FitchRatings

Fitch Affirms Tugu Reasuransi Indonesia at IFS 'A+(idn)'; Outlook Stable

Fitch Ratings - Jakarta - 05 February 2020:

Fitch Ratings Indonesia has affirmed PT Tugu Reasuransi Indonesia's (Tugu Re) National Insurer Financial Strength (IFS) Rating at 'A+(idn)' with a 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 or monetary union, across all industries and obligation types.

Key Rating Drivers

The rating reflects Tugu Re's satisfactory capitalisation, 'Moderate' business profile and conservative investment risk profile. It also takes into consideration the company's satisfactory profitability and satisfactory management of catastrophe risks in the catastrophe-prone Indonesian market.

Tugu Re's risk-based capital (RBC) improved, rising to 231% by end-November 2019 (end-2018: 133%), due to a capital injection from shareholders totalling IDR365 billion. The injection was in two tranches - March 2019 and August 2019 - and helped Tugu Re to keep up with its business expansion and ensure sufficient capital buffers against adverse shocks. Fitch expects Tugu Re to maintain a satisfactory capital position by sustaining its profitability and retaining strong support from shareholders.

Tugu Re's business profile is deemed by Fitch as 'Moderate' because of its limited business diversification, adequate business franchise and a business risk profile on a par with the Indonesian reinsurance sector. Its market share improved to 15% in 3Q19 (end-2018: 12%). However, its overall market scale is small compared with other local reinsurers. The company has been trying to diversify its business into other business lines such as credit insurance to improve its market scale amid intense competition among local reinsurers, while maintaining its current business mix. Almost 100% of Tugu Re's underwriting business is sourced from Indonesia and more than 90% of business is from the non-life segment.

The company's non-life combined ratio improved, decreasing to 101.8% by end-November 2019 (end-2018: 109.5%), due to tighter underwriting. It no longer faced higher claims and an increased expense ratio, after those two factors increased the company's non-life combined ratio in 2018. Fitch expects the company to carefully manage its underwriting margin and expense ratio.

The investment portfolio remained liquid, with cash and cash equivalent and fixed-income securities accounting for more than 80% of its invested assets at November 2019. In addition, exposure to risky assets is manageable relative to its capital. Fitch expects Tugu Re to maintain prudent investment mix while managing its liquidity level.

The company uses mainly excess-of-loss treaties to mitigate its catastrophe exposure and monitors its risk accumulation regularly. The reinsurer also collaborates periodically with external brokers to assess its catastrophe exposure through various modelling tools.

RATING SENSITIVITIES

Upgrade rating sensitivities include:

- The company's ability to strengthen its business profile, and sustainable improvement in Tugu Re's capitalisation relative to its rated peers with a regulatory capital ratio consistently above 200%; and

- Maintaining strong underwriting performance with a non-life combined ratio consistently below 100%.

Downgrade rating sensitivities include:

- A drop in Tugu Re's capitalisation, with the RBC ratio consistently below 160%; or

- Deterioration in the company's operating performance, with a non-life combined ratio above 105% on a prolonged basis.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
PT Tugu Reasuransi Indonesia	Natl Ins Fin Str A+(idn) Affirmed		A+(idn)

Additional information is available on www.fitchratings.com

Applicable Criteria

National Scale Ratings Criteria (pub. 18 Jul 2018)
Insurance Rating Criteria (pub. 18 Nov 2019)

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