FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Malaysian Reinsurance at IFS 'A'; Outlook Stable

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Fitch Ratings - Singapore/Hong Kong - 20 Jan 2022: Fitch Ratings has affirmed Malaysian Reinsurance Berhad's (Malaysian Re) Insurer Financial Strength (IFS) Rating at 'A' (Strong) with a Stable Outlook.

KEY RATING DRIVERS

The affirmation reflects Malaysian Re's 'Very Strong' capital buffer and sustained financial performance. It also takes into consideration its 'Moderate' company profile and challenges in managing potential volatility in underwriting performance, especially from its overseas business.

Malaysian Re's regulatory risk-based capital (RBC) ratio was well above the regulatory minimum of 130% in the financial year ended March 2021 (FY21), as well as at end-September 2021, and its score on Fitch's Prism Factor-Based Model was well into 'Strong'. Fitch believes the company will continue to maintain its capital buffer to combat volatilities in its underwriting performance.

The 'combined ratio' was 99% in FY21, with a three-year average of 99%. We estimate this ratio at approximately 99% for 1HFY22. The company is sustaining its profitability by continuing to adopt selective underwriting, and monitoring the underwriting results of its portfolio to weed out unprofitable accounts. Covid-19-related claims were generally minimal.

The company plans to enhance its overseas business gradually while reducing dependence on domestic business for growth. Malaysia contributed about 58% of the reinsurer's total net written premiums in FY21, and remains its main market. The remaining premium income comes from a variety of offshore markets in Asia, Europe and the Middle East.

The investment strategy is generally conservative and liquid, with more than 80% in cash, deposits and fixed-income instruments. Fitch estimates its 'risky-assets' ratio and sovereign investment-to-capital ratio to be below 50% at FYE21 and 1HFYE22.

Fitch assesses Malaysian Re's company profile as 'Moderate', as a result of a 'Moderate' business profile and 'Moderate/Favourable' corporate governance compared with all other Malaysian non-life insurance companies. It has an established substantive domestic business franchise, although this is balanced by its 'Least Favourable' operating scale as a reinsurance company and somewhat geographically diversified business. The agency therefore scores Malaysian Re's company profile at 'bbb+' under our credit-factor scoring guidelines.

Malaysian Re had a more than 50% share in Malaysia by reinsurance accepted premiums in FY21. Fitch expects its market franchise to be sustainable, underpinned by its strong branding and continued support from local cedants as part of a regulated cession arrangement which was renewed for another three years up to 31 December 2024. The reinsurer also participates in various local industry initiatives to strengthen its business relationships with cedants.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- a significant deterioration in its company profile in terms of market franchise and operating scale

- an increase in sovereign investments to capital to above 100%

- an increase in the combined ratio to consistently above 102%

- RBC ratio falling below 180% for an extended period.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- a significant improvement in its company profile in terms of operating scale and international presence

- combined ratio consistently below 97%

- RBC ratio of above 250% for an extended period.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Malaysian Reinsurance Berhad	Ins Fin Str Affirmed	A Rating Outlook Stable	A Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Insurance Rating Criteria (pub. 26 Nov 2021) (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, v1.7.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Malaysian Reinsurance Berhad	EU Endorsed, UK Endorsed

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