AM Best Affirms Credit Ratings of Arab Reinsurance Company S.A.L.

December 06, 2019 04:54 PM Eastern Standard Time

LONDON--(BUSINESS WIRE)--**AM Best** has 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). The outlooks of these Credit Ratings (ratings) remain negative.

The 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 negative outlooks reflect ongoing pressure on the business profile assessment, stemming from AM Best’s concerns over Arab Re’s ability to navigate the challenging underwriting conditions prevailing in its core markets. In addition, the increased social, political and economic instability in Lebanon, where the company is domiciled and writes approximately 10% of its business, have heightened the pressure on the ratings.

Arab Re’s balance sheet strength is underpinned by its risk-adjusted capitalisation, which is maintained at the strongest level, as measured by Best’s Capital Adequacy Ratio (BCAR), reflective of low underwriting leverage. The company’s shareholder equity reached USD 104.6 million at year-end 2018, up 1.7% from USD 102.9 million at the end of 2017. The capital base is sufficient to absorb the elevated investment risk arising from exposure to Lebanese assets, notably Lebanon sovereign debt and cash deposits in local banks, and credit risk stemming from unrated retrocessionaires. In response to the heightened economic and political risk in Lebanon, Arab Re has decreased its exposure to domestic securities and increased its proportion of assets held outside Lebanon, notably by redirecting its cash flows to Bahrain and Oman.

Arab Re has a track record of marginal operating profitability, with a five-year (2014-2018) weighted average return-on-equity of 4% and return on premium of 8.3%. Whilst operating profit remains supported by good 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 107.2%. Net income increased marginally to USD 5.5 million in 2018, due to a slight improvement in technical results and investment income. AM Best expects the cancellation of loss making accounts to improve technical results in the longer term; however, combined ratios are likely to remain above 100% in the short to medium term.

Arab Re has a niche position in its core markets in the Middle East and North Africa region, built upon its original role as a reinsurer for the Arab insurance market and longstanding relationships with cedants. Gross written premium increased by approximately 6% to USD 67.9 million in 2018. However, AM Best expects Arab Re’s business profile to remain under pressure in the short to medium term, constrained by challenging market conditions and a lack of growth opportunities in core markets.