Research Update:

Sinoasia B&R Insurance Outlook Revised To Negative On Capital Buffer And Solvency Margin Pressure; 'BB' Affirmed

June 2, 2022

PRIMARY CREDIT ANALYST

Elena Polyakova
Dubai
+971 50 106 1863
elena.polyakova
@spglobal.com

SECONDARY CONTACT

Tatiana Grineva
London
+ 44 20 7176 7061
tatiana.grineva
@spglobal.com

Overview

- Following financial market volatility, Sinoasia B&R Insurance (Sinoasia) recorded a negative Kazakhstani tenge (KZT) 0.57 billion revaluation reserve for securities available for sale as of May 1, 2022. Combined with fast premium growth, this is pressuring its capital buffers and regulatory solvency margin, which dropped to 1.02x at May 1, 2022, from 1.7x at Jan. 1, 2022, just marginally above minimum regulatory requirements.
- We understand that there is a regulatory waiver allowing insurers not to comply with the 1.0x minimum requirement during the six months between Feb. 28, 2022, and Sept. 1, 2022, if the breach is caused by a material asset revaluation or drop in investment credit ratings.
- Although Sinoasia plans to restore its solvency margin by issuing about KZT1 billion of preferred shares by Aug. 1, 2022, we expect that general macroeconomic challenges and high business growth might pressure the financial risk profile assessment.
- We therefore revised our outlook on Sinoasia to negative from stable and affirmed our 'BB' long-term issuer credit and financial strengths ratings and 'kzA+' Kazakh national scale rating on the company.
- The negative outlook reflects that Sinoasia's expected recovery in solvency and our capital adequacy assessment may fall short of targets, given the uncertain operating and investment environment the industry faces.

Rating Action

On June 2, 2022, S&P Global Ratings revised the outlook on its global scale ratings for Kazakhstan-based insurer Sinoasia B&R Insurance (Sinoasia) to negative from stable. We also affirmed our 'BB' global scale long-term issuer credit and financial strength ratings and our 'kzA+' Kazakhstan national scale rating on Sinoasia.

Rationale

On May 1, 2022, Sinoasia declared a solvency margin decline to levels just above minimum regulatory requirements, according to the solvency calculations of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market. The negative outlook reflects our view that Sinoasia's capital buffers might be under pressure and performance may fall short of the recovery plan it submitted to the regulator.

We understand that Sinoasia is taking steps to comply with the solvency margin requirement. The primary reason for the solvency decline is a negative revaluation of its investment portfolio on the back of volatility in financial markets and the tenge exchange rate. However, we note that Sinoasia's average asset quality remained 'BBB' at May 1, 2022, while its exposure to distressed assets in Russia--represented by government debt and corporate bonds--was limited and accounted for less than 1% of the total investment portfolio at the same date (less than 3% at Feb. 1, 2022).

Over the first four months of 2022, Sinoasia's net premium written increased 98%, well above our net premium growth expectation of 25%. The increase was spurred by big contracts in health insurance, new products developed in cooperation with Bank CenterCredit, and gradual geograpical expansion. Considering more big contracts are under discussion, we anticipate that premium growth may reach or even exceed 100% in 2022. This rapid growth, combined with the revaluation of investments, will strain capital adequacy, according to our capital model, which we expect will decline to the 'BBB' level in 2022-2024 from above our 'AAA' benchmark at Dec. 31, 2021. Although a 'BBB' level of capital remains satisfactory and sufficient to support our current ratings on Sinoasia, we expect that general macroeconomic challenges and high growth might pressure our financial risk profile assessment.

We note that Sinoasia has submitted a recovery plan to the regulator, under which it plans to recapitalize by issuing KZT1 billion of preferred shares (about 30% of current total capital). In our base-case scenario, we assume that the company will comply with regulatory requirements so that the instrument can be included in the regulatory capital calculation. We will also assess the instrument under our methodology for possible inclusion in our capital adequacy analysis.

In our view, the company's capital and earnings may be volatile in the next 12 months. We forecast Sinoasia will achieve moderate profitability in 2022 with a return on equity of about 9%-11% on average, albeit with the potential for volatility. We base this on our assumption of a combined (loss and expense) ratio of about 100% and investment yields of about 6.0%-6.5% in the same period. In our base case, we assume that the company will maintain its capital at least at satisfactory levels in 2023 as management actions are implemented and underwriting results remain sustainable.

We therefore affirmed our global scale ratings and will closely monitor how the regulatory solvency margin improves, as well as Sinoasia's asset exposure and how its capital and earnings evolve in the next 12 months.

Outlook

The negative outlook reflects that Sinoasia's expected recovery in solvency and our capital adequacy assessment may fall short of targets, given the uncertain operating and investment environment the industry faces.

Downside scenario

We could lower the ratings in the next 12 months if the company's regulatory solvency ratio does not improve to consistently above the required minimum, or we see a significant and sustained deterioration in the capital base caused by more aggressive growth, unexpected losses not compensated by capital injections, or higher dividends than we expect, with capital adequacy under our capital model deteriorating to levels sustainably below the 'BBB' benchmark.

This may occur alongside deterioration in the company's risk profile, both in terms of product and investment risks, and would increase the chance of regulatory intervention. Failure to meet the regulatory minimum at the end of the defined waiver period, which is not our base-case assumption, could lead to a multi-notch downgrade.

We could also lower the ratings if Sinoasia's competitive position is undermined, for example, by increased competition in its niche, or unexpected underwriting losses and earnings volatility in new business lines. Furthermore, changes in management that we consider detrimental for the company's credit profile could affect the ratings.

Upside scenario

We may revise the outlook to stable over the next 12 months if Sinoasia restores its regulatory solvency ratio, while maintaining our capital adequacy assessment at least at satisfactory levels, preserving its market position and asset quality.

Ratings Score Snapshot

	To	From
Financial strength rating	BB/Negative	BB/Stable
Anchor	bb	bb
Business risk	Weak	Weak
IICRA	Moderately High Risk	Moderately High Risk
Competitive position	Fair	Fair
Financial risk	Satisfactory	Satisfactory
Capital and earnings	Satisfactory	Satisfactory
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

ESG credit indicators: E-2, S-2, G-3

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

Ratings Affirmed		
Sinoasia B&R Insurance JSC		
Issuer Credit Rating		
Kazakhstan National Scale	kzA+/--/--	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Sinoasia B&R Insurance JSC		
Issuer Credit Rating		
Local Currency	BB/Negative/--	BB/Stable/--
Financial Strength Rating		
Local Currency	BB/Negative/--	BB/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.