



RATING ACTION COMMENTARY

Fitch Affirms Maskapai Reasuransi Indonesia IFS at 'BB+', National IFS at 'AA- (idn)'; Outlook Stable

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Fitch Ratings - Sydney/Jakarta - 05 May 2020: Fitch Ratings has affirmed PT Maskapai Reasuransi Indonesia Tbk's (Marein) Insurer Financial Strength (IFS) Rating at '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 or monetary union, across all industries and obligation types.

KEY RATING DRIVERS

The rating actions are based on Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, under a set of rating assumptions described below. These assumptions were used by Fitch to develop pro forma financial metrics for Marein that Fitch compared with both the rating

guidelines defined in our criteria and the previously established rating sensitivities for Marein.

The affirmation reflects Marein's 'Strong' capitalisation, 'Strong' financial performance and 'Moderate' business profile.

Marein's 'Strong' capitalisation is measured by the company's risk-based capital ratio of 342% at end-December 2019 (2018: 364%), which comfortably exceeded the 120% regulatory requirement. Fitch expects Marein's pro forma capitalisation to be commensurate with its rating category.

Fitch believe the company's premium growth will be dampened by the economic downturn caused by the pandemic, although its pro forma combined ratio and return on equity (ROE) will remain well above its rating category under our rating assumptions. Marein's ROE was 12% at end-2019 (2018: 10%). The non-life combined ratio was 93% at end-2019 with a three-year average of 95% underpinned by its selective underwriting practices, premium growth and manageable claims.

Fitch has assessed Marein's business profile as 'Moderate' due to its substantive domestic franchise, which is balanced by its 'Least Favourable' operating scale compared with its international peers. It also takes into account a risk appetite that is on a par with the sector and somewhat diversified business lines. Therefore, Fitch scores Marein's business profile at 'bb-' under our credit-factor scoring guidelines in line with the ranking.

The company's investment mix is conservative with cash equivalents and fixed-income instruments accounting for more than 80% of invested assets at end-2019. Exposure to risky assets is manageable relative to equity capital. We expect the company to maintain the equity capital proportion in light of its prudent investment approach.

Assumptions for Coronavirus Impact (Rating Case):

Fitch used the following key assumptions, which are designed to identify areas of vulnerability, in support of the pro forma rating analysis discussed above:

- Decline in key stock market indices by 35% relative to 1 January 2020.
- Increase in two-year cumulative high-yield bond default rate to 16%, applied to current non-investment-grade assets, as well as 12% of 'BBB' assets.

- Both upward and downward pressure on interest rates, with spreads widening (including high yield by 400 basis points) coupled with notable declines in government rates.
- Capital-market access is limited for issuers at senior debt levels of BBB and below.
- A COVID-19 infection rate of 5% and a mortality rate (as a percentage of infected) of 1%.
- For the non-life and reinsurance sectors, a negative impact on the industry-level accident-year loss ratio from COVID-19-related claims at 3.5 percentage points, partially offset by a favourable impact from the auto line averaging 1.5 percentage points.

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's rating case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid changes in government action in response to the pandemic, and the pace with which new information is available on the medical aspects of the outbreak. An indication of our expectations of the rating impact under a set of stress case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

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

IFS and National IFS Ratings:

- A material adverse change in Fitch's ratings assumptions with respect to the coronavirus impact.
- Weakening capitalisation with the local statutory ratio below 200% on a sustained basis.
- Material deterioration in business profile in term of marketing franchise and operating scale.

- Significant deterioration in operating performance with a non-life combined ratio consistently higher than 100%.

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

IFS and National IFS Ratings:

- A material positive change in Fitch's ratings assumptions with respect to the coronavirus impact.
- A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the Indonesian reinsurance industry and Marein.
- Significant and sustained improvement in the company's business profile in terms of operating scale
- Maintaining strong profitability, with a non-life combined ratio consistently below 93%

Stress Case Sensitivity Analysis

- Fitch's stress case assumes a 60% stock market decline, two-year cumulative high-yield bond default rate of 22%, high-yield bond spreads widening by 600 basis points and more prolonged declines in government rates, heightened pressure on capital-market access, a COVID-19 infection rate of 15% and mortality rate of 0.75%, an adverse non-life industry-level loss ratio impact of 7 percentage points for COVID-19 claims partially offset by a favourable 2 points for motor, and decline in the value of investment property and mortgages by 16.5%.
- The implied rating impact under the stress case would be a downgrade of no more than one notch.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions 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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
PT Maskapai Reasuransi Indonesia Tbk	Ins	BB+ 	Affirmed
	Fin		
	Str		
	Natl	AA-(idn) 	Affirmed
	Ins		
	Fin		
	Str		

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

[Exposure Draft: National Scale Rating Criteria \(pub. 02 Mar 2020\)](#)

[Insurance Rating Criteria \(pub. 03 Mar 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.1 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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