



Fitch Downgrades Sri Lanka Insurance Corporation to IFS 'B' on Sovereign Downgrade

Fitch Ratings-Hong Kong-05 December 2018: Fitch Ratings has downgraded the Insurer Financial Strength (IFS) rating of Sri Lanka Insurance Corporation (SLIC) to 'B' from 'B+'. The Outlook is Stable.

The rating action follows the downgrade of Sri Lanka's Long-Term Local-Currency Issuer Default Rating (IDR) to 'B' from 'B+' (see "Fitch Downgrades Sri Lanka to 'B'; Outlook Stable," dated 3 December 2018 on www.fitchratings.com). SLIC's IFS rating is constrained by Sri Lanka's Long-Term Local-Currency IDR.

The 'AA+(lka)' National IFS rating on SLIC was not covered in this review.

KEY RATING DRIVERS

SLIC's IFS rating is constrained by the Long-Term Local-Currency IDR on the sovereign as a result of the insurer's concentration of operations in Sri Lanka as well as its fairly sizeable government debt holdings. Fitch believes the higher sovereign risk will also undermine the operating environment for domestic insurers.

SLIC's rating reflects the company's favourable domestic business profile as well as good financial performance and capital position. These strengths are partially offset by significant investments in sovereign-related securities, non-core subsidiaries and high exposure to equities in its investment portfolio.

RATING SENSITIVITIES

Further downgrade of Sri Lanka's ratings will lead to a downgrade of SLIC's Insurer Financial Strength rating.

The IFS rating may also be downgraded if there is:

- significant weakening in SLIC's market position
- deterioration in the non-life combined ratio to well above 100% for a sustained period (2017: 95%)
- weakening in SLIC's importance to the government, increased state pressure for higher dividend pay-outs that weakens capitalisation or a significant increase in non-core investments.

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Additional information is available on www.fitchratings.com
Applicable Criteria
Insurance Rating Criteria (pub. 30 Nov 2017)

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