Research Update:

Slovenia-Based Triglav Insurance's Core Subsidiaries Affirmed At 'A' Following Revised Capital Model Criteria

July 2, 2024

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Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Under our updated model, Triglav Group (Triglav) shows capital buffers that meet the risk-based capital requirements in an extreme stress scenario (99.99% confidence level), which we assume will continue in our base-case scenario.
- We therefore affirmed our 'A' long-term financial strength and issuer credit ratings on Triglav Insurance (Zavarovalnica Triglav) and its core subsidiary, Triglav Re.
- The stable outlook reflects our view that Triglav will show strong performance recovery in insurance in 2024 and grow net income in 2025-2026. We also expect the group will retain a robust balance sheet with at least very strong capital and earnings.

Rating Action

On July 2, 2024, S&P Global Ratings affirmed its 'A' long-term insurer financial strength and issuer credit ratings on Triglav Insurance Co. PLC (Zavarovalnica Triglav) and its core subsidiary, Triglav Re. The outlook remains stable.

We also affirmed our 'BBB+' issue rating on the subordinated bond issued by Zavarovalnica Triglav.

Impact Of Revised Capital Model Criteria

- The criteria revision does not lead to any rating changes because Triglav Group'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 Standards 17, which brings greater visibility to 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'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 Triglav's case. Furthermore, liability charges under the new model are increasing, which contributes to higher capital requirements.

Credit Highlights

Overview

Key strengths	Key risks
Market leader in insurance and asset management business in Slovenia and the Western Balkan region, with a well-diversified insurance portfolio enhanced by a large agency network and strong brand recognition.	Lower geographical diversification of revenue and net income (outside Slovenia) compared with those of higher-rated peers.
Solid capital buffers at the 99.99% confidence level, as per our risk-based capital model, supported by the group's underwriting discipline and conservative investments.	
Solid reinsurance protection that limits the group's natural catastrophe losses.	

Outlook

The stable outlook on Triglav's core operating entities reflects our expectation that the group will sustain a strong and robust balance sheet with at least very strong capital and earnings position. We expect earnings to significantly recover in 2024 and show gradual growth in 2025-2026, in line with its strategy of solid operating performance. This would enable the group to continue developing its domestic and foreign operations, further diversifying premiums through profitable growth.

Upside scenario

We could raise the rating over the next 24 months if:

- Triglav further diversifies its operations, materially improves its performance and the scale of its core foreign operations, and retains sound overall profitability and capital adequacy at least at the 99.95% confidence level under our model;
- The group's absolute capital continues to increase while relative exposure to investment and underwriting risks remains limited, supporting the sustainability of Triglav's financial risk profile at above the 99.99% confidence level according to our model; or
- Sustainable economic growth propels Slovenia's GDP per capita further toward the eurozone average, strengthening the group's prospects for profitable domestic growth and solidifying its

risk profile.

Downside scenario

We could lower the ratings if Triglav incurs very large losses, for example, due to severe combined global and domestic financial market stress while external conditions derail sound economic developments in Slovenia.

Rationale

The affirmation reflects our view that Triglav's capital adequacy remains very robust even after implementation of our new capital criteria. Furthermore, the group's performance is set to significantly recover following the adverse impact of natural catastrophes and health care reform in 2023.

Capitalization remains one of Triglav's key rating strengths, with capital adequacy at year-end 2023 exceeding the 99.99% confidence level. Additionally, the group's regulatory solvency ratio, based on the standard formula without any transitional adjustments, was very solid at 200% at year-end 2023. Despite weaker earnings in 2023, Triglav's distributed moderate dividends in 2024 and we expect dividends to continue in accordance with its dividend strategy. The group continues to display conservative capital and financial management including strong reserving practices. This contributed to the smooth transition to International Financial Reporting Standards 17, under which shareholders' equity has risen about 19%, resulting in increased total adjusted capital. Also, with our new capital criteria, Triglav's capital adequacy buffers strengthened further under our model due to higher and more visible future profits in the group's life insurance business and a better diversification credit under our revised capital criteria. Still, we view Triglav's consolidated capital as good quality because it still mostly stems from shareholders' equity.

