



Fitch Affirms Sri Lanka's Continental Insurance at 'A(lka)'/Stable

Fitch Ratings-Colombo,Hong Kong-08 March 2019: Fitch Ratings has affirmed Sri Lanka-based Continental Insurance Lanka Limited's (CILL) National Insurer Financial Strength (IFS) Rating. The Outlook is Stable.

Key Rating Drivers

The affirmation reflects the non-life insurer's moderate business profile, satisfactory financial performance and capitalisation, as well as its prudent investment mix.

CILL's business profile reflects its adequate business franchise, somewhat diversified participation in business lines in the non-life insurance sector, a risk appetite that is on a par with that of domestic peers and moderate operating scale. The non-life insurer's franchise is buoyed by its growing branch network and association with its corporate parent Melstacorp PLC (AAA(lka)/Stable). CILL is Sri Lanka's seventh-largest among 14 non-life insurers with a distribution strength of over 50 branches at end-2018.

The insurer's capitalisation, as measured by its risk-based capital (RBC) adequacy ratio, was 250% at end-2018 (2017: 281%), above the 120% regulatory minimum. However, the insurer's RBC ratio was below historical levels in 2018, owing partly to the small widening in asset-liability cash flow duration mismatches, following the company's efforts to extend the duration of some of its fixed-income investments to improve net yields. CILL increased allocation in 2018 to relatively longer duration fixed-income securities. This was to mitigate higher effective taxes on investment income after the removal of tax exemptions on debentures and notional tax credits on government securities through the new Inland Revenue Act that came into effect in April 2018.

Fitch expects the non-life insurer to maintain its RBC ratio around 225% in the medium term, supported by its satisfactory financial performance, high profit retention and a prudent asset mix.

CILL consistently maintained its non-life combined ratio below 100% in the previous four years with a disciplined underwriting approach (last three-year average: 99%). The insurer kept its claims ratio at 61% in 2018, well below the industry average of 65% in 9M18. CILL's return on equity improved to 21% in 2018, from 19% in 2017, supported by its good underwriting performance and growth in investment income.

Fitch sees CILL's investment policy as conservative, with a large exposure to high credit quality fixed-income securities and a small exposure to equities. The investment portfolio was dominated by fixed-income instruments, which accounted for 94% of the total invested assets. Investments in Sri Lankan government issued and guaranteed Sri Lanka Development Bonds - denominated in US dollars - and the local currency denominated government securities accounted for 18% and 11%, respectively, of the invested assets at end-2018. Other fixed-income investments included corporate debentures and investments in fixed deposits at leading banks and non-bank financial institutions, collectively representing 65% of invested assets.

Rating Sensitivities

Upgrade rating sensitivities:

- The company continues to expand its market franchise, while consistently improving its combined ratio to below 100% and maintaining its RBC ratio well above 250%.

Downgrade rating sensitivities:

- Weakening of CILL's combined ratio to above 110% for a sustained period or its RBC ratio being consistently below 200%.

Continental Insurance Lanka Limited; National Insurer Financial Strength; Affirmed; A(lka);
RO:Sta

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Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)
National Scale Ratings Criteria (pub. 18 Jul 2018)

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