AM Best affirmed the Financial Strength Rating of B+ of Arab Reinsurance Company S.A.L.

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AM Best has revised the outlooks to negative from stable and affirmed the Financial Strength Rating of B+ (Good) and the Long-Term Issuer Credit Rating of “bbb-” of Arab Reinsurance Company S.A.L. (Arab Re) (Lebanon).

These Credit Ratings (ratings) reflect Arab Re’s balance sheet strength, which AM Best categorises as very strong, as well as its marginal operating performance, neutral business profile and appropriate enterprise risk management.

The revision of the outlooks to negative reflects pressures on the business profile assessment, stemming from AM Best’s concerns over Arab Re’s strategic direction, in a context of increasingly challenging market conditions.

Arab Re’s balance sheet strength is underpinned by its risk-adjusted capitalisation, which is comfortably maintained at the strongest level, as measured by Best’s Capital Adequacy Ratio (BCAR), reflective of the company’s low underwriting leverage. Risk-adjusted capitalisation strengthened in 2015 and 2016, following the shareholders’ decision to forgo dividend payments. With capital and surplus reaching USD 102.9 million at year-end 2017, Arab Re’s capital base is sufficient to absorb the asset and credit risks arising from elevated exposure to Lebanese investments, notably Lebanon sovereign debt and cash deposits in banks, and unrated retrocession receivables.

Arab Re has a track record of marginal operating profitability, with a five-year (2013-2017) weighted average return on equity of 3.9% and return on premium of 7.4%. Whilst operating profit remains supported by robust investment returns, the company has experienced weak technical performance in recent years, with ongoing difficult underwriting conditions resulting in a five-year weighted average combined ratio of 106.7%. Arab Re’s net income increased marginally to USD 4.5 million in 2017 following a slight improvement in net operating expenses. The cancellation of loss making accounts is expected to improve the company’s technical results in the longer term; however, combined ratios are likely to remain above 100% in the next few years.

Arab Re has a niche position in its core markets in the Middle East and North Africa (MENA) region, built upon its original role as a reinsurer for the Arab insurance market and longstanding relationships with cedants. However, the company’s business profile has been under pressure in recent years, impacted by its decision to withdraw from non-core markets and certain lines of business, in an effort to improve technical profitability. This, combined with a lack of growth opportunities in core markets, has resulted in gross written premium decreasing by approximately 25% to USD 64 million between 2013 and 2017.