



Fitch Affirms Tugu Reasuransi Indonesia at IFS 'A(idn)'/Stable Ratings

Endorsement Policy

13 Apr 2015 4:00 AM (EDT)

Fitch Ratings-Jakarta/Singapore-13 April 2015: Fitch Ratings has affirmed PT Tugu Reasuransi Indonesia's (Tugu Re) National Insurer Financial Strength (IFS) Rating at 'A(idn)' with Stable Outlook.

'A' National IFS Ratings denote a strong capacity to meet policyholder obligations relative to all other obligations or issuers in the same country, across all industries and obligation types. However, changes in circumstances or economic conditions may affect the capacity for payment of policyholder obligations to a greater degree than for financial commitments denoted by a higher rated category.

KEY RATING DRIVERS

The rating reflects Tugu Re's steadily growing market presence in the Indonesian reinsurance market with more than 20 years of operation history, its healthy operating performance and manageable investment risks. The company's rating continues to be constrained by its weak capitalisation relative to business operations and high business concentration in Indonesia.

Tugu Re's combined ratio increased to 101.3% at end-2014 from 96.4% at end-2013 due to higher claims experience and increased expense ratio. Fitch expects the company to carefully manage its underwriting margin through tighter underwriting and enhanced expense ratio management as its business portfolio expands. Nonetheless, Tugu Re's operating performance has been supported by its sound premium growth and steady investment results. Its return on adjusted equity was to 23.3% at end-2014 compared with 26.4% at end-2013.

Cash equivalents and fixed-income securities accounted for more than 88% of Tugu Re's total invested assets at end-2014. The company has maintained its exposure to properties and stocks to a level that is commensurate with its rating profile.

Tugu Re's shareholders have helped to increase the company's capitalisation through a series of capital injections and the conversion of a subordinated loan into paid-up capital in February 2015. Tugu Re's capitalisation, however, is still considered weak relative to the company's business operations. Its risk-based capitalisation (RBC) ratio was 131.7% at end-February 2015 (end-2014: 142.5%). Failure to receive further capital injections to maintain an adequate capitalisation buffer could undermine the company's ratings stability in view of Tugu Re's regulatory capital position and business growth projection.

The company's risk exposure is concentrated in catastrophe-prone Indonesia, leaving it vulnerable to volatility in its underwriting business. Indonesian risks continued to represent almost 100% of Tugu Re's business at end-2014. Improved underwriting management and prudent retrocessionaires programmes would mitigate its catastrophe-risk exposure.

The Stable Outlook reflects Fitch's expectation that Tugu Re will maintain a prudent retrocession programme and an adequate capital buffer to support its operations and business expansion.

RATING SENSITIVITIES

Key rating triggers for an upgrade include an improvement in credit profile with the ability to sustain its operating profitability as indicated by a combined ratio that is consistently below 95%, improvement in its regulatory RBC ratio to consistently above 180%, and enhancement

in risk management, including reserving techniques.

Key rating triggers for a downgrade include not maintaining a statutory RBC ratio of above 130% on a sustained basis as that would affect its ability to support underwriting risks, and deterioration in its operating performance with a combined ratio of above 110% on a prolonged basis.

Contact:

Primary Analyst
Cheryl Evangeline
Associate Director
+62 21 2988 6814
PT Fitch Ratings Indonesia
DBS Bank Tower 24th Floor Suite 2403
Jl. Prof. Dr. Satrio Kav 3-5
Jakarta, Indonesia 12940

Committee Chairperson
Siew Wai Wan
Senior Director
+65 6796 7217

Media Relations: Leslie Tan, Singapore, Tel: +65 67 96 7234, Email: leslie.tan@fitchratings.com.

Note to editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(idn)' for National ratings in Indonesia. Specific letter grades are not therefore internationally comparable.

Additional information is available at www.fitchratings.com.

Applicable criteria, 'Insurance Rating Methodology', dated 4 September 2014, are available on www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology

Additional Disclosure
Solicitation Status

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2015 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries.