

Rating-Agentur Expert RA assigned 'B+' reliability rating of CIJSC Ingosstrakh according to the international scale. The rating outlook is stable.

Rating-Agentur Expert RA GmbH assigned 'B+' (Moderately low level of reliability) reliability rating according to the international scale to the CIJSC Ingosstrakh. The rating outlook is stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

INSURANCE SECTOR RISK ASSESSMENT:

The insurer's operations are concentrated as follows: 100% in Belarus. The Insurance Sector Risk (ISR) of Belarus is high. Therefore the overall risk exposure to the insurance sector of CIJSC Ingosstrakh is high.

MAJOR FACTORS THAT INFLUENCED THE RATING:

Positive factors:

- After growing at a pace of 19% y-o-y in 2017, gross written premiums (GWP) remained in a positive trend for the second year in a row when they hiked by 37% y-o-y in 2018, while the average increase in the Belarusian market was 18,7% and the overall growth was 16%. The increase was propelled by the Voluntary insurance of ground transport vehicles segment. However, rapid premiums growth combined with an accelerated increase in claims and a low price environment should be seen with caution as it may indicate lax risk management operations;
- The company has a long-term strategy of development for the period 2017-2022, as well as a long-term business plan for 2017-2019 and an annual budget which has been approved on time. The numbers reflected in both documents, together with the measures to achieve them are considered to be rational and according to the expectations of market developments in the country;
- We consider that the company has so-far partially achieved the goals set out in the strategy. The results in terms of GWPs for 2018 are in line with the initial plan. However, the net loss ratio was higher than anticipated at 63,6%¹ (the established KPI is not higher than 53%). At the same time, the product line analysis performed by the company showed that insurance conditions for the unprofitable segments of the portfolio had to be tightened. We anticipate that the implementation of new accounting software together with increasing online services available on the website in 2018, should lead to a reduction in operating costs and an increase in market share;
- The net loss ratio for the Voluntary insurance of ground transport vehicles segment (the main insurance segment), despite having slightly increased in 2018, remains favorable at 58,1% as compared to the European market average of around 65%. Moreover, the distribution of the insurance portfolio has remained stable for the past years;
- The company is active in using different distribution channels while at the same time 34% of sales are performed directly by the company, which reduces the concentration risk of relying on few or one source of customers and does not heavily depend on intermediaries. Moreover, the optimal use of distribution channels is shown by the level of client acquisition costs to net earned premiums which remains quite stable at 16%;

¹ This figure was calculated by the Agency according to the Belarusian Accounting Standards (BAS). The net loss ratio calculated according to IFRS was 68,3% and the combined ratio was 103,9% as of 2018.

- The balance sheet liquidity position remains strong. The ratio of liquid assets to total liabilities stood at 270% and the value of cash to net reserves was also high at 287% as of end-2018. These figures continue to be stable and their level reflects a strong position in the balance sheet in an event where the calculated potential claims need to be covered;
- The level of accounts payable stood at 2,1% of assets as of 4Q 2018 showing low indebtedness and a favorable payment discipline;
- The insurer continues to show a very solid solvency position. First of all, it still satisfies the regulatory authorized capital requirement² and the actual size of the solvency margin of BYN 15 959 187 is 10x higher than the calculated normative value of the solvency margin which stood at BYN 1 565 598 in 2018;
- Profitability remains positive but highly volatile due to exchange rate translations. As of 2018, ROA and ROE³ remained positive at 4,8% and 6,6% respectively in 2018, a difference of 15,6p.p. and 23p.p. correspondingly from a year ago. This shows the high volatility of financial income and also reflects the high share in profits resulting from currency fluctuations and not from stable technical and investment income.

