

11 Apr 2019 | Upgrade

Fitch Upgrades Etiqa Entities' IFS to 'A'; Outlook Stable

Fitch Ratings-Singapore/Hong Kong-12 April 2019: Fitch Ratings has upgraded the Insurer Financial Strength (IFS) Ratings of Etiqa group's core operating entities - Etiqa General Insurance Berhad (EGIB), Etiqa Life Insurance Berhad (ELIB), Etiqa General Takaful Berhad (EGTB), Etiqa Family Takaful Berhad (EFTB) and Etiqa Insurance Pte. Ltd. (EIPL) - to 'A' (Strong), from 'A-' (Strong). The Outlook is Stable. The Under Criteria Observation status on the IFS Ratings has also been removed.

The upgrade follows the publication of Fitch's revised global Insurance Rating Criteria on 11 January 2019. The revised criteria change the way Fitch captures country-related risk in ratings, moving away from using top-down sovereign constraints, which saw the group's IFS Ratings capped at 'A-'. The revised criteria capture country risk within each key credit factor using bottom-up analysis.

Key Rating Drivers

The upgrade reflects the group's 'Favorable' business profile and 'Very Strong' capitalisation. It also takes into account its 'Very Strong' financial performance and earnings, based on the group's consistent profitability and stable underwriting results.

Fitch views the group's business profile as 'Favorable' compared with that of all other Malaysian insurance companies, due to its 'Favourable' competitive positioning, 'Moderate' business-risk profile and 'Most Favorable' diversification; as such, Fitch scores Etiqa's business profile at 'a' under its credit-factor scoring guidelines.

We assess the five group entities as core subsidiaries of Maybank Ageas Holdings Berhad (MAHB) and hence assign a group rating. The entities are wholly owned by MAHB and operate in Etiqa'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. Fitch expects MAHB to have adequate financial and capital strength to support its core operating entities if needed.

We assess group capitalisation at 'Very Strong'. The score on Fitch's Prism Factor-Based Model (FBM) is within median guidelines for the entities' rating category. Consolidated financial leverage stood at 5% at end-2018 (2017: 13%), as the company redeemed a MYR500 million callable Tier 2 subordinated bond in July 2018. Fitch expects the entities' operations to continue to be managed at the group level, underpinned by steady surplus growth and sound capital and risk management.

MAHB delivered return on equity and pre-tax return on assets of 12.1% and 2.6% respectively for 2018, which compare favorably with the median guidelines for its rating category. This is underpinned by the consistent underwriting performance in the non-life and general takaful businesses, as well as sustained mortality profits from the life and family takaful segments. Fitch expects bottomline profitability to remain stable, given the group's well-rounded profit contributions.

Rating Sensitivities

Key downgrade sensitivities include:

- changes in the status of any subsidiary as a core operating entity of the Etiqa group;
- deterioration in the entities' capitalisation, with MAHB's Prism FBM score to below 'Very Strong', and EGIB's, ELIB's or EIPL's statutory risk-based capital (RBC) ratios falling below 200% persistently, and EGTB's or EFTB's statutory RBC ratio falling below 180% for a sustained period;
- significant decline in the entities' financial performance, with EGIB's or EGTB's combined ratio consistently above 100%, or a sharp decline in ELIB's and EFTB's lapse rates/mortality profits.

The ratings could be upgraded over the longer term if there is significant improvement in the group's operating scale and regional presence, while maintaining sound profitability and Prism FBM score well into 'Very Strong' at the consolidated level.

Etiqa General Insurance Berhad; Insurer Financial Strength; Upgrade; A; RO:Sta

Etiqa Family Takaful Berhad; Insurer Financial Strength; Upgrade; A; RO:Sta

Etiqa Insurance Pte. Ltd.; Insurer Financial Strength; Upgrade; A; RO:Sta

Etiqa Life Insurance Berhad; Insurer Financial Strength; Upgrade; A; RO:Sta

Etiqa General Takaful Berhad; Insurer Financial Strength; Upgrade; A; RO:Sta

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Applicable Criteria

[Insurance Rating Criteria \(pub. 11 Jan 2019\)](#)

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