

### Research Update:

## PRI Pensionsgaranti Mutual Insurance Company Assigned 'A' Ratings; Outlook Stable

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## Research Update:

# PRI Pensionsgaranti Mutual Insurance Company Assigned 'A' Ratings; Outlook Stable

## Overview

- We are assigning 'A' counterparty credit and insurer financial strength ratings to PRI Pensionsgaranti Mutual Insurance Company (PRI).
- The stable outlook reflects our expectation that PRI will maintain its very strong capital adequacy, and strong competitive position and operating performance over the short-to-medium term.

## Rating Action

On Dec. 8, 2010, Standard & Poor's Ratings Services assigned its 'A' long-term counterparty credit and insurer financial strength ratings to Sweden-based credit insurer PRI Pensionsgaranti Mutual Insurance Company (PRI). The outlook is stable.

## Rationale

The ratings reflect our view of PRI's very strong capitalization, strong niche competitive position, and strong underwriting performance. These factors are offset by the company's exposure to industry risk and its high appetite for market risk.

We consider PRI's capitalization as very strong. The company's capital adequacy, as measured by Standard & Poor's risk-adjusted capital model, shows a redundancy to the 'AAA' level. In addition, PRI has attained regulatory and Swedish traffic-light solvency margins of 324x and 6.1x, respectively. Quality of capital is strong, in our view, with the Swedish safety reserve representing 91% of the company's adjusted equity. Furthermore, PRI exercises a prudent and conservative reserving policy and does not currently rely on any reinsurance.

PRI's strong competitive position derives from its dominant and long-established role as a credit insurer and service provider of Swedish occupational pension provisions. PRI's strong competitive position is restricted, however, by its business concentration in terms of business line and geography. The nature of the company's credit insurance business and its concentration in Sweden exposes the company to any downturn in its domestic economy, and to the economic cycle-related earnings volatility. However, we believe that PRI's industry risk exposure is somewhat dampened by the multinational nature and varied industry sectors of its policyholders.

We consider PRI's operating performance to be strong. PRI has a strong

earnings history, reflecting its conservative risk-selection criteria, the relative resilience of the Swedish economy, and historically very low policyholder default rates. Its strong underwriting performance has recently been offset by its fairly high investment leverage and, in 2009, the number of defaults increased slightly, resulting in a combined ratio of 47.5%. Nevertheless, the average combined ratio since 2005 has been very strong at 28.1%.

Although we regard investments as strong, with generally low credit risk, we believe the company has a high appetite for market risk. As at year-end 2009, 35% of investments were held in equities, which we regard as somewhat above the average for a non-life insurer.

## Outlook

The stable outlook reflects our expectation that PRI will continue to maintain capital adequacy at least at a level consistent with the 'AA' capital requirement as per Standard & Poor's risk-adjusted capital model. We expect the company to maintain its strong competitive position and strong operating performance in the next few years. Loss ratios could potentially be volatile due to the industry risk exposure; however, we expect losses to be contained in light of PRI's strong track record of risk selection.

We regard a positive rating action as unlikely given the level of industry risk. That said, we believe that Sweden entered the recession from a position of relative economic and fiscal strength, which should aid its recovery. However, a steep and prolonged, global or domestic economic contraction could have negative rating implications for PRI, as could a change in its risk profile. An expansion into credit insurance outside Sweden could increase PRI's risk profile, but we believe it will be pursued judiciously.

## Related Criteria And Research

- Interactive Ratings Methodology, April 22, 2009
- Counterparty Credit Ratings And The Credit Framework, April 14, 2004

## Ratings List

New Rating; CreditWatch/Outlook Action

PRI Pensionsgaranti	
Counterparty Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--

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