

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 The rating was withdrawn.

Rating-Agentur Expert RA confirmed the reliability rating of CIJSC Ingosstrakh at 'B+' (Moderately low level of reliability) according to the international scale. 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:

- Even though the growth rate of gross written premiums (GWP) declined, it was still positive at 2,6% in 2019, while the Belarusian market grew by around 12,4%. The largest insurance segment for the company (Voluntary insurance of ground transport vehicles) saw an important decrease of 12% y-o-y, while Voluntary health insurance increased by 38%;
- We consider that the company has so-far partially achieved the goals set out in the long-term strategy of development for the period 2017-2022 and business plan for 2017-2019. The results in terms of GWPs for 2019 are higher by 35% than it was indicated in the documents. Though the profitability indicators are far behind the target levels due to a rise of claims paid;
- The net loss ratio for the Voluntary insurance of ground transport vehicles segment (the main insurance segment) increased slightly in 2019 up to 59,9%, which is around 1p.p. higher than a year before and remains favorable as compared to the European market average of around 68% in 2018. Moreover, the distribution of the insurance portfolio has remained stable for the past years;
- The company remains active in using different distribution channels while at the same time 46% 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;
- The balance sheet liquidity position of the company is still solid. The ratio of liquid assets to total liabilities stood at 256% and the value of cash to net reserves was also high at 270% by the end of 2019. Besides remaining strong, both figures have also remained stable through the year reflecting a favorable position in case the calculated potential claims need to be covered;
- The level of accounts payable declined to 1,48% of assets as of 4Q 2019 showing low indebtedness and a favorable payment discipline;
- CIJSC Ingosstrakh still manages a very strong solvency position in terms of regulatory requirements. First of all, it satisfies the regulatory authorized capital requirement and the actual size of the solvency margin of BYN 15 369 688 is 13x higher than the calculated normative value of the solvency margin which stood at BYN 1 154 053 in 2019.

Restricting factors:

- The technical result continued to be in the negative territory for most of 2019, as a result of an increase in claims from both major insurance segments, Voluntary insurance of ground transport vehicles and Voluntary health insurance, which hiked by 15% and 39% respectively. Nevertheless, it slightly recovered in the last quarter of the year up to BYN 73 867 mainly driven by a decrease of outstanding claim technical reserve and other insurance income growth;
- Profitability turned to negative territory in 2019 as claims increased and the previously positive exchange rate translations became negative, ROA and ROE¹ stood at -0,06% and -0,09% respectively in 2019, a steep decline for the past two years. This continues to reflect 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;
- The reinsurance policy deteriorated slightly and continues to carry moderate risk. The largest risk of the company is reinsured, while the second largest (Voluntary health insurance) has no premiums transferred to reinsurance. There were no claim payments exceeding 2% of the cost of capital since October 2015. However, 95,5% 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 3,7% in Promtransinvest CJSC 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 12,9% of total assets in 2019;
- The average figure for combined loss ratio (according to our internal calculation) was 106,78% during 2019 as result of a surge in incurred claims. The ratio recovered until 99%, similar to the previous year, with the loss ratio of 66% and the expense ratio of 33% by year-end 2019;
- The annual return on the investment portfolio was 3,3% as of end-2019, continuing to decline after posting a figure of 25% in 2017 and 7% in 2018, 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 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 9,2 m and had a share of around 0,7% of the overall insurance market and about 0,8% of the non-life sector in 2019; both shares remained practically unchanged from a year ago. The market in Belarus remains highly concentrated, Belgosstrakh, which is the largest insurer in the country accounted for as

¹ 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.

high as 46% of GWPs and the top-3 companies for 61% in 2019; moreover, the sector remains dominated by state owned insurers (SOI), and we expect it to remain so in the mid-term perspective. However, we have already seen a substantial increase in the share of voluntary insurance, a good sign for private companies who are only allowed to participate in this segment;

