
Fitch Upgrades Marein's International IFS to 'BB+', Affirms National IFS at 'AA-(idn)'; Outlook Stable

Fitch Ratings has upgraded PT Maskapai Reasuransi Indonesia Tbk's (Marein) international Insurer Financial Strength (IFS) Rating to 'BB+' from 'BB'(Moderately Weak). Fitch Ratings Indonesia has also affirmed the company's National IFS Rating of 'AA-(idn)'. The Outlooks are Stable.

'AA' National IFS Ratings denote a very strong capacity to meet policyholder obligations relative to all other obligations or issuers in the same country, across all industries and obligation types. The risk of ceased or interrupted payments differs only slightly from the country's highest rated obligations or issuers.

KEY RATING DRIVERS

The one-notch upgrade of the international IFS Rating reflects the improvement in Marein's asset quality and financial performance during the last three years. The rating is also supported by Marein's strong capitalisation, which provides a buffer against adverse shocks and its moderate business profile relative to its international peers.

Marein is one of the biggest life reinsurer companies in Indonesia. However, Fitch sees the company's business profile as moderate in comparison with domestic and regional reinsurance peers. Marein's average market share of 33% by life reinsurance gross written premiums (GWP) over 2015-2017 was the second highest among domestic life reinsurance companies. However, Marein's share of the total reinsurance industry's GWP was small at 11% as of end-2017.

Fitch believes Marein's capitalisation is strong. The company's risk-based capital (RBC) ratio improved to 471% by end-2017 from 242% at end-2016, underpinned by additional capital after a rights issue in October 2017. The company is committed to keeping the RBC ratio above 200%, which is well above the minimum regulatory requirement of 120%. Its strong capitalisation is also supported by ongoing surplus growth.

Marein's financial performance is also robust, with a three-year average (2015-2017) gross premium growth and return on average equity of around 26% and 20%, respectively. The company's combined ratio improved to 96% by end-2017 from 97% at end-2016, underpinned by its selective underwriting practices, premium growth and manageable claims. The company has said it aims to enhance the stability of its underwriting businesses.

Management is committed to producing a sound bottom-line performance through prudent underwriting instead of only top-line growth. Fitch believes Marein could benefit from further growth in its non-life business, which would reduce its reliance on the life segment and strengthen its overall market position in the Indonesian reinsurance market.

The reinsurer's asset quality improvement was led by lower exposure to risky assets relative to capitalisation, which averaged 24% for at least the last three years (2015-2017) from 40% at end-2013. Its investment mix is also conservative with cash equivalents and fixed-income instruments accounting for more than 80% of invested assets at end-2017.

The Stable Outlook reflects Fitch's expectation that Marein will continue to maintain sufficient capital buffers and prudent underwriting practices to support its operations and business expansion.

RATING SENSITIVITIES

Upgrade rating triggers include:

- Significant and sustained improvement in the company's market franchise while maintaining profitability, with a combined ratio consistently below 93%

Downgrade rating triggers include:

- Weakening capitalisation with the local statutory ratio below 200% on a sustained basis
- Material deterioration in market franchise, or
- Significant deterioration in operating performance with a combined ratio consistently higher than 100%

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Note to editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(idn)' for National ratings in Indonesia. Specific letter grades are not therefore internationally.