrophe claims, good underwriting controls, and disciplined underwriting, combined with a still-positive economic environment in Slovenia and a very solid household position, should support solid insurance performance in 2024.

We anticipate that the wider European economy will see a soft landing which will support continued and stable economic growth for Slovenia in 2025-2026. Solid domestic economic conditions will support both Sava's domestic primary insurance business and its asset management business. Sava now writes about 20% of its direct insurance business in the Adria region. It is well-represented in the region's smaller, less-developed markets, such as North Macedonia, Montenegro, and Kosovo. These offer the group long-term growth opportunities. It is also striving to strengthen its position in larger markets, like those of Croatia and Serbia.

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. Sava increased its share of the Slovenia market to about 29% in the first quarter of 2024 from about 20% in the same quarter of 2023. This follows the government's scrapping of supplementary health insurance, a line in which Sava did not participate, at the end of 2023. Although this boosted Sava's total market share in Slovenia, it still ranks behind domestic peer Triglav, which is larger and has a market share of about 41%. Sava's non-life portfolio is well-diversified across various lines of life and non-life business. In the life insurance sector, the group mainly focuses on capital-light unit-linked products and on more-profitable term life insurance.

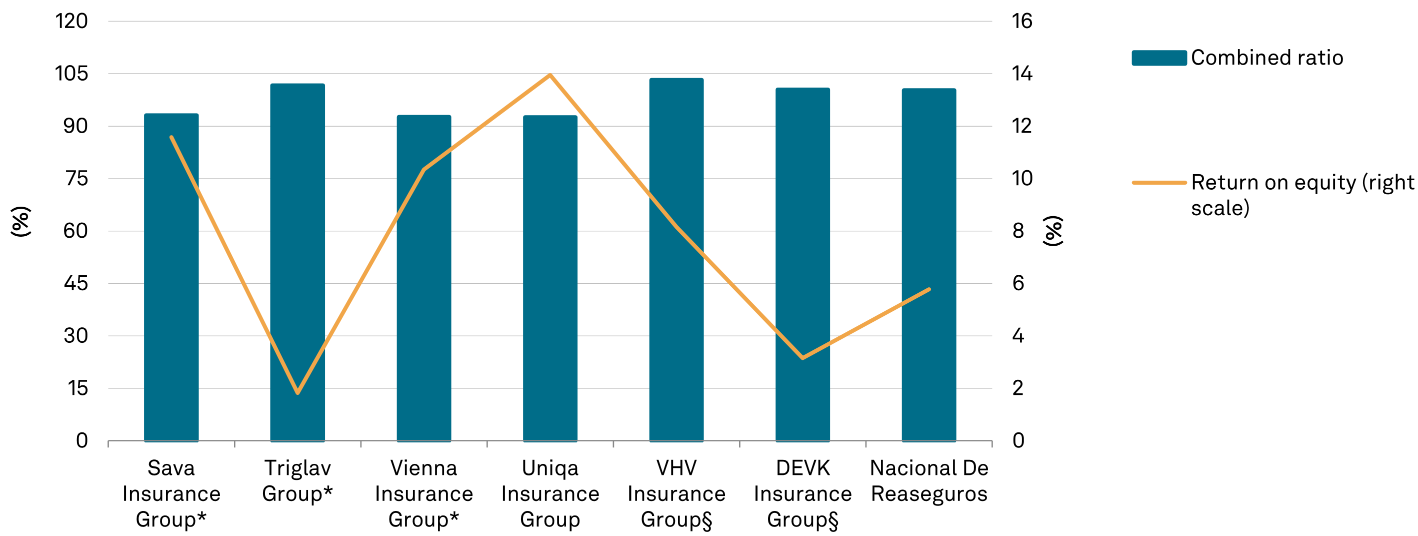
Sava's underwriting in its domestic motor lines is expected to remain strong. The group's motor insurance in Slovenia consists of two lines--obligatory motor (MTPL) and motor haul (casco). Both grew materially faster than the rest of Sava's business lines over the past 12 months. Not only did Sava take additional price actions to mitigate the effect of inflation, it also benefited from newly won business. Given that Sava remains slightly overweight in motor business compared with Triglav, its growth in this area supported its solid ongoing performance. Motor portfolio prices have gradually increased over the past two years. Inflation is now reducing and claims frequencies remain resilient. Therefore, we expect slower growth in the motor book in Slovenia going forward--more in line with that in the rest of the business. We expect persistent inflation and increased frequencies of natural catastrophes to support further gains in the group's non-motor lines because it will continue to react to the rising cost of claims in a timely manner.

