

Rating-Agentur Expert RA GmbH assigned 'B+' reliability rating to 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:

- Positive dynamics of insurance premiums as of late. Even though GWP declined from 2013 until 2016, this indicator grew steadily in 2017. As of 4Q 2017 it grew by 19% y-o-y, higher than the Belarusian market average of 12%, driven by an increase in the Voluntary insurance of ground transport vehicles segment. Moreover, equity has also grown substantially as a result of higher retained earnings;
- 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 long-term documents include goals and specific measures to achieve them, as well as a proper assessment of the market position of the entity and realistic plans in line with the current condition of the Belarusian market;
- The main type of insurance for this company is Voluntary insurance of ground transport vehicles and it accounts for around 64% of total GWP for which the net loss ratio has remained below our threshold values and quite stable at 54% as of 4Q 2017 for both individuals and legal entities. 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 36% 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 has been low and quite stable since 4Q 2016 at an average of 11,2%;
- Balance sheet liquidity metrics are satisfactory. The ratio of liquid assets to total liabilities was 300% in 4Q 2017 and the lowest value in the last two years was 173% in 1Q 2016. Moreover, the value of cash to net reserves is also high at 324% as of 4Q 2017 showing a strong liquidity position in the balance sheet in case the calculated potential claims need to be covered;

- Low level of accounts payable at 1,7% of assets as of 4Q 2017 showing low indebtedness and a favorable payment discipline;
- The solvency levels are positive as the company complies with the regulatory authorized capital requirement (EUR 5 009 127¹). Moreover, the available own funds figure of BYN 15 082 183 is 13x higher than the calculated normative value of the solvency margin which stood at BYN 1 154 167 in 2017;
- ROA and ROE² have been positive and high at 19% and 27% respectively in 2017 mainly due to investment income and gains on currency fluctuation.

Restricting factors:

- The technical result was negative between 2012 and 2015 due to the high levels of net incurred claims and technical expenses as compared to net earned premiums. However, as a result of lower and stable claims, this figure was positive in 2016 and 2017;
- The reinsurance policy is assessed as moderate. Currently, 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, the reinsured risks are concentrated in one single reinsurance company (Belarusian National Reinsurance Organization) with a reliability rating of 'B' from Fitch;
- The structure of the client base is not geographically diversified, all clients are located in Belarus and the base is slightly concentrated (the company's top 10 clients represent 24% of total GWP); however, the types of insurance are diversified within the largest clients;
- Adequate levels of accounts receivable to total assets at 9,7% in 2017, which is also the maximum level for the last two years indicating moderate credit risk;
- The combined loss ratio (according to our internal calculation) has been slightly high since 2013 averaging 103% until 2017. However, the reading has behaved more favorably as of late: despite posting ratios of 100% in 2Q 2017 and 105% in 3Q 2017; in 4Q 2017 it stood at 98% as a result of an increase in net earned premiums. Moreover, the net loss ratio remained acceptable at 64% and 57% as of 3Q 2017 and 4Q 2017 respectively and the expense ratio at 41% and 42% in the same periods;
- The annual return on the investment portfolio was 25% as of end-2017. However, most of this return is due to unrealized gains in currency fluctuations;
- Currently the risk management system of the insurer is adequate to the size of the company. However, it requires further developments, such as the creation of a separate and fully independent risk management committee where the responsible employees are also independent from the risk generating units of the company.

Negative factors:

- The macro profile is considered to be negative as the Insurance sector risk (ISR) score of Belarus shows high risk in the region as a result of weak macroeconomic and institutional indicators in the country. However, the non-life insurance market penetration and density indicators are considered acceptable for the country despite being below the regional average;

¹ 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.

² 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.

- The market position of the company is assessed as weak. The size of the company is very small as measured by gross written premiums (GWP) at BYN 6,5 m (equivalent to around EUR 2,6 m) relative to the global and regional non-life insurance market, as well as in the market where the company operates (Belarusian market). The market share of the company was as low as 0,6% of the total GWP in Belarus by end-2017. Moreover, Belarus has a largely concentrated market mainly dominated by government owned insurers (the largest company Belgosstrakh has a market share of 46%). Finally, the market has several restrictions in regard to the operations of private companies in the country;
- The insurance portfolio is highly concentrated in terms of geography and types of insurance. 100% of GWP are written in Belarus and the largest type of insurance is Voluntary insurance of ground transport vehicles with a share of 64% followed by Voluntary health insurance with a share of 17% of total GWP;
- The largest claim paid by the company was as low as 2% of equity back in October 2015 showing a lack of experience in big payments. Moreover, the maximum possible net claim payment is around 9% of equity, which does not cope well with the company's experience. Also, the possible payment equals 40% of current loss reserves;
- The investment portfolio is quite concentrated in a few investment objects. 70% of the portfolio is in the form of cash deposits at JSC BelVEB (rated 'B' by Fitch) followed by 21% of cash deposits at OJSC Belgazprombank (rated 'B' by Fitch) as of 4Q 2017. However, as of end-2017 we calculate that almost 100% of the investment portfolio was highly liquid.

