

05 Aug 2019 | Affirmation

Fitch Affirms National Insurance Trust Fund at 'AA-(lka)'; Outlook Stable

Fitch Ratings-Colombo/Sydney-06 August 2019: Fitch Ratings Lanka has affirmed Sri Lanka-based National Insurance Trust Fund Board's (NITF) National Insurer Financial Strength (IFS) Rating at 'AA-(lka)'. The Outlook is Stable.

The affirmation reflects NITF's 'Favourable' business profile, meaningful recovery in its financial performance, satisfactory regulatory capital position as well as its conservative investment mix. These positives are somewhat counterbalanced by the insurer's exposure to catastrophe risks which bring some volatility to its operating performance and capital position.

KEY RATING DRIVERS

Fitch assesses NITF's business profile as 'Favourable' compared with other domestic non-life insurers due to its substantive business franchise, supported by its full government ownership and its role in implementing state policies. In addition, it has a moderate business risk profile, diversified participation in exclusive product lines in the non-life and reinsurance space as well as a 'Favourable' operating scale. NITF is also the country's only reinsurer, which is further buoyed by a state mandate requiring all domestic non-life operators to cede 30% of their reinsurance to NITF. The company's non-life operation - excluding reinsurance and crop insurance premiums - has maintained its market position as the fifth largest non-life insurer, based on gross written premium in 2018.

Fitch expects the insurer to maintain its risk-based capital (RBC) ratio above 250%, well above the regulatory minimum of 120%, in the medium term. NITF's capitalisation, as measured by its RBC ratio, was 257% at end-2018 before rising to 381% by end-March 2019, supported by improved underwriting profitability. However, Fitch expects the RBC ratio to normalise towards the end of 2019 due to dividend payments to the state. NITF paid out 86% of its net profit as dividends to the state in 2018, easing from 154% and 113% in 2017 and 2016, respectively. We believe that significant dividend outflows will constrain NITF's capitalisation, particularly during periods of increasing frequency of large natural calamities.

We believe that the government's decision to increase its premium contribution to the

NITF-managed National Natural Disaster Insurance Scheme to LKR1.5 billion in March 2019, from LKR500 million, will help sustain the insurer's financial performance while supporting the long-term viability of the scheme. Lower catastrophe claims in 2018 helped NITF's underwriting profitability recover. The insurer's combined ratio moderated to 86% in 2018, after increasing to 100% in 2017 due to high net claims from floods in May of that year and in 2016, as well as a prolonged drought in several parts of the country. NITF's low operating costs due to its smaller scale - the majority of NITF's businesses are state directed - support the industry-beating combined ratio. Modest claims from the insurer's Strike, Riot, Civil Commotion and Terrorism (SRCCT) programme also reinforce the combined ratio.

Fitch believes that the claims from the tragic terror attacks and the subsequent violence in April 2019 will not significantly deteriorate NITF's financial performance. Management said the claims from the terror attacks would amount to around LKR500 million, which is within the reinsurance deductible of LKR1 billion for the SRCCT insurance cover.

NITF's investment policy is conservative, with its entire portfolio invested in government securities. The insurer matches its insurance liabilities, which are mainly short-tail in nature, by investing mostly in short-term government securities. NITF is only permitted to invest funds in government securities and the equity of hospital projects under its legislation.

RATING SENSITIVITIES

Upgrade Rating Sensitivities:

- Maintenance of its net premium written/capital ratio below 1.6x (2018: 1.9x) and the RBC ratio above 250% on a sustained basis
- Consistently improving its risk management practices while sustaining its 'Favourable' business profile and strong financial performance

Downgrade Rating Sensitivities:

- Deterioration in the RBC ratio below 250% for a sustained period
- Deterioration in the combined ratio to well above 100% for a sustained period
- Significant weakening in NITF's business profile, such as a large reduction in government-related business

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Applicable Criteria

[Insurance Rating Criteria \(pub. 11 Jan 2019\)](#)

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

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