Restricting factors:

- The technical result returned to negative territory for the first 9 months of 2018 only to turn slightly positive by year-end as a result of a substantial increase in recourses and subrogation income which hiked by 65% y-o-y. The tight figures shown in the technical result are mainly due to increased claims in the Voluntary insurance of ground transport vehicles segment (the gross claims to gross premiums ratio for this segment stood at 63%);
- We still consider the reinsurance policy to carry moderate risk. The largest risks of the company are reinsured and, for the past three years, the highest paid claim by the company was back in October 2015 and it represented around 2% of the 2015 equity. However, 97,8% of the reinsured risks are concentrated in one single reinsurance company (Belarusian National Reinsurance Organization) with a reliability rating of 'B' from Fitch followed by 2% in Promtransinvest CJSIC which is not rated;
- The structure of the client base remains concentrated in Belarus and the base is not diversified in terms of industries;
- The level of accounts receivable remains acceptable as these were equivalent to 12,3% of total assets in 2018. This, along with the low amount of overdue receivables (0,27% of overall receivables) translates in moderate credit risk exposure;
- The combined loss ratio (according to our internal calculation) increased in the first three quarters of the year posting an average 103% in those nine months. As mentioned before, this was mainly a result of a hike in incurred claims. This is shown by the upward trend in the loss ratio, while the expense ratio has been in a declining path. These figures stood at 63,6% and 36,2% respectively as of end-2018;
- The annual return on the investment portfolio was 7% as of end-2018. A steep decrease from the 25% figure in 2017 reflecting the high earnings volatility arising from FX-denominated assets;
- We consider current risk management measures adequate and in accordance with the current insurance portfolio and regulatory requirements. However, it requires further developments, such as the creation of a separate and fully independent risk management committee where responsible employees are also independent from the risk generating units of the company. Also, the increase of large claims cases for Voluntary insurance of

² The regulatory capital in Belarus is set at EUR 5 m. This means that any gains from currency fluctuations in BYN in regard to this amount cannot be cashed out; otherwise, the capital requirement will not be met.

³ ROA and ROE are calculated as the profit **before tax** divided by the average of end-of-quarter assets and equity for the past two years respectively.

ground transport vehicles insurance reveals that there is ample room for improvement in the underwriting risk assessment.

Negative factors:

- The Insurance sector risk (ISR) score, despite having slightly increased as a result of improved macroeconomic variables in Belarus and better perspectives for the financial system, remains quite negative. Non-life penetration and density figures in the insurance sector remain very low as compared to European peers (however, the readings are considered acceptable as compared to CIS peers) and institutional as well as financial market variables remain sluggish;
- CIJSC Ingosstrakh's market position remains weak. The size of the company is the smallest in the country as measured in terms of GWP at BYN 8,9 m and had a share of around 0,74% of the overall insurance market and about 1,5% of the non-life sector in 2018; despite remaining low, both shares have increased marginally. The market in Belarus remains highly concentrated, as of 2018, the largest company (Belgosstrakh) accounted for as high as 46% of GWPs and the top-3 companies for 62%; moreover, the sector remains dominated by state owned insurers (SOI). Even though there are plans for market liberalization in the mid-term perspective, we still expect the sector to remain concentrated among SOIs in the near future;
- Since the insurer operates only in Belarus, the insurance portfolio is still assessed as highly concentrated in terms of geography. Moreover, the insurance portfolio distribution remains practically unchanged: the largest type of insurance continues to be Voluntary insurance of ground transport vehicles with a share of 63% followed by Voluntary health insurance with a share of 16% of total GWP by the end of 2018;
- The maximum possible net claim payment is around 15% of equity, which does not cope well with the company's experience in paying large claims. Also, the possible payment equals 41% of current loss reserves;
- The investment portfolio is still in a subdued condition as a result of concentration, low credit quality and the limited investment market in Belarus. The portfolio remains highly concentrated in terms of counterparties and objects of investments. As of the end of 2018, 56,2% of the portfolio was in the form of cash deposits at JSC BelVEB (rated 'B' by Fitch) followed by 18% of cash deposits at OJSC Belgazprombank (rated 'B' by Fitch) and 10% also in cash deposits in OJSC Priorbank. However, since the latter is not rated, the credit quality of the investment portfolio deteriorated slightly. Moreover, the objects of investment also concentrated further as 85% is made up of cash. In addition, around 81% of the investment portfolio is denominated in foreign currency, which increases the volatility of financial profit and, given the gradual transition of the BYN to a free float, could create imbalances in case a depreciation of the EUR were to occur. Despite this, the liquidity of the portfolio remains favorable as we calculate that around 92% of the assets have high liquidity.

