

21 Nov 2019 | New Rating

Fitch Publishes Soglasie 'B+' IFS Rating; Outlook Stable

Fitch Ratings-Moscow-21 November 2019:

Fitch Ratings has published Soglasie Insurance Company Ltd. (Soglasie) an Insurer Financial Strength (IFS) Rating of 'B+'. The Outlook is Stable.

Key Rating Drivers

The rating reflects Soglasie's weak risk-adjusted capital position, a track record of significant adverse restatements under IFRS reporting on prior year accounts and the weak quality of the company's investment portfolio. Depletion of capital has been prevented by significant capital injections made by Soglasie's sole individual shareholder. The Stable Outlook reflects Fitch's expectation that Soglasie's financial performance stabilised in 2018.

Soglasie's risk-adjusted capital position score, as measured by Fitch's Prism Factor-Based Model (FBM), was 'Weak' in 2018, albeit moderately improved from 2017. Due to stronger earnings generation Soglasie's equity strengthened to RUB7.3 billion at end-2018 from RUB4.2 billion in 2017. This follows the company reporting negative equity balances in 2013-2016 mainly as a result of adverse reserve development. Soglasie's regulatory solvency margin, calculated according to a Solvency I-like formula, was very strong at 215% at end-9M19, compared with 77% at end-2017.

In 2018 Soglasie reported a current-year net profit, and unlike prior years it did not declare any notable prior year restatements. The net profit of RUB3.2 billion in 2018 was supported by a positive underwriting result, investment income and some FX gains. The net result in 2017 was also positive at RUB1.7 billion, but Soglasie retrospectively acknowledged a RUB9 billion net loss on prior year accounts in this year. The significant net loss the insurer accumulated in 2011-2016 was fully offset by the shareholder's capital injections.

Soglasie's underwriting performance has notably improved in the past two years, with the combined ratio at 101% in 2018 and 97% in 2017. This follows an average of 117% over 2013-2016. The relative improvement in 2017-2018 was largely achieved through a reduced loss ratio in motor third party liability (MTPL), which benefited from positive reserve releases. Based on the non-consolidated interim regulatory reporting, the insurer continued to report a positive underwriting result in 9M19, although the combined ratio modestly deteriorated to 98% from 92% in 9M18. The net profit also reduced to RUB0.6 billion in 9M19 to RUB1.7 billion in 9M18.

The quality of Soglasie's investment portfolio has notably improved after the reduction of equity holdings in 2018 and sale of significant amount of related-party bonds in October 2019, but remains weak. Following these asset allocation changes, the ratio of low liquid assets, including related-party securities and land, to the insurer's equity reduced to 52% at end-10M19 from 92% at end-2018, based on the standalone regulatory reporting. The size of the portfolio and the significant weight of low liquid investments has prevented Soglasie from generating stronger investment income to support the return on equity to date. Soglasie has a low level of coverage of the non-life net technical reserves by liquid assets.

RATING SENSITIVITIES

The rating could be upgraded if Soglasie strengthens its risk-adjusted capital position, reflected in a Prism FBM score of at least 'Somewhat Weak', provided that there are no further significant prior year adverse restatements.

The rating could also be upgraded if the company improves the non-life underwriting result and prior year reserves do not develop unfavourably.

The rating could be downgraded if Soglasie's risk-adjusted capital position weakens or the insurer returns to negative profitability over a prolonged period of time.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3. ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

SOGLASIE Insurance Company Limited; Insurer Financial Strength; Publish; B+; RO:Sta

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Applicable Criteria

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

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