



RATING ACTION COMMENTARY

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

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Fitch Ratings - Jakarta - 22 Nov 2023: Fitch Ratings Indonesia has affirmed PT Tugu Reasuransi Indonesia's (Tugure) National Insurer Financial Strength (IFS) Rating at 'A+(idn)' with a Stable Outlook.

The rating action reflects Tugure's satisfactory regulatory capital position, which is offset by a volatile underwriting performance from its high exposure to property and long-term credit insurance. The rating also reflects a 'Moderate' company profile and limited investment risk.

'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

Satisfactory Capital Position: Tugure's capitalisation, measured by its risk-based capital (RBC) ratio, remains above the 120% minimum regulatory requirement. However, it declined to 209% by end-September 2023 from 249% at end-2022, following a reserve top up for the credit insurance business. The ratio was up slightly from 201% at end-September 2022. The company has maintained the ratio at above 200% in the last three years.

Rising Loss Ratio: The loss ratio reached 71% in 9M23, from 65% in 2022, on higher claim reserves from credit insurance and high claims from property business. Fire and credit insurance are the largest contributors, at 33% and 20%, respectively, of total gross premium written (GPW). The 74% loss ratio for credit insurance in 9M23 has risen

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terms and conditions and rising reserves. The non-life combined ratio increased to 106% in 9M23, from 102% in 2022, after Tugure topped up its claim reserve for the credit insurance business. The three-year average is 104% over 2020-2022.

Slowing Premium Growth: The company's GPW growth slowed to 3% yoy in 9M23, compared with 24% growth in 2022, as it aimed to improve its underwriting result rather than focus on the top-line. This was slightly above reinsurance market growth, which fell by 1% in 8M23. Fitch believes the above-average growth raises risks, particularly to the reinsurer's capitalisation and financial performance.

'Moderate' Company Profile: Fitch assesses Tugure's company profile as 'Moderate', based on a 'Moderate' business profile and 'Less Favourable' corporate governance compared with that of other domestic reinsurers.

Fitch's business profile assessment reflects its substantive franchise, a risk profile that is on par with the sector and diversified business lines. More than 90% of its business comes from the non-life segment and most of its business is sourced from Indonesia, with more than half of its business being in facultative insurance based on 9M23 results. The company held 12% market share based on GWP in the Indonesian reinsurance market in 2022. The corporate governance assessment is due to the lack of independent members on the board of commissioners.

Limited Investment Risk: Fitch considers Tugure's investment risk as limited in light of its manageable exposure to risky assets. Moreover, its investment portfolio remains liquid, with cash, cash equivalents and fixed-income securities accounting for around 76% of invested assets at end-2022. The company allocates most of its invested assets to government and corporate issued fixed-income securities that are rated at least 'AA' on the national scale for private bonds and 'A' for state-owned entity bonds. The remaining portfolio consists of various instruments, including stocks and mutual funds.

RATING SENSITIVITIES

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

- A stronger company profile, including greater operating scale and an improvement in Fitch's assessment of the insurer's corporate governance
- Improved underwriting performance, with a non-life combined ratio consistently below

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- Deterioration in underwriting performance, with a non-life combined ratio above 108% for a prolonged period

- Lower capitalisation, with the RBC ratio consistently below 160%

- A weakening company profile, including deterioration in the market franchise and in Fitch's assessment of corporate governance

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.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
PT Tugu Reasuransi Indonesia	Natl LT IFS A+(idn) Rating Outlook Stable	A+ (idn) Rating Outlook Stable Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 23 Dec 2020\)](#)

[Insurance Rating Criteria \(pub. 21 Jul 2023\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 (1)

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ENDORSEMENT STATUS

PT Tugu Reasuransi Indonesia

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