

Fitch Affirms Belarus Re at 'B-'; Outlook Positive

Ratings Endorsement Policy
17 Oct 2017 9:23 AM ET

Fitch Ratings-Moscow-17 October 2017: Fitch Ratings has affirmed Belarusian National Reinsurance Organisation's (Belarus Re) Insurer Financial Strength (IFS) Rating at 'B-'. The Outlook is Positive.

KEY RATING DRIVERS

The rating reflects the 100% state ownership of Belarus Re, its exclusive position in the local reinsurance sector underpinned by legislation, its strong capitalisation, and fairly strong underwriting profitability. The rating also takes into account the fairly low quality of the reinsurer's investment portfolio and significant amount of reinsured domestic surety risks.

The Belarusian state has established strong support for Belarus Re in its legal framework, with the aim to develop a well-functioning system of reinsurance. Fitch believes that the government is in a good position to support Belarus Re rather than other state-owned companies, due to its small size and systemic importance for the financial sector.

Regulation obliges local primary insurers to cede risks exceeding the permitted net retention of 20% of their equity. These obligatory cessions need to be offered to Belarus Re first, and the reinsurer has the right to reject the cessions. In practice, Belarus Re often influences primary underwriting of large risks, as it approves original terms.

Insurance of domestic financial risks is the largest line in Belarus Re's portfolio, which gradually increased to 46% of net written premiums in 2016 from 32% in 2012. The company mainly retains these risks more than for other lines, which explains the considerable difference in the structure of the premiums on a net and gross basis. This line of business includes various types of credit default insurance for loans and bonds issued by Belarusian banks as well as reinsurance of export credit risks.

Belarus Re's risk-adjusted capital position, as measured by Fitch's Prism Factor-Based Capital Model (Prism FBM), was "Very Strong" based on end-2016 results. From a regulatory perspective, Belarus Re is comfortably in compliance with solvency requirements. The regulatory solvency margin, calculated using the Solvency-I formula, was 16x at end-1H17 (end-2016: 17x).

Belarus Re reported profitable financial performance in 2016, in line with 2015 results. In 2016 net income of BYN15 million was driven by investment returns and, to a lesser extent, by a positive underwriting result. The return on equity was robust at 12% (2015: 10%). Based on interim local GAAP reporting in 6M17 the company reported a net profit of BYN7 million, supported by positive underwriting and investment returns.

Belarus Re's combined ratio, as calculated by Fitch, rose to 92% in 2016 from 49% in 2015, driven by a larger loss ratio. Poor performance in the property line resulted in the increase of the loss ratio to 68% in 2016 from 30% in 2015. In 6M17 Belarus Re reported a combined ratio of 67%, with a loss ratio of 41%.

Fitch views the credit quality of Belarus Re's investment portfolio as weak. This reflects the credit quality of locally available investment instruments, constrained by sovereign risks, and the presence of significant concentrations by issuer. Belarus Re's ability to achieve greater diversification is limited by the narrow local investment market and strict regulation of the reinsurer's investment policy.

RATING SENSITIVITIES

A change in Belarus's Local-Currency Long-Term IDR (B-/ Positive) is likely to lead to a corresponding change in the reinsurer's IFS Rating.

Significant changes to the reinsurer's relationship with the government would also likely have a direct impact on Belarus Re's ratings.

Contact:
Primary Analyst

Anastasia Surudina
Analyst
+7 495 956 5570
Fitch Ratings CIS Limited
Valovaya Street, 26
Moscow 115054

Secondary Analyst
Stephan Kalb
Senior Director
+49 69 768076 118

Committee Chairperson
Federico Faccio
Senior Director
+44 20 3530 1394

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

[Insurance Rating Methodology \(pub. 26 Apr 2017\)](#)

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Fitch Affirms Belarus Re at 'B-'; Outlook Positive	17 Oct 17
Fitch изменило прогноз по рейтингам 3 белорусских страховщиков на «Позитивный»	09 Aug 17
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