External support factors:

- A moderate external support factor was given due to the fact that the company has shown a financial support commitment letter from the mother company Group INGO, which is the 4th largest insurance group in Russia (rated 'BB+' by S&P and 'ruAAA' by RAEX Moscow).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Drastic improvement in the market position of the insurer by increasing their share in the country in terms of GWP and assets;
- 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 assigned a reliability rating of 'B+' to Closed Insurance Joint Stock Company Ingosstrakh with a stable outlook. The rating mainly reflects the poor market position and macro profile, but also the positive financial indicators, solid balance sheet liquidity and the strong support by INGO Group, the 4th largest insurance group in Russia (rated 'BB+' by S&P and 'ruAAA' by RAEX Moscow).

The insurer operates in a market with a weak macroeconomic stance. Our sovereign rating of Belarus at 'B-' in FC reflects that the stability of the system is not guaranteed. Moreover, there are many restrictions in place for private entities that could potentially hurt Ingosstrakh. On the other hand, the non-life insurance market penetration and density are considered acceptable for the country even though these indicators are below the regional average. All the aforementioned factors combine for a negative Insurance Sector Risk (ISR) score which reflects the instability and high systematic risk in the country. Furthermore, the market position of the company is also assessed as weak as we consider the entity to be very small as measured by gross written premiums (GWP) at BYN 6,5 m (equivalent to around EUR 2,6 m) relative to the non-life insurance market globally, regionally and in the Belarusian market, where the market leader, Belgosstrakh, has a share of 46% of GWP in contrast to Ingosstrakh's share of 0,6% as of 2017. Finally, Belarus has a largely concentrated market dominated by government owned insurers. As a result, profitability could be hurt in case the market is not gradually liberalized making it hard for the company to expand its client base.

Despite gross written premiums having steadily declined from 2013 until 2016, they have recovered lately and growth has been positive for the last quarters. Moreover, claims have remained stable which has caused the underwriting result to be slightly positive for the last two years. In the same line, this has also been reflected in lower combined ratios reflecting improvements in the effectiveness of the insurance activities. Moreover, the net loss ratio for the insurer's main line of insurance (Voluntary insurance of ground transport vehicles) has remained low and stable at 54% as of end-2017. However, this type of insurance accounts for 64% of GWP followed by Voluntary health insurance with a 17% share of total GWP. This reflects a high concentration in one insurance segment.

We consider that the reinsurance policy of the company is moderate. Even though all their largest risks are reinsured, they have all been transferred to the Belarusian National Reinsurance Organization with a reliability rating of 'B' from Fitch. Moreover, 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.

The company has been profitable for the past years. In 2017, however, the high levels of ROA and ROE were mainly driven by unrealized gains in currency fluctuations. This means that even though the insurer has shown good levels of profit, these are not reflected in their cash flows since the interest income has been low and tax obligations and other investments and expenses have been high.

The stance of the investment portfolio is acceptable. Most of it is highly liquid and it posted a return of 25% in 2017. Nonetheless, most of this return, as previously mentioned, is made up of unrealized gains in currency fluctuations. Furthermore, most of the investments are concentrated in bank deposits in institutions which are rated not higher than 'B' (Fitch and S&P) and it is quite concentrated in a few investment objects: 67% of the portfolio is in the form of cash deposits in JSC BelVEB (rated 'B' by Fitch) followed by 21% of cash deposits in OJSC Belgazprombank (rated 'B' by Fitch).

The company's management has an adequate view of the current market position of the entity, which is confirmed by the corporate strategy documents. Given the regulatory restrictions existing in Belarus, the company has a very narrow space to increase its market share. In this 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, Ingosstrakh'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.

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 operation are concentrated in Belarus. The GWP of the company as of end-2017 amounted to BYN 6 529 358, its assets were equal to BYN 20 330 945 and equity was BYN 15 082 183.

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Reviewer: Vladimir Gorchakov, Rating Associate of Rating-Agentur Expert RA GmbH

Related research:

- ◆ Sovereign Research Report on Belarus:

https://raexpert.eu/reports/Research_report_Belarus_26.01.2018.pdf

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Minute's summary:

The rating committee for CIJSC Ingosstrakh was held on 22 March 2018. 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 following link: <http://www.raexpert.eu/insurance/> 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.

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;
- 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 2018;
- Quarterly and yearly reporting forms according to the national GAAP for the period 2014-2017;
- 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.