FitchRatings

Fitch Affirms Tugu Reasuransi Indonesia at IFS 'A+(idn)'; Outlook Stable

Fitch Ratings-Jakarta/Singapore-13 February 2019: Fitch Ratings Indonesia has affirmed PT Tugu Reasuransi Indonesia's (Tugu Re) National Insurer Financial Strength (IFS) Rating at 'A+(idn) with a Stable Outlook.

'A' National IFS Ratings denote a strong capacity to meet policyholder obligations relative to all other obligations or issuers in the same country, across all industries and obligation types. However, changes in circumstances or economic conditions may affect the capacity for payment of policyholder obligations to a greater degree than for financial commitments denoted by a higher rated category.

KEY RATING DRIVERS

The affirmation reflects Tugu Re's moderately weak capitalisation, less favourable business profile and moderate investment-risk profile. It also considers deterioration in the company's operating profitability and good management of catastrophe risk in the catastrophe-prone Indonesian market.

Its risk-based capital declined to 152% in 2018, from 231% in 2017, due to net losses during the year. However, the company remains committed to a ratio of above 200% in the near term, supported by an expected capital injection from its parent in 2019. Fitch expects Tugu Re to improve its capital position to keep up with its business expansion and ensure sufficient capital buffers against adverse shocks.

The company's less favourable business profile is influenced by its limited business diversification, less favourable competitive positioning and higher risk appetite compared with that of the sector. Almost all of Tugu Re's underwriting business is sourced from Indonesia and more than 80% from the non-life segment. The company held market share of around 12% among local reinsurers in 2018, but has small overall market scale against regional reinsurance peers.

Tugu Re's average combined ratio over 2016-2018 was around 96%. Nonetheless, the ratio increased to 108% in 2018, from 90% in 2017, on higher claim experience and an increased expense ratio. The company expects the higher claims to be recovered by the end of 2019 following its effort to tighten its underwriting practices. We believe the company will carefully manage its underwriting margin and enhance its expense-ratio management.

The company has a poor investment result in 2018 due to an impairment loss from a bond default, which the company expects to be a one-time event as it aims to have a more conservative investment-risk profile in 2019. The portfolio remained liquid in 2018, with fixed-income securities, cash and bank deposits accounting for more than 80% of invested assets. Overall, the company holds substantial risky assets in its portfolio relative to its adjusted equity and the portfolios of peers.

Tugu Re mainly uses excess-of-loss treaties to mitigate catastrophe exposure and regularly monitors its risk accumulation. It also collaborates actively with external brokers periodically to assess its catastrophe exposure through various modelling tools. Its treaty is adequate to cover its aggregate probable maximum loss for a return period of about 300 years based on the Risk Management Solutions model.

The Stable Outlook reflects Fitch's expectation that Tugu Re will manage the risks of its underwriting businesses and maintain a prudent retrocession programme and sufficient capital buffers to support its operations.

RATING SENSITIVITIES

Upgrade rating sensitivities include:
- an ability to strengthen its business profile and sustainable improvement in capitalisation relative to rated peers, with a regulatory capital ratio consistently above 200%; and
- maintaining strong underwriting performance with a combined ratio consistently below 100%.

Downgrade rating sensitivities include:
- a drop in capitalisation, with a risk-based capital ratio consistently below 160%; and
- a deterioration in operating performance, with a combined ratio above 105% on a prolonged basis.

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Additional information is available on www.fitchratings.com
Applicable Criteria
Insurance Rating Criteria (pub. 11 Jan 2019)
National Scale Ratings Criteria (pub. 18 Jul 2018)

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