



RATING ACTION COMMENTARY

Fitch Affirms Etiqa Entities' IFS at 'A'; Outlook Stable

Mon 11 Apr, 2022 - 4:27 AM ET

Fitch Ratings - Sydney/Hong Kong - 11 Apr 2022: Fitch Ratings has affirmed the Insurer Financial Strength (IFS) Ratings of Malaysia-based Maybank Ageas Holdings Berhad's (MAHB) core operating entities at 'A' (Strong). The Outlook is Stable.

The entities are:

- Etiqa General Insurance Berhad (EGIB)
- Etiqa Life Insurance Berhad (ELIB)
- Etiqa General Takaful Berhad (EGTB)
- Etiqa Family Takaful Berhad (EFTB)
- Etiqa Insurance Pte. Ltd. (EIPL)

The affirmation reflects the group's 'Favourable' company profile as well as 'Very Strong' capitalisation and financial performance and earnings on a consolidated basis.

KEY RATING DRIVERS

Group Credit Profile: Fitch regards the five group entities as core subsidiaries of MAHB, and hence assigns a group rating that is based on MAHB's consolidated credit profile. The entities are wholly owned by MAHB, and operate in the group's key market segments in Malaysia and Singapore. They share the Etiqa brand and show significant synergies and cross-reporting in their processes, management and resources. We

believe MAHB has the ability and willingness to support its core operating entities, if needed.

Favourable Company Profile: Fitch ranks the group's company profile as 'Favourable' compared with that of other Malaysian insurance companies. This reflects the group's 'Favourable' business profile and 'Moderate/Favourable' corporate governance. The business profile assessment is driven by a 'Favourable' competitive positioning, 'Moderate' business-risk profile and 'Most Favourable' diversification.

Leading Franchise in Malaysia: The group's dominant market position in Malaysia's conventional and takaful insurance sector is underpinned by its ability to disseminate its wide product range through multiple channels as well as the franchise of the ultimate parent - Malayan Banking Berhad (Maybank) - to drive business expansion.

Solid Capitalisation Metrics: MAHB's capitalisation on a consolidated level, based on the Fitch Prism Model, has been 'Extremely Strong' in recent years. The capitalisation of each core operating entity, measured by the regulatory risk-based capital (RBC) ratio, is well above the regulatory minimum. This is underpinned by continued surplus growth, which is driven by steady operating margins in the life and non-life businesses.

Low Financial Leverage: MAHB issued a MYR1 billion Tier 2 subordinated note in 2021, which was taken up by Maybank and its other shareholder, Ageas Insurance International N.V. (A+/Stable). The issuance resulted in a financial leverage ratio of 11% at end-2021, which compares well against our criteria guidelines for an IFS 'A' rated insurer. Debt proceeds were used to support EIPL's capitalisation by investing in its SGD200 million subordinated debt issuance.

Reliance on Reinsurance: The group, which underwrites life and non-life risks, relies on reinsurance protection. Exposure of the non-life capital base to reinsurance recoverables is high. However, the sound credit quality of the group's reinsurance panel limits counterparty risk. We believe significant changes to reinsurance programmes, including higher costs and lower capacity, could undermine the group's earnings and capital position.

Steady Financial Performance: The group's financial performance remains stable on a consolidated basis. It recorded return on equity and pre-tax return on assets of 11.9% and 2.1%, respectively, in 2021 (2020: 10.1% and 2.4%). This compares well with the median guidelines for the group's rating category. EIPL's performance has lagged that of MAHB's Malaysian subsidiaries, with net profit dropping to SGD1.2 million in 2021, from SGD18.6 million, due to strengthening life reserves and a non-life underwriting loss.

Moderate Investment Risk: MAHB is exposed to Malaysia's (BBB+/Stable) sovereign risk, as its consolidated invested assets are largely in the country. Its Fitch-calculated risky asset ratio increased to 42% in 2021, from 40% in 2020, due to a rise in equity exposure and non-investment-grade bonds, but remains well below our criteria guidelines for an IFS 'A' rated insurer. We do not expect the operating entities to take on much more investment risk, as this could increase regulatory risk charges and affect the regulatory capital profiles.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- significant deterioration in the business profile, such as in the business risk profile, franchise value or diversification
- changes in the status of any subsidiary from a core operating entity of the group
- deterioration in the entities' capitalisation, with MAHB's Fitch Prism Model score falling to below 'Very Strong'; EGIB's or ELIB's statutory RBC ratio falling below 200% persistently; EGTB's or EFTB's statutory RBC ratio falling below 180% for a sustained period; and EIPL's statutory RBC ratio falling below 150% consistently
- significant decline in the entities' financial performance, including MAHB's consolidated return on equity falling below 8% for a sustained period.
- significant increase in investment and asset risks.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- sustained significant improvement in the business profile in terms of the group's operating scale and regional presence while maintaining sound profitability
- the Fitch Prism Model score maintained at well into 'Very Strong' at the consolidated level

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating

categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Etiqa Family Takaful Berhad	Ins Fin Str A Rating Outlook Stable Affirmed	A Rating Outlook Stable
Etiqa Life Insurance Berhad	Ins Fin Str A Rating Outlook Stable Affirmed	A Rating Outlook Stable
Etiqa General Takaful Berhad	Ins Fin Str A Rating Outlook Stable Affirmed	A Rating Outlook Stable
Etiqa Insurance Pte. Ltd.	Ins Fin Str A Rating Outlook Stable Affirmed	A Rating Outlook Stable

Etiqa General Insurance Berhad	Ins Fin Str	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Kanishka de Silva, CFA**

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Etiqa Family Takaful Berhad	EU Endorsed, UK Endorsed
Etiqa General Insurance Berhad	EU Endorsed, UK Endorsed
Etiqa General Takaful Berhad	EU Endorsed, UK Endorsed
Etiqa Insurance Pte. Ltd.	EU Endorsed, UK Endorsed
Etiqa Life Insurance Berhad	EU Endorsed, UK Endorsed

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