FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Singapore/Hong Kong - 02 Feb 2021: 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 consistently profitable financial performance. This also takes into account its 'Moderate' business profile compared with its reinsurance peers 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 2020 (FY20), as well as at end-September 2020, and its score on Fitch's Prism Factor-Based Model was well into 'Strong'.

Malaysian Re's annualised return on equity was about 5.3% in 1HFY21 (FY20: 5.7%) and the combined ratio was 98%, with a three-year average of 99%. The company was affected by several medium-sized claims, but Covid-19-related claims were minimal. The company is sustaining its profitability by continuing to adopt selective underwriting and monitoring the underwriting results of the international portfolio to weed out unprofitable accounts. Fitch expects the pandemic-driven economic slowdown to place some pressure on Malaysian Re's profitability but we believe the company's fundamental operating profile will remain intact and its operating performance will normalise after the pandemic runs its course.

The company's investment strategy is generally conservative and liquid, with more than 80% of its investments in cash, deposits and fixed-income instruments. We estimate its risky assets ratio was about 41%, while its sovereign investment-to-capital ratio was 43% at 1HFYE21.

Fitch assesses Malaysian Re's business profile as 'Moderate' compared with that of other reinsurance peers. It has an established substantive domestic business franchise, although this is balanced by its 'Least Favourable' operating scale and somewhat geographically diversified business compared with global peers. The agency therefore scores Malaysian Re's business profile at 'bbb+' under our credit-factor scoring guidelines.

Malaysian Re had a more than 60% share in Malaysia by reinsurance accepted premiums in 2020. 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. The reinsurer also participates in various local industry initiatives to strengthen its business relationships with cedants.

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's rating case assumptions on the pandemic.

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

- a significant deterioration in its business 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 business 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	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Insurance Rating Criteria (pub. 26 Aug 2020) (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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Insurance Asia-Pacific Malaysia