- The insurance portfolio remains highly concentrated in terms of geography as the company operates only in Belarus. Moreover, the insurance portfolio distribution changed slightly in 2019 as we observed a substantial growth in the share of Voluntary health insurance up to 21% while Voluntary insurance of ground transport vehicles decreased down to 54% of GWP by year-end 2019;
- The maximum possible net claim payment increased by 5% y-o-y until 20% of equity, which does not cope well with the company's experience in paying large claims. Also, the possible payment is equal to 50% 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 2019, 84,4% of investments are in the form of cash deposits, of which 43,3% are at JSC BelVEB (rated 'B' by Fitch) followed by 31,3% at OJSC Belgazprombank (rated 'B' by Fitch) and 17,5% also in cash deposits in OJSC Priorbank. However, since the latter is not rated, the credit quality of the investment portfolio deteriorated further. Despite yearly plummeting by 20%, the share of the investment portfolio denominated in foreign currency remains high at 65%, 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. Moreover, 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 from S&P remains at 'BBB-'.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Sustained and radical 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 rating was also withdrawn. 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. Moreover, the company's financial indicators deteriorated as the overall profitability turned negative. However, capital adequacy and liquidity figures remain solid. Finally, it remains supported by INGO Group, the 5th largest insurer in Russia which has a rating of 'BBB-' by S&P.

CIJSC Ingosstrakh's operates 100% in Belarus, a country which was recently upgraded to 'B' by RAEX-Europe but continues to have a weak macroeconomic stance and a well underdeveloped insurance market. The insurance penetration and density of the non-life sector stood at 0,9 and 60 respectively, reflecting an undeveloped market as compared to European peers; nonetheless, these figures are high in contrast to other CIS countries. Furthermore, the insurance market continues to have some restrictions for private companies (e.g. they cannot participate in mandatory insurance products) which makes it difficult for them to compete. However, the recent increase in the share of voluntary insurance products, is encouraging for private companies in the market. 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 assessed as weak since the level of GWPs stood at BYN 9,2 m in 2019. 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 0,8% share on the non-life insurance market at the end of 2019. Belarus continues to have a very concentrated market dominated by SOIs. As mentioned previously, the voluntary insurance segment grew strongly, 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 company managed to grow rapidly in 2018, but it came to a halt in 2019 as GWPs only hiked by 2,6% in 2018, as compared to the 26% increase posted in 2018. Moreover, claims continued to increase at a higher pace than premiums showing a growth of 19% as of the same date. This has caused the technical result to be negative in the first 9 months of 2019. The higher claims are reflected in the increasing levels of loss ratios while expense ratios have also shown an increase. Moreover, the net loss ratio for the Voluntary insurance of ground transport vehicles segment has continued to increase and it stood at 60% 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 54% of total GWPs followed by Voluntary health insurance with a 21% 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 4%. 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 stand of the company is adequate as they comply with regulatory capital requirements and they have a comfortable solvency margin. However, ROA and ROE metrics turned to negative territory.

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 (17,5% in 2018 as compared to 10% in 2018) slightly lowering the credit quality of the portfolio. Moreover, the portfolio remains highly concentrated as their two largest counterparties account for 70% of total investments and 84% 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. Starting from 2020, CEO of the Company has been changed; therefore, some revision in the corporate program might occur. Nevertheless, we believe that new management have enough qualification and experience is sufficient. Given the regulatory restrictions existing in Belarus, the company has a very narrow space to increase its market share. In 2019 Ministry of Finance presented draft Law "On Insurance Activities" aim to align market conditions of insurers of all ownership types, nevertheless it might

not affect companies with foreign capital, therefore Ingosstrakh will likely to continue to be 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-2019 amounted to BYN 9 166 906, its assets were equal to BYN 22 446 662 and equity was BYN 15 745 337.

Related research:

- ◆ Sovereign Research Report on Belarus:

https://www.raexpert.eu/reports/Research_report_Belarus_10.01.2020.pdf

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RATING HISTORY:

Date	Review reason	Rating Score	Outlook
02.04.2020	Assignment	B+	Stable
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 31 March 2020. 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, 2019;
- Answer for additional request based on the form provided by the Agency;
- Strategic documents from the insurer, including Business plan for 2017-2019, Strategy for 2017-2022; Budgets for 2017 and 2019;
- 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.

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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.