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AM Best Removes From Under Review With Negative Implications and Downgrades Credit Ratings of Arab Reinsurance Company S.A.L.

LONDON, 9 October 2020—AM Best has removed from under review with negative implications and downgraded the Financial Strength Rating (FSR) to B (Fair) from B+ (Good) and the Long-Term Issuer Credit Rating (Long-Term ICR) to “bb+” from “bbb-” of Arab Reinsurance Company S.A.L. (Arab Re) (Lebanon). The outlook assigned to the FSR is stable, whilst the outlook assigned to the Long-Term ICR is negative.

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

The rating actions reflect the deterioration of Arab Re’s balance sheet strength assessment, considering the heightened levels of political, economic and financial system risks in Lebanon, where the company is domiciled and almost half of its investment are located. The negative outlook of the Long-Term ICR reflects pressures on Arab Re’s creditworthiness stemming from AM Best’s concerns over its strategic positioning in an increasingly challenging operating environment.

Arab Re’s balance sheet strength is underpinned by its risk-adjusted capitalisation narrowly at the strongest level at year-end 2019, as measured by Best’s Capital Adequacy Ratio (BCAR). Arab Re’s risk-adjusted capitalisation has deteriorated after adjustments made to reflect the heightened risks associated with Lebanese assets in the BCAR model. The balance sheet strength assessment factors in the company's adequate, albeit reduced liquidity, and financial flexibility, which AM Best assesses as limited.

Arab Re has a track record of marginal operating profitability, with the company consistently reporting technical losses over recent years, resulting in an elevated five-year (2015-2019) weighted average combined ratio of 105.7%. Historically, operating profits have been supported by good investment returns. However, Arab Re posted a net loss of USD 2.8 million at year-end 2019, following USD 11 million of impairments on its domestic bond portfolio. AM Best expects prospective investment returns to diminish, following the company's portfolio reallocation to non-yielding real estate in 2020.

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. However, the company remains a modest-sized follower reinsurer on a global scale, and its top line has been decreasing over the past five years owing to portfolio clean up and difficulties to source sustainable new business opportunities. Growth potential is limited, as the reinsurance market in the region remains highly competitive, whilst the domestic insurance market is expected to be impacted by significant economic difficulties and political uncertainty.

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AM Best is a global credit rating agency, news publisher and data analytics provider specializing in the insurance industry. Headquartered in the United States, the company does business in over 100 countries with regional offices in New York, London, Amsterdam, Dubai, Hong Kong, Singapore and Mexico City. For more information, visit www.ambest.com.

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