



Fitch Downgrades Anadolu Sigorta's IFS to 'BB+' Following Sovereign Downgrade

Fitch Ratings-London-18 July 2018: Fitch Ratings has downgraded Anadolu Anonim Turk Sigorta Sirketi's (Anadolu Sigorta) Insurer Financial Strength (IFS) Rating to 'BB+' (Moderately Weak) from 'BBB-'. The Outlook is Negative. The National IFS Rating has been affirmed at 'AA+(tur)' with a Stable Outlook.

KEY RATING DRIVERS

The downgrade of Anadolu Sigorta's rating follows the downgrade of Turkey's Long-Term Local-Currency Issuer Default Rating (LTLC IDR) to 'BB+' from 'BBB-' on 13 July 2018. This reflects Anadolu Sigorta's substantial exposure to Turkish assets (government bonds and local banks deposits) and to the wider Turkish economy. The Negative Outlook mirrors that on Turkey's LTLC IDR.

The main asset risk to the insurer's balance sheet stems from the credit quality of local banks, as 65% of Anadolu Sigorta's investment portfolio is placed in bank deposits. These are in turn influenced by Turkey's sovereign credit rating, which has continued to worsen. Turkey's Long-Term Foreign-Currency IDR was downgraded by Fitch on 13 July 2018 to 'BB' from 'BB+'.

Fitch views Anadolu Sigorta's capital position as supportive of the rating, reflected in the Prism factor-based model (FBM) score of 'Adequate'. The capital position slightly improved in 2017, as a result of lower premium volumes and lower reserves due to mandatory reserve discounting introduