



Fitch Affirms People's Insurance at 'A+(lka)'; Outlook Stable

Fitch Ratings - Colombo, Hong Kong - 14 February 2019: Fitch Ratings has affirmed Sri Lanka-based People's Insurance PLC's (People's Insurance) National Insurer Financial Strength (IFS) Rating at 'A+(lka)'. The Outlook is Stable.

KEY RATING DRIVERS

The affirmation reflects the company's moderate business profile, good financial performance and capitalisation as well as its prudent investment mix.

People's Insurance's moderate business profile reflects its favourable competitive position, which is balanced by its moderate operating scale, business risk profile and diversification. The business profile benefits from a substantive business franchise and competitive advantages through its association with the strong "People's" brand. Fitch believes that People's Insurance's risk appetite is on a par with the domestic non-life industry, with a somewhat diversified participation in business lines within the domestic non-life sector.

More than 75% of the insurer's business was directed from the group during 9M18, mainly through referrals from its immediate parent, People's Leasing & Finance PLC (PLC, B-/AA-(lka)/Stable). Group-directed business, along with the gradual expansion in non-group business, helped the company maintain its position as the sixth-largest non-life insurer in Sri Lanka, with a Fitch-estimated market share of 5.3% as of September 2018 (2017: 4.9%).

The insurer's 'combined ratio' of 97% in 9M18 was well below that of the industry (9M18: 103%, 2017: 100%), due principally to the company's low-cost window-office distribution strategy. People's Insurance operates predominantly via 124 window offices placed inside the branches of PLC and its ultimate parent, People's Bank (Sri Lanka) (PB, AA+(lka)/Stable), which helps the insurer keep its expense ratio low at 27%, compared with the industry average of 38%. In line with Fitch's expectations, the insurer's expense ratio increased during 9M18 to 27% from 25% in 2017 as a result of the company's efforts to improve its non-group-related business.

Fitch expects the insurer to continue to benefit from the group business and its distribution strategy, which should keep the overall combined ratio below 100% in the medium term. We also believe the company's access to adequate reinsurance capacity will keep the volatility in operating performance during periods of catastrophes at a minimum.

People's Insurance's steady capitalisation is reflected in its risk-based capital (RBC) adequacy ratio of 266% at end-September 2018 (2017: 319%), which is well above the 120% regulatory minimum. However, the RBC ratio has declined gradually since end-2017, due partly to the company's efforts to boost investment income by increasing allocations to riskier fixed-income securities within its investment policy guidelines. However, we expect People's Insurance to maintain its RBC ratio above 225% in the medium term.

The insurer follows a prudent investment policy, with more than 95% of the fixed-income portfolio invested in securities with a minimum rating of 'A-(lka)'. The investment portfolio was dominated by fixed-income instruments (94% of invested assets), with 49% invested in fixed deposits at leading banks and non-bank financial institutions, 34% in listed debentures and 17% in government securities at end-September 2018. Allocations to equity were low at 2% of invested assets and management expects to keep this below 10% in the medium term.

RATING SENSITIVITIES

Downgrade rating sensitivities:

- The RBC ratio remaining below 225% or the combined ratio above 100% for a sustained period.
- A weakening in the business profile due to loosening of the linkages between People's Insurance and PLC, which includes restrictions to its distribution channels via PLC branches.

Upgrade rating sensitivities:

- An increase in People's Insurance's market share, while maintaining its combined ratio consistently below 98% and RBC ratio well above 275%.

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Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

National Scale Ratings Criteria (pub. 18 Jul 2018)

Insurance Rating Criteria (pub. 11 Jan 2019)

ADDITIONAL DISCLOSURES

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