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ACRA assigns A-(RU) to JSC "Russian Reinsurance Company", outlook Stable

The credit rating of JSC "Russian Reinsurance Company" (hereinafter – Russian Re, or the Company) is based on its strong business profile and medium financial profile, with adequate management quality. Russian Re's rating assessment is pressured by its medium capital adequacy, but supported by expected strong operating performance, and stable market position of the Company.

Russian Re is a reinsurance company, operating since 1992. The Company is positioned as a specialized reinsurer dealing with property, energy, and engineering risks. The largest shareholders of Russian Re include Chubb Russia Investments Limited (23.3% of shares), Catlin Underwriting Agencies Limited (22.5%), and the Company's management (48.7%). Russian Re's reinsurance portfolio is made up of property (72.3%), engineering (12.8%), motor (4.3%) and other (10.6%) risks.

Key rating assessment factors

Strong business profile of the Company is determined by its stable market position and strong operating performance expected in the short, and medium term. The external environment quality (above medium) gives moderate additional support to Company's business profile assessment (strong).

Russian Re's stable market position is determined by a relatively high customer base diversification, good quality of reinsurance products, and medium sales channels diversification. The Company's share of the Russian insurance market is not significant (under 1% according to 2016 data); however, it is among the top 20 companies in the corporate property insurance segment.

Strong assessment of Russian Re's operating performance rests upon the anticipated combined ratio amounting to 0.91 in 2017, while growth rate of insurance premiums is expected to match the market average. As of end-2016, the Company's actual combined ratio run at 0.88.

Medium financial profile of Russian Re is constrained by a medium capital adequacy assessment. At the same time, asset quality assessment (high) and liquidity assessment (strong) stand at higher levels, but they have no influence on the financial profile assessment.

The capital adequacy assessment was affected by a fairly low ratio of Company's capital to the minimum capital (1.33) required for reinsurance activities, and by rather low available capital to capital at risk ratio (1.06). Calculation of capital at risk was defined by scenarios enshrining the surge of insurance portfolio loss ratio coupled with increasing loss reserves. The available capital value was notably influenced by minimum capital value deduction performed in accordance with ACRA's methodology.

High asset quality assessment (1.5) was due to significant capital to assets ratio (0.37), and low asset risk index (2). However, the asset quality assessment was reduced by 0.5 points owing to high concentration of assets.

Strong current (1.5) and long-term (1.1) liquidity assessments resulted from sufficient volume of highly liquid assets of the Company's balance.

Management quality was assessed as adequate due to positive evaluations of management experience and structure, as well as of an actuarial function. Other components of management quality received neutral assessments.

Key assumptions

- Maintaining the main provisions of the Russian legislation regarding regulation of insurers' capital adequacy;
- Implementing the Company's business plans on the 12 to 18-month horizon in accordance with the forecast;
- Developing the national insurance market according to ACRA's base case scenario.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Sizeable capital increase.

A negative rating action may be prompted by:

- Growth of the combined loss ratio above the forecasted level;
- Significant decline of the Company's gross reinsurance premium below the forecasted level;

Rating components

Standalone creditworthiness assessment (SCA): a-.

Adjustments: there are no grounds for applying adjustments.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is based on the Methodology for Credit Ratings Assignment to Insurance Companies Under the National Scale for the Russian Federation, and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities.

A credit rating has been assigned to JSC "Russian Reinsurance Company" for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action date (June 7, 2017).

The assigned credit rating is based on the data provided by JSC "Russian Reinsurance Company", information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the RAS and IFRS statements of JSC "Russian Reinsurance Company". The credit rating is solicited, and JSC "Russian Reinsurance Company" participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by JSC "Russian Reinsurance Company" in its financial statements have been discovered.

ACRA provided an additional service to JSC "Russian Reinsurance Company" in the form of informational support (a practical seminar). No conflicts of interest were discovered in the course of credit rating assignment.

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