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Eurasia Insurance 'BBB' And Eurasia Life 'BBB-' Ratings Affirmed After Revised Capital Model Criteria; Outlook Stable

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital, "Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, ."
- Under our new criteria, our capital and earnings assessment for Eurasia insurance group (Eurasia; including property and casualty P/C and life business) remains very strong, with capital adequacy in excess of our 99.99% confidence internal as of Dec. 31, 2023.
- We therefore affirmed our 'BBB' long-term ratings on Eurasia Insurance and our 'BBB-' ratings on its highly strategic subsidiary Eurasia Life.
- The stable outlook indicates that we expect the company to maintain capital adequacy at the 99.99% level, based on our capital model, and profitable underwriting and investment results over the next two years.

Rating Action

LONDON (S&P Global Ratings) June 24, 2024--S&P Global Ratings today affirmed its 'BBB' long-term issuer credit and insurer financial strength ratings on Eurasia Insurance Co. The outlook is stable.

We also affirmed our 'BBB-' long-term issuer credit and insurer financial strength ratings on Eurasia Life JSC. The outlook is stable.

At the same time, we affirmed our 'kzAAA' Kazakhstan national scale ratings on both entities.

Impact Of Revised Capital Model Criteria

- The revised criteria have no material impact on Eurasia's risk-based capital adequacy; we give full credit for the contractual service margin and risk adjustment, which we consider to be equity-like reserves that enhance the group's capital adequacy.
- We also capture the benefits of risk diversification more explicitly in our analysis and this supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels, especially interest rate risk charges, somewhat offset the above improvements.

Outlook

The stable outlook on Eurasia reflects our expectation that the insurer will sustain its strong competitive position underpinned by its leading position in the direct P/C insurance market in Kazakhstan. We also think it will continue its profitable diversification into international inward reinsurance markets and maintain its very strong capital and earnings and sufficient level of liquidity, enabling it to consistently pass our hypothetical sovereign stress test while withstanding potentially a tightening operating environment in Kazakhstan and globally over the next two years. The stable outlook on Eurasia Life reflects that on Eurasia Insurance. The ratings on Eurasia Life are likely to move in tandem with those on Eurasia Insurance, unless we revise our view of Eurasia Life's group status.

Downside scenario

We could lower the ratings on Eurasia over the next two years if, contrary to our expectations:

- Eurasia changed its investment strategies and/or its capital and liquidity management such that it no longer passed our hypothetical sovereign stress test, or
- Its profitability deteriorated over a prolonged period due to competitive pressures in international or local markets.

We could also take a negative rating action if we lowered our ratings on the sovereign, which is not our base-case scenario, and if the company's potential support to its subsidiary, Eurasia Life, had a negative impact on its own creditworthiness.

Upside scenario

A positive rating action is unlikely over the next two years because of Eurasia's lack of scale relative to higher-rated peers and the material exposure of its insurance and investment portfolios to the domestic market.

However, we could take a positive rating action if the company materially further diversified its insurance and investment operations into foreign markets with high credit quality, and kept the weighted average asset quality of its investments sustainably at least in the 'BBB' range.

Rationale

Eurasia is a leader in Kazakh P/C insurance market with a sizable international inward reinsurance portfolio that profitably diversified the group and enhanced its business profile, and a growing life segment which makes steady profit contributions. We expect that this trend will continue over the next two years. However, Eurasia is still relatively small compared with international insurance and reinsurance companies and it operates in Kazakhstan, where we see the operating environment for P/C insurers as challenging given intensifying competition and potential financial market volatility amid geopolitical uncertainty and high inflation and interest rates. This leads us to choose the lower anchor as the starting point for the issuer credit rating.

Eurasia's financial risk profile benefits from its solid capital adequacy, good liquidity levels, and improving asset quality. We expect the insurer's capital to remain commensurate with the 99.99% benchmark in the next two years. However, in our view capital will remain below $1 billion, which makes the company more vulnerable to external shocks than larger international peers--particularly those that write reinsurance business. Eurasia has continued its strategy to improve asset quality via further diversifying its fixed income portfolio. It has shifted a significant portion of its investments to the instruments of foreign issuers with ratings in the 'A' category and above.

Eurasia is rated one notch above our sovereign ratings on Kazakhstan due to its diversification outside Kazakhstan, very strong capital and earnings, and sufficient level of liquidity. Eurasia benefits from a sizable portfolio of international inward reinsurance business backed by good quality assets/investments outside Kazakhstan. Eurasia's very strong capital and earnings and sufficient liquidity levels are due to better quality of investment instruments. These factors combined enable Eurasia to pass a severe hypothetical sovereign stress test associated with a hypothetical Kazakhstan sovereign default. The company also benefits from the diversification of its insurance and investment operations abroad.

We consider Eurasia Life as a highly strategic subsidiary of Eurasia Insurance Co.This reflects a strong commitment of support from the parent and close integration between the two entities. We expect Eurasia Insurance will remain supportive to Eurasia Life. Due to parental support, we rate Eurasia Life one notch below Eurasia Insurance Co. (BBB/Stable/--); we consider Eurasia Insurance ready to support Eurasia Life in almost all foreseeable circumstances. However, we do not equalize the ratings of two entities because we consider Eurasia Life as a highly strategic subsidiary of Eurasia Insurance, which is gradually developing itself on the open market and establishing its own client base together with its own risk framework.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Eurasia. The company is exposed to catastrophe risks both in its primary portfolio in Kazakhstan (as Almaty is a seismic-active zone) and its international reinsurance portfolio. This can expose Eurasia to natural hazard risk through its business book. We believe that it has an adequate reinsurance program and a solid capital cushion. Governance factors have an overall neutral influence on our credit rating analysis. The company benefits from experienced management team, which has demonstrated a clear strategy of developing local and international business, while preserving the risk balance in different countries and regions. The mitigates some governance weaknesses in the Kazakh insurance sector, such as a still-evolving regulatory framework compared to some developed markets.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Regulatory Disclosures For Each Credit Rating Including Ratings List Table

Disclosures include requirements relating to press releases or reports published in accordance with Article 10(1), 10(2), and 10(5), and Annex I, Section D, I, 1, 2, 2a, 4, and 5. These requirements are available by rating via the link titled "Regulatory Disclosure" and include, but are not limited to:

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- Materials Used In The Credit Rating Process
- Criteria Applied
- Models Applied, Loss, And Cash Flow Analysis Performed
- Scenario Analysis
- Sensitivity Analysis
- Risk Warning, Understanding Credit Rating Categorizations, And Criteria
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