External support factors:

- The moderate external support factor remains in place due to the fact that the company has shown that the financial support commitment from the parent company Group INGO remains in place, which, as of 2017, was the 5th largest insurance group in Russia with a share of 6,2% of them market. The rating was recently upgraded by S&P to 'BBB-' and it has a rating of 'ruAAA' from RAEX Moscow.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Continued and drastic improvement in the market position of the insurer by increasing their share in the country in terms of GWPs;
- Diversification of the insurance portfolio in insurance segments and geography alongside a stable and continued positive underwriting results.

The following developments could lead to a downgrade:

- Further deterioration of the market position due to increased restrictions on private insurers to operate;
- Withdrawal of potential capital support from Group INGO which would put the company in a very vulnerable position considering its current stance in the market.

JUSTIFICATION OF THE RATING:

The Agency confirmed at 'B+' the reliability rating of Closed Insurance Joint Stock Company Ingosstrakh with a stable outlook. The confirmation mainly reflects the stability of all systematic as well as idiosyncratic factors. We continue to observe a negative macro profile in Belarus (despite having slightly improved) with low levels of insurance market development. Moreover, the market position of the insurer remains weak. However, the company has solid financial indicators with positive profitability figures, extraordinary capital adequacy levels and strong liquidity figures. Finally, it remains supported by INGO Group, the 5th largest insurer in Russia which was recently upgraded by S&P to 'BBB-' and it has a rating of 'ruAAA' from RAEX Moscow.

Belarus, the market which concentrates CIJSC Ingosstrakh's 100% of operations, despite slightly improving as of late, continues to have a weak macroeconomic stance (RAEX-Europe rating at 'B-' in FC with a positive outlook) and an underdeveloped insurance market. The insurance penetration and density of the non-life sector stood at USD 0,9 and USD 54 respectively, reflecting an undeveloped market as compared to European peers; nonetheless, these figures are high in contrast to CIS countries. Furthermore, the insurance market has some marked restrictions for private companies (e.g. they cannot participate in mandatory insurance products) which makes it difficult for them to compete. Belarus has also a low financial market development and subdued institutional and regulatory effectiveness. All the aforementioned factors combined for a negative Insurance Sector Risk (ISR) score which reflects the instability and high systematic risk in the country.

The market position of the insurer is generally assessed as weak since its GWPs were BYN 8,9 m. This is a very low figure relative to the non-life insurance market globally, regionally and in Belarus. In the local market, the leader is Belgosstrakh and it has a share of 46% of GWP in contrast to CIJSC Ingosstrakh's share of 0,7% of the whole market and 1,5% share on the non-life insurance market as of end-2018. Belarus continues to have a very concentrated market dominated by SOIs. However, the share of the company among private insurers grew from 5,1% in 2017 to 7,2% in 2018. Also, the voluntary insurance segment outgrew the compulsory insurance segment in 2018, which, along with the expected liberalization of the market in the mid-term perspective, are good signs for CIJSC Ingosstrakh's market prospects. Nonetheless, if the market liberalization does not go through and expectations for private companies diminish, it will be harder for the company to expand its client base.

The insurer has managed to grow rapidly as its GWPs increased by 37% in 2018, as compared to the 19% hike reported in 2017. Nevertheless, claims have increased at a higher pace than premiums along 2018, especially in the Voluntary insurance of ground transport vehicles segment. This has caused the technical result to be negative for most of the year only to turn to positive territory at year end as a result of an increase in income from recourses and subrogation. The higher claims are reflected in the increasing levels of loss ratios while expense ratios have remained stable. Moreover, the net loss ratio for the Voluntary insurance of ground transport vehicles segment has increased up to 60,1% in 2018 (54% in 2017) as a result of large risk concentration. However, diversification in terms of insurance type remains inadequate as Voluntary insurance of ground transport vehicles accounts for 63% of total GWPs followed by Voluntary health insurance with a 16% share.

The reinsurance policy of the company remains moderate. The insurer has exposure to a reinsurer which does not have a credit or financial strength rating from a recognized agency; however, this exposure is lower than 3%. The remaining risk (97% of reinsured premiums) has been transferred to the Belarusian National Reinsurance Organization with a reliability rating of 'B' from Fitch.

