14 Aug 2019 | Affirmation

# Fitch Affirms Co-Operative Insurance at 'BBB+(lka)'; Outlook Stable

Fitch Ratings-Colombo/Sydney-15 August 2019: Fitch Ratings has affirmed Sri Lanka-based Co-Operative Insurance Company Limited's (CICL) National Insurer Financial Strength (IFS) Rating at 'BBB+(lka)'. The Outlook is Stable.

KEY RATING DRIVERS

The affirmation reflects the non-life insurer's 'Moderate' business profile, consistently good financial performance, satisfactory capitalisation and a somewhat conservative investment policy.

Fitch assesses CICL's business profile as 'Moderate' compared with other domestic non-life insurers due to its adequate business franchise, which is buoyed by its ownership by co-operative societies, 'Moderate' operating scale as well as a risk appetite on a par with the domestic non-life sector as a whole. CICL's business profile also reflects its somewhat diversified distribution capabilities with access to service centres owned by co-operative societies, postal offices and a growing agency force. CICL benefits from its access to a sizeable potential customer base within the co-operative movement, where almost one-third of the insurer's policyholders are currently from.

Offsetting some of these positives are the insurer's modest presence in the urban regions of the country and a very limited exposure to non-motor insurance segments. The insurer generated 87% of its gross written premiums (GWP) from motor insurance policies and remained the 10th-largest non-life insurer in Sri Lanka based on GWP in 2018.

Fitch expects the non-life insurer's capitalisation, as measured by its risk-based capital (RBC) ratio, to hover around 180% in the medium term, above the regulatory minimum of 120%. CICL's RBC ratio was 174% at end-June 2019, a slight reduction from 178% at end-December 2018. We expect CICL's capitalisation to remain somewhat constrained over the medium term because of its occasional appetite for higher-risk investments to boost yields as well as its expansion plans. We also believe that any significant capital infusion into its life subsidiary, Cooplife Insurance Limited (Cooplife) will keep CICL's capital position in check.

However, we expect CICL's ability to consistently maintain cash dividend payouts at a very low level to somewhat offset the pressure on capitalisation. In addition, we also believe that CICL's capital position could strengthen with the mandatory listing of the non-life insurer's shares in the Colombo Stock Exchange. The regulator required insurers to list on the stock exchange in 2016, and subsequently amended the regulation to exempt some state-owned insurers and insurers that have parents already listed on a recognised stock exchange from this requirement in 2017. However, some insurers, including CICL, have yet to do so and CICL's management mentioned that this is because of the depressed stock market conditions in the past few years.

Fitch expects CICL's financial performance to remain satisfactory in the medium term, supported by the company's modest marketing spend and the use of relatively low-cost distribution channels. The insurer's expense ratio was low at 31% in 2018 (2017: 30%) below the industry average of 36% in 2018 (2017: 35%). CICL's combined ratio was 99% in 2018 (2017: 95%) before temporarily spiking to 105% in 1Q19 due to an increase in losses from the fire business class. However, management expects the majority of the losses to be recovered from its reinsurance counterparts over next few months. In addition, the insurer's claim costs increased in 2018 partly due to the rapid depreciation of the domestic currency, which pushed up prices of imported automotive components. Nevertheless, CICL's return on equity was strong at 12% in 2018 (2017: 16%).

CICL has a moderately conservative investment policy, with sizeable exposure to fixed-income securities and a modest exposure to equities. More than 80% of CICL's invested assets were in fixed-income securities at end-2018 out of which, over 70% were in assets rated 'A-(lka)' and above. Its equity investments were mainly its investment in Cooplife, which accounted for 13% of invested assets at end-2018.

RATING SENSITIVITIES

Upgrade Rating Sensitivities
- Maintenance of its good financial performance while strengthening its business profile and improving the RBC ratio well above 190% on a sustained basis

Downgrade Rating Sensitivities
- Deterioration in the combined ratio to above 115% for a sustained period, or
- Deterioration in the RBC ratio below 165% for a sustained period

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**Applicable Criteria**

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

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

**Additional Disclosures**

[Solicitation Status]

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