Performance in Sava's international reinsurance operations remains strong. We still see Sava's reinsurance operations as an additional source of business and earnings diversification for the group. The international reinsurance market hardened in 2022 and 2023; this, combined with Sava's prompt underwriting actions over the past few years, bolstered performance. As a result, the reinsurance business now contributes a significant amount to the group's results. The group seized the opportunity of the more-positive operating environment to increase the geographic diversification stemming from its reinsurance operations and reduce its reliance on its largest cedents. It has been shaping its portfolio to limit potential impact of the emergence of claims trend that are more adverse than currently expected. In 2024-2025, we expect Sava's reinsurance operations to continue to benefit from favorable business conditions in the sector.

We expect Sava's solid market strength to translate into robust net profit after tax of €60 million-€80 million a year in 2024 and 2025, under IFRS 17. For year-end 2023, the group recorded a profit after tax of €64.7 million, underpinned by strong underwriting results in non-life, where the combined ratio was 93.1%, as well as strong life insurance performance. The group achieved this result even though in 2023 it was affected by significant natural catastrophes in Slovenia and the wider Adria region, which depressed profit by €27.4 million. Favorable capital markets and positive inflows into its asset management operations also contributed solid fee income. In addition, Sava has harnessed higher reinvestment yields to gradually increase its investment returns. Overall, the group's return on equity was 11.6% for 2023 (based on IFRS 17), indicating that it had outperformed its domestic peers. Sava's performance was relatively solid, relative to its direct European peers.

Chart 2

Sava's 2023 operating and underwriting performance was favorable compared with international peers'



*Combined ratio as reported. §Combined ratios for DEVK and VHV are based on local generally accepted accounting principles. Source: S&P Global Ratings.

Financial Risk Profile: Very Strong

Sava has a strong and resilient balance sheet and a robust capital position, according to our capital model and Solvency II. We forecast that its operating performance in 2024 and beyond will support both investment in growth and moderate dividend payments. Its underwriting and investment risks, as well as its funding structure, are neutral to our assessment of its financial risk profile as very strong.

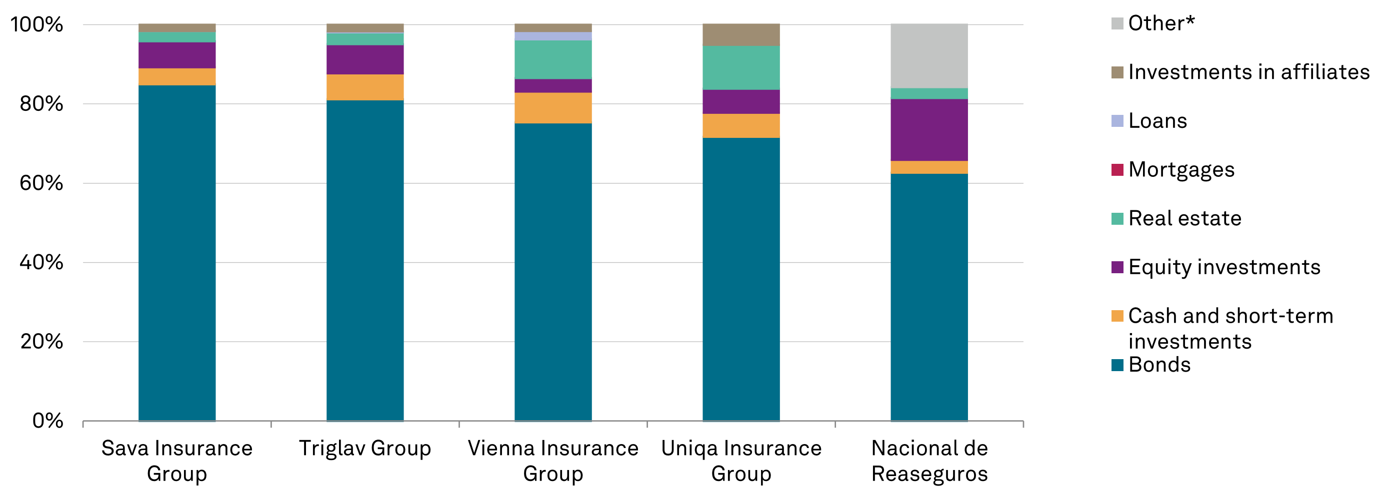
Sava's capital is a rating strength--we anticipate that it will maintain very strong capital and earnings through 2026. The group's risk-based capital adequacy gives it sizable capital buffers, even in an extreme stress scenario, at the 99.99% confidence level. Our view is supported by Sava's very solid solvency ratio of 191% (based on the standard formula, no transitional adjustment) at year-end 2023. As of June 30, 2024, the solvency ratio was about 200%. The group maintains conservative capital and financial management policies, including strong reserving practices. This contributed to its smooth transition to IFRS 17, 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 has also resulted in material CSM, which we now fully recognize as part of the capital position in our model.

