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

Fitch Ratings - Sydney/Singapore - 25 Mar 2024: 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, 'Very Strong' capitalisation and 'Strong' 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 therefore assigns a group rating 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 have significant synergies and cross-reporting in 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 'Neutral' 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) - which helps to drive business expansion.

Stable Capital Metrics: MAHB's capitalisation on a consolidated level, based on the Fitch Prism Model, has been 'Extremely Strong' in recent years. Capitalisation of each core operating entity, measured by the regulatory risk-based capital (RBC) ratio, is well above the regulatory minimum. MAHB has low financial leverage compared with Fitch's criteria guidelines for an IFS 'A' rated insurer, driven by the MYR1 billion Tier 2 subordinated notes issued in 2021 to support EIPL's capitalisation.

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.

Earnings Rebound: MAHB reported an unaudited net profit after tax of MYR353.9 million in 1H23 (1H22 restated: net loss of MYR95.8 million) under the new accounting standard, IFRS 17. The result was supported by a turnaround in net investment income to MYR1.3 billion from a loss of MYR828 million in 1H22. Singapore-based EIPL's performance lagged behind that of MAHB's Malaysian subsidiaries as higher surrender rates amid rising interest rates required it to strengthen its life reserves in 2022.

Consolidated average return on equity over 2021-1H23 remained commensurate with Fitch's criteria guidelines for an IFS 'A' rated insurer.

Moderate Investment Risk: MAHB is exposed to Malaysia's (BBB+/Stable) sovereign risk, as its consolidated invested assets are largely located in the country. Fitch-calculated risky-asset exposure is driven by equity investments 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 their regulatory capital profiles.

RATING SENSITIVITIES

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

- Significant deterioration in the company 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 6% for a sustained period.

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

- Sustained and significant improvement in the company profile in terms of the group's operating scale and regional presence;
- Maintaining sound profitability and capitalisation metrics for a prolonged period

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Etiqua Family Takaful Berhad	LT IFS	A 	Affirmed	A 
Etiqua Life Insurance Berhad	LT IFS	A 	Affirmed	A 
Etiqua General Takaful Berhad	LT IFS	A 	Affirmed	A 
Etiqua Insurance Pte. Ltd.	LT IFS	A 	Affirmed	A 
Etiqua General Insurance Berhad	LT IFS	A 	Affirmed	A 

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Insurance Rating Criteria \(pub.04 Mar 2024\) \(including rating assumption sensitivity\)](#)

Applicable Models

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

Prism Factor-Based Capital Model, v1.8.0 (1)

Additional Disclosures

Solicitation Status

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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