



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

Fitch Ratings - Colombo - 07 February 2020:

Fitch Ratings has affirmed Sri Lanka-based Continental Insurance Lanka Limited's (CILL) National Insurer Financial Strength (IFS) Rating at 'A(lka)'. The Outlook is Stable.

KEY RATING DRIVERS

The affirmation reflects CILL's moderate business profile, satisfactory financial performance and capital position, as well as its prudent investment mix.

Fitch views CILL's business profile as moderate compared with that of other domestic non-life insurers, due to its adequate business franchise supported by its steadily improving market share. Fitch's business profile evaluation also factors in the insurer's risk appetite that is on a par with that of domestic peers, as well as its moderate operating scale and business diversification. CILL is the seventh-largest among Sri Lanka's 14 non-life insurers, with a distribution strength of over 50 branches.

CILL's regulatory capitalisation (measured as its risk-based capital (RBC) ratio) was satisfactory at 242% at end-September 2019 (2018: 250%). Fitch believes that the insurer's RBC ratio will drop slightly with the adoption of the new accounting standard for lease contracts, SLFRS 16, the local equivalent of IFRS 16.

The new lease accounting standard removes the distinction between operating and finance leases. Most contracts classified as operating leases, which were previously off-balance-sheet, are now recognised on the balance sheet as right-of-use (RoU) assets, along with a corresponding lease liability. The local RBC regime regards RoU assets as inadmissible and deducts them from total available capital - the numerator of the regulatory RBC ratio. RoU assets are also subject to a 1% operational-risk charge in calculating the regulatory RBC ratio. However, we expect the insurer to maintain its RBC ratio at around 225% levels in the medium term, supported by its solid financial performance, high profit retention, and conservative investment mix.

Fitch believes that CILL will continue to maintain a satisfactory financial performance, supported by its disciplined approach to underwriting and cost-rationalisation initiatives. The insurer managed to keep its 'combined ratio' at 96% in 9M19, well below the industry average of around 100%. CILL's solid underwriting performance and investment income helped keep its return on equity high at 21% in 9M19 (2018: 21%).

Fitch views CILL's investment mix as conservative, with large exposure to fixed-income securities and minimal exposure to risky equities. 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 17% and 9%, respectively, of the invested assets at end-September 2019. Investments in other fixed-income instruments such as domestic corporate bonds and term deposits at leading domestic financial institutions, collectively accounted for 56% of invested assets.

RATING SENSITIVITIES

Upgrade rating sensitivities:

- An improvement in the RBC ratio consistently above 240%; and
- Maintaining its combined ratio below 100% on a sustained basis; and

- Sustained improvement in its business profile in terms of expanding its market franchise.

Downgrade rating sensitivities:

- Weakening of CILL's combined ratio to above 110% for a sustained period; or

- Deterioration in its RBC ratio consistently below 200%.

RATING ACTIONS				
ENTITY/DEBT	RATING		PRIOR	
HIDE RATING ACTIONS				
Continental Insurance Lanka Limited	Natl Ins Fin Str	A(Ika) ●	Affirmed	A(Ika) ●
VIEW ADDITIONAL RATING DETAILS				

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

National Scale Ratings Criteria (pub. 18 Jul 2018)

Insurance Rating Criteria (pub. 18 Nov 2019)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

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