We think the group will sustain capital adequacy above the highest confidence level through 2026. Triglav continues to monitor and optimize its underwriting and investment exposure. The group's asset allocation is relatively conservative, and Triglav continues to reduce its exposure to the main market risks, stemming from its equity and private equity portfolio. In addition, the group is optimizing underwriting volatility from natural catastrophe-exposed lines. We think Triglav's robust capital level provides substantial capital buffers to enable it to continue taking advantage of organic and inorganic growth opportunities across insurance and asset management operations in the regions where it operates. The group would also have buffers for natural catastrophes following increased risk retention, and cushion against economic uncertainty and moderate capital market volatility. In turn, we expect the group will maintain capitalization at least in the 99.95% confidence level of our insurance capital model over the next two-to-three years.

Triglav's operating performance has recovered sharply at the start of 2024. The group posted strong improvement with a nonlife combined ratio of 87.9%, very solid new business margin in life, and overall CSM growth. Group net income in the first quarter was €36.6 million, up 154% compared with the same quarter in 2023. This followed material price increases that largely offset inflation, while the group has also seen a relatively benign level of large claims in the nonlife primary and reinsurance business. We think that with the normalization of larger claims for the rest of 2024, the combined ratio should return to 90%-94%. We expect continued very solid earnings from its life insurance and asset management business. Overall, we think that Triglav is well placed to post a net income of €80 million-€100 million, with a return on equity of 9%-11% in 2024 and beyond.

We think the supplementary health line's discontinuation at the end of 2023 is credit neutral. The business was transferred to the state universal health insurance. Given the transfer and that Triglav is actively adjusting its health operations, we do not foresee any negative impact from the discontinuation on 2024's performance. The group also agreed with the state on compensation for the state-induced price cap that led to health insurance losses in 2023. It will receive a one-off of €11 million in compensation in 2024. We expect Triglav to continue to actively develop complementary health insurance offerings in its primary insurance markets.

Following an intense natural catastrophe season in 2023, Triglav managed to source solid reinsurance protection for 2024. With lower capacity and materially higher prices on international reinsurance markets at the end of 2023, the group has slightly adjusted its reinsurance program and showed a moderate increase in risk retention. Still, we do not expect that higher retention will lead to material capital or earnings volatility because Triglav has balance-sheet buffers while the group has adjusted and continues to actively adjust price and scope of its coverage in its catastrophe-exposed lines. We expect Triglav will continue to safeguard its balance sheet from material capital and earnings volatility with an effective and cost-competitive reinsurance protection.

Strong premiums and revenue growth in 2023 and so far in 2024 will support prospective underwriting results. The group showed exceptionally strong premium growth of 12% in 2023. In first-quarter 2024, growth was flat due to the discontinued supplementary health business in Slovenia. Triglav's nonlife business growth in first-quarter 2024 was almost able to offset the loss of the supplementary health business. In terms of ongoing business, the revenue growth is widespread in terms of products and regions. Much of the growth comes from increased prices due to incorporating the most recent loss cost trends. The group also continues to add risks in its domestic and international primary and reinsurance businesses. Still, with inflation falling and given the already significant price increases in its Slovenian motor business, we now expect growth will be mainly supported by property insurance in Slovenia and abroad. As Triglav continues to expand and tap growth opportunities domestically and abroad, we expect premiums growth will remain strong in 2025-2026 at 5%-8%.

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	0
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment. *Triglav's earnings diversity outside of Slovenia is narrower than that of higher-rated peers.

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

- Triglav Group, Sept. 11, 2023

Ratings List

Ratings Affirmed	
Triglav Insurance Co. PLC	
Triglav Re, Reinsurance Co. Plc	
Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--
Triglav Insurance Co. PLC	
Junior Subordinated	BBB+