Sava has sourced solid reinsurance protection for 2024. The end of 2022 and through 2023 saw lower capacities in international reinsurance markets, and materially higher prices. The group has slightly adjusted its reinsurance program and increased its risk retention. We don't expect the higher retention to lead to material capital or earnings volatility. Sava has balance-sheet buffers and continues to actively adjust the price of coverage in its catastrophe-exposed lines. We expect it to continue to use effective and cost-competitive reinsurance protection to protect its balance sheet against material capital and earnings volatility.

Sava's investments remain less sensitive to market volatility than most European peers at similar rating levels. The group's investment strategies are very conservative and we expect investment income to increase further with the rising reinvestment rate. About 86% of Sava's asset portfolio consists of fixed-income securities. As these mature, the group has reinvested in high credit quality securities that now pay higher interest rates. By the end of 2023, almost 46% of the portfolio comprised fixed-income investments rated 'AA-' or above, and almost 90% of the group's fixed-income investments were rated 'BBB-' or above.

Chart 3

We expect Sava to retain its conservative investment structure
Asset structure as reported by the respective companies under IFRS 17 (%)



*For Nacional, other relates to reinsurance deposits. Source: S&P Global Ratings.

Investments rated 'BB+' or below represent about 8% of the group's total investment portfolio Most are government bonds of countries where Sava has foreign primary insurance operations. Exposure to equity and alternative investments remains modest, at 6.5% of total invested assets. In addition, Sava's real estate exposure is relatively low, at just 2.6% of total invested assets.

The group's leverage remains relatively low and it has significant debt capacity in case of need. Sava's debt levels remained stable in 2023 and the group continued to increase shareholder equity through earnings retention and because unrealized losses on fixed-income investments dropped after the 2022 rise in interest rates. As a result, the group's financial leverage slightly reduced to about 13% at the end of 2023. Fixed-charge coverage stood at about 30x in 2023 and is likely to remain solid due to strong underlying earnings.

Other Key Credit Considerations

Governance

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

Liquidity

We regard Sava's liquidity as exceptional. Given that it holds substantial liquid assets, we do not expect any liquidity constraints to keep it from meeting its obligations. Its expanding operations also provide constant cash inflows. Moreover, most of the business is short tail and its larger risks are heavily reinsured.

Government support

We regard Sava as a government-related entity, chiefly because the Slovenian government is its largest shareholder. Moreover, the group plays a key role in providing Slovenians with structured protection against the impact of the catastrophe events to which the country is exposed. In our view, 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 this support, the ratings would be negatively affected if a financially weaker group were to take over the ownership of Sava.

Environmental, social, and governance

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

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

Related Research

- Slovenia, June 10, 2024
- Slovenia-Based Sava Insurance Group 'A' Ratings Affirmed Following Revised Capital Model Criteria; Outlook

Stable, June 3, 2024

- Slovenian Non-Life Insurers Can For Now Absorb Government's Price Cap On Discontinuing Health Insurance, May 10, 2023
- Global Insurance Markets: Inflation Bites, Nov. 30, 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 metrics history

(Mil. €)	2023 IFRS 17	2022 IFRS 4	2021 IFRS 4	2020 IFRS 4
S&P Global Ratings capital adequacy	99.99%	AAA	AAA	AAA
Total invested assets	2,292	2,136	2,316	2,147
Total shareholder equity	586	412	504	460
Insurance revenue	698	N/A	N/A	N/A
Reinsurance utilization (%)	6.2	6.7	6.3	6.0
EBIT	83	87	97	71
Net income	65	68	76	56
Return on equity (%)	11.6	14.9	15.8	13.3
Return on assets (including investment gains/losses) (%)	3.5	N/A	N/A	N/A
P/C: Net combined ratio (%)	93.1	91.2	89.4	93.6
PC: Return on revenue (%)	7.8	N/A	N/A	N/A
Life: Operational ratio (%)	69.1	N/A	N/A	N/A
Life: Return on assets (%)	1.9	N/A	N/A	N/A
EBITDA fixed-charge coverage (x)	29.8	30.1	34.2	25.7
EBIT fixed-charge coverage (x)	26.6	27.1	30.9	22.5
Financial obligations / EBITDA (x)	0.9	0.9	0.8	1.0
Financial leverage adjusted including pension deficit as debt (%)	12.5	16.7	14.0	15.3
Net investment yield (%)	1.8	1.3	1.3	1.4
Net investment yield including investment gains/(losses) (%)	5.4	(2.6)	6.4	2.8

*Data prior to 2023 is based on IFRS 4. N/A--Not applicable.

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 11, 2024)*

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.