

22 APR 2021

Fitch Affirms Belarus Re at 'B'; Outlook Negative

Fitch Ratings - Moscow - 22 Apr 2021: Fitch Ratings has affirmed Belarusian National Reinsurance Organisation's (Belarus Re) Insurer Financial Strength (IFS) Rating at 'B'. The Outlook is Negative.

Key Rating Drivers

The rating and Outlook continue to reflect Belarus Re's 100% state ownership (Belarus; Local-Currency Long-Term Issuer Default Rating (IDR): B/Negative). In addition, the rating reflects Belarus Re's exclusive position in the local reinsurance sector, underpinned by legislation; adequate capitalisation and financial performance; and the weak quality of the reinsurer's investment portfolio.

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

The pandemic has had limited impact on Belarus Re's premium volumes, as Belarus has not implemented rigid lockdowns like most other countries. The Belarusian non-life sector's premium written grew 6% in 2020. Belarus Re recorded a 21% growth in business volumes in 2020, as a 2% decline in local premium volume was offset by a 114% growth in its broker-led foreign-property business.

Belarus Re downsized its local portfolio following a review of its underwriting appetite to financial risks, including both domestic and export insurance. The reduction was due to the poor underwriting result of the financial risk insurance in 2020 and a more cautious approach to the issuance of new bankruptcy coverage policies amid the economic recession. The reinsurer cut the line's weight to 8% of total premiums written in 2020, from an average of 30% in 2015-2019. Belarus Re had only few paid and reserved claims, but their impact on its underwriting result was rather pronounced due to the high levels of net retention traditionally applied for domestic financial risks by Belarusian (re)insurers and a geographical concentration in export insurance.

In 2020 Belarus Re reported a net profit to BYR10 million, down from BYR20 million in 2019, mainly due to the negative underwriting result with the combined ratio deteriorating to 126% in 2020, after an average at 72% in 2015-2019. This deterioration was largely due to a few significant claims in the financial risks segment. Foreign-exchange (FX) gains of BYN23 million earned on US-dollar denominated investments helped offset the underwriting negative result. This means net profit in 2020 was mainly driven by investment income.

In 2Q20 the government demonstrated its commitment to support Belarus Re by providing BYN65 million of fresh capital to the reinsurer. Despite this increase, Belarus Re's Prism Factor-Based Capital Model (Prism FBM) score weakened to 'Adequate' in 2020 from 'Strong' in 2019. The increase in available capital was offset by a 36% growth in net premiums written in 2020 and investing the new capital in local assets of weak quality. Fitch believes that the significant FX-mismatch on its balance sheet exposes its equity to fluctuations of the national currency in relation to the US dollar and the euro. Belarus Re's solvency margin coverage, calculated on a Solvency I-like formula, was very strong at 12x at end-2020.

Fitch views Belarus Re's investment portfolio as weak. The new capital obtained in 2020 was invested in an equity instrument, which has further weakened the diversification of the reinsurer's investment portfolio. Under domestic prudential regulations, Belarus Re may only invest in instruments issued by the Belarusian government or government-owned entities. Fitch views its liquidity profile as healthy, reflected in liquid assets-to-net loss reserves of 134% at end-2020.

RATING SENSITIVITIES

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

- A downgrade of Belarus's Local-Currency Long-Term IDR would lead to an equivalent change in the reinsurer's IFS Rating.
- A significant adverse change in the reinsurer's relationship with the government would also likely have a direct impact on Belarus Re's ratings.

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

- A revision of the Outlook on Belarus's Local-Currency Long-Term IDR to Stable would lead to an equivalent change in the Outlook on the reinsurer's IFS Rating.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond 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

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

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Belarusian	Ins Fin Str	B 	Affirmed	B 

ENTITY/DEBT	RATING	RECOVERY	PRIOR
National Reinsurance Organization			

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	⊕	◆
STABLE	⦿	

Applicable Criteria

[Insurance Rating Criteria — Effective Aug. 25, 2020–April 15, 2021 \(pub.25 Aug 2020\)](#)
(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, v1.7.2 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

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