



## RATING ACTION COMMENTARY

# Fitch Affirms Alm. Brand's Core Insurance Subsidiaries at IFS 'A+'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 13 Nov 2023: Fitch Ratings has affirmed Alm. Brand A/S's core operating subsidiaries' (Alm. Brand Forsikring A/S, and Codan Forsikring A/S) Insurer Financial Strength (IFS) Ratings at 'A+', and Alm. Brand A/S's Long-Term Issuer Default Rating (IDR) at 'A' (collectively referred to as Alm Brand). The Outlooks are Stable.

The affirmation reflects Alm Brand's 'Strong' company profile following the acquisition of Codan Forsikring A/S (separately referred to as Codan), 'Very Strong' capitalisation and leverage and 'Strong' financial performance.

## KEY RATING DRIVERS

**Strong Company Profile:** Alm Brand has a very strong domestic market position and robust product diversification in Danish non-life insurance, which is offset by its limited geographic diversification. The completed acquisition of Codan in 2Q22 has significantly improved Alm Brand's scale and market position in the domestic non-life market. The acquisition firmly establishes the group as a top three non-life insurer in Denmark with an approximate 17% gross premium market share.

**Strong Profitability:** Fitch assesses Alm Brand's profitability as strong, but earnings are under some pressure from integration and amortisation expenses related to the acquisition of Codan, and temporary unrealised losses on fixed income assets. However, its 2022 combined ratio at 87.8% (89.5% pro-forma for IFRS17) weakened only moderately from 2021's 85.1% as favourable weather-related and major claims developments supported underwriting performance, and also because measures to reduce portfolio risk and re-pricing took effect. The group's 2022 net income return on equity (ROE) fell to 3.7% (2021: 6.3%) but we expect it to gradually improve from 2024 as underwriting is streamlined and cost synergies from the acquisition are fully unlocked.

**Very Strong Capital and Leverage:** Alm Brand's capitalisation is 'Very Strong' as measured by an end-3Q23 group solvency 2 ratio of 216% (end-2022: 188%), and end-2022 Prism Factor-Based Capital Model (FBM) score of 'Extremely Strong'. The Fitch-calculated financial leverage ratio (FLR) has been stable since end-2020 at around 10% and we expect the ratio to remain around this level also in 2023.

Alm Brand booked significant intangibles from the Codan acquisition, including DKK7.7 billion goodwill (around 58% of shareholders' equity at end-2022). Fitch includes this goodwill in the FLR calculation, assuming the performance of underlying businesses support the valuation, but excludes it from Prism FBM, as typically done with intangibles. The group's FLR would be around 19% excluding goodwill, a level still commensurate with the ratings.

**Strong Reserve Adequacy:** The group has had positive reserve run-off experience in the past five years, no reserve shortfalls, and long-term reserve growth that is consistent with premium growth. Alm Brand has exposure to long-tailed workers' compensation lines but the level of reserves is adequate, in our view.

**Very Strong Reinsurance Protection:** Fitch assesses the group's reinsurance protection as very strong for its business needs and believes that it effectively protects Alm Brand's balance sheet against losses arising from catastrophic events and claims accumulation. The group's reinsurance programme is set to provide cover for at least a one-in-200-year catastrophe event (estimated up to a loss of DKK6.8 billion). Although risk retentions have increased from 2022 driven by improving reinsurance rates, these remained low compared with total equity.

**Low Investment and Liquidity Risk:** Alm Brand's risky assets ratio is very low at below 10%, which we expect the group will broadly maintain. The consolidation of Codan did not have an impact on the combined group's investment and liquidity risks as policies have been promptly aligned. Liquidity risk mainly relates to pay-outs for catastrophic events. Fitch estimates total liquid assets covered outstanding claims reserves 1.5x at end-2022, reflecting very strong liquidity.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Net income ROE above 10% on a sustained basis, with 'Very Strong' capitalisation and leverage

## Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Failure to improve ROE post integration of Codan

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Alm. Brand A/S	LT IDR	A Rating Outlook Stable		A Rating Outlook Stable
	Affirmed			
subordinated	LT	BBB	Affirmed	BBB
subordinated	LT	BBB-	Affirmed	BBB-
Alm. Brand Forsikring A/S	LT IFS	A+ Rating Outlook Stable		A+ Rating Outlook Stable
	Affirmed			

Codan Forsikring A/S

LT IFS

A+ Rating Outlook Stable

A+ Rating

Outlook

Stable

Affirmed

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[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Andras Sasdi, CEFA**

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## APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 20 Jul 2023\) \(including rating assumption sensitivity\)](#)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 (1)

## ADDITIONAL DISCLOSURES

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Alm. Brand A/S	EU Issued, UK Endorsed
Alm. Brand Forsikring A/S	EU Issued, UK Endorsed
Codan Forsikring A/S	EU Issued, UK Endorsed

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