FitchRatings

Fitch Upgrades Malaysian Reinsurance's IFS to 'A'; Outlook Stable

Fitch Ratings - Singapore,Hong Kong - 24 January 2019: Fitch Ratings has upgraded Malaysian Reinsurance Berhad's (Malaysian Re) Insurer Financial Strength (IFS) Rating to 'A' (Strong) from 'A-' (Strong). The Outlook is Stable. The Under Criteria Observation status on the IFS Rating has also been removed.

The rating action follows the revision of Fitch's global master insurance criteria titled Insurance Rating Criteria in January 2019. The agency has assessed that the positive impact from the removal of the top-down sovereign constraint exceeds the negative pressure from the revised bottom-up country-risk assessment.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Malaysian Reinsurance Berhad	Ins Fin Str A Upgrade		A-

KEY RATING DRIVERS

The rating upgrade reflects Malaysian Re's 'Very Strong' capitalisation and 'Strong' financial performance. It also takes into account its moderate business profile, as Malaysian Re's substantive domestic franchise is balanced by its 'Least Favourable' operating scale and limited geographical diversification compared with global peers.

Malaysian Re maintained a regulatory risk-based capital (RBC) ratio that was well above the regulatory minimum of 130% at end-September 2018. Its score on Fitch's Prism Factor-Based Model (FBM) improved to 'Extremely Strong' in the financial year ended March 2018 (FY18) from 'Very Strong' in the previous year, as the company did not declare dividends in the previous two years in order to restore its capital buffers, following a series of large losses in FY16. Nevertheless, its capital base remains small compared with that of global peers on an absolute basis. Overall, Fitch expects capitalisation to remain healthy, driven by surplus accretion and retrocession optimisation amid lower premium volumes.

Fitch views Malaysian Re's financial performance as 'Strong'. The company's combined ratio improved to 97% in FY18, from 103% in the previous year. We expect underwriting results to benefit from the company's continued rationalisation of its overseas business portfolio, and will continue to closely monitor the underwriting results of the international portfolio. The company reported a net profit of MYR38 million in 1HFY19, and its annualised return on equity stood at 5.1%, above the average of 4.7% from FY16-FY18.

Malaysian Re is the country's leading reinsurer with a market share of more than 60% by reinsurance-accepted premiums in 2018 and we view the franchise as substantive within Malaysia. We also recognise its limited operating scale. Its risk appetite is on a par with the sector as it underwrites all classes of business from the Malaysian market. Nevertheless, Fitch thinks Malaysian Re's business has limited diversification as the majority of its operations remain concentrated in the domestic market.

RATING SENSITIVITIES

Key downgrade sensitivities include a significant deterioration in the reinsurer's market franchise or a cessation of the compulsory cession arrangement, an increase in the combined ratio to consistently above 100% or its regulatory capital ratio falling below 180% for an extended period, a sharp increase in riskier investments or a significant decline in the credit quality of its fixed-income investments, or a downgrade of the local-currency sovereign rating of Malaysia by more than one notch.

Key upgrade sensitivities include a significant improvement in its operating scale and international presence, while maintaining its combined ratio and RBC ratio consistently below 97% and above 250% respectively.

Additional information is available on www.fitchratings.com

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Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019) (/site/re/10058790)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (/site/dodd-frank-disclosure/10054895)
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