We assess the company's balance sheet liquidity to be strong as reserves and overall liabilities are well-covered by liquid assets. In addition, the solvency stance of the company is adequate as it complies with regulatory capital requirements and it has a comfortable solvency margin. Moreover, even though the insurer has posted another year of positive profits, these are highly exposed to exchange rate fluctuations, which, once again, drove ROA and ROE metrics to positive territory while the technical result remained subdued.

The investment portfolio deteriorated slightly in terms of credit quality, but remains acceptable. The exposure of deposits increased towards a counterparty which is not rated (10% in 2018 as compared to 0,7% in 2017) slightly lowering the credit quality of the portfolio. Moreover, the portfolio remains highly concentrated as their two largest counterparties account for 74% of total investments and 85% is made up of cash. However, 92% of the portfolio is composed of highly liquid assets.

We believe that the company's management has an adequate view of the current market position of the entity, which is confirmed by the corporate strategy documentation. Given the regulatory restrictions existing in Belarus, the company has a very narrow space to increase its market share. In these terms, the Agency considers the company's strategic goals as realistic, while specific measures to achieve them are quite effective. However, being a private non-captive company, the insurer's general market position is heavily exposed to the government's policy regarding the insurance market.

The current risk management system of the company can be characterized as developing without several important elements, such as fully separate risk management committee with the responsible employees fully independent from the risk generating units of the company. However, the Agency recognizes that the current stance of the risk management system (RMS) is adequate to the size of the company, and according to the company's plans, the new elements of the RMS shall be implemented within the next few years. Despite this, the increase of large claims cases for Voluntary insurance of ground transport vehicles insurance reveals that there is ample room for improvement in underwriting risk assessment.

COMPANY PROFILE:

CIJSC Ingosstrakh is a Belarusian insurance company which is focused in non-life insurance products, mainly in Voluntary insurance of ground transport vehicles. All of their operations are concentrated in Belarus. The GWP of the company as of end-2018 amounted to BYN 8 931 766, its assets were equal to BYN 22 468 922 and equity was BYN 16 008 788.

Related research:

- ◆ Sovereign Research Report on Belarus:
https://raexpert.eu/reports/Research_report_Belarus_18.01.2019.pdf

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RATING HISTORY:

Date	Review reason	Rating Score	Outlook
27.03.2019	Withdrawal	B+	Stable
27.03.2018	Initial assignment	B+	Stable

Minute's summary:

The rating committee for CIJSC Ingosstrakh was held on 2 April 2019. The quorum for the rating committee was present. After the responsible expert presented the factors which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Insurance methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the rating class voting.

The rating was disclosed to the rated entity prior to the publication and was not changed during the process of coordination.

The following methodologies were used for the rating assessment:

- [Methodology for Assigning Reliability Ratings to Insurance Companies – Full Version \(from February 2018\)](#)
- [Methodology for Assigning Insurance Sector Risk Score – Full Version \(from February 2018\)](#)

Descriptions and definitions of all rating categories can be found under the [Rating scale](#) section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

This rating is solicited. The rated entity participated in the rating assignment process.

No other third party participated in the preparation of the rating.

Main sources of information:

- Questionnaires (excel and word versions) from CIJSC Ingosstrakh based on the form provided by the Agency;
- BES Yearly reports for 2014, 2015, 2016, 2017, 2018;
- Answer for additional request based on the form provided by the Agency;
- Strategical documents from the insurer, including Business plan for 2017-2019, Strategy for 2017-2022; Budgets for 2017 and 2018;
- Article of association and correspondent changes;
- Documents regulating the risk management process in the company;
- Information obtained through the rating interview;
- Information from media and other public sources.

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information as well as non-public information (obtained from the rated entity and/or other third parties) which was considered to be reliable, complete and non-biased. The responsible expert performed rating assessment of the insurance company with information considered as the most reliable and up to date in accordance to the overall position of the insurance company and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. The experts involved in the rating assessment and revision of the rated entity showed no conflict of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies from RAEX group.

Risk warning

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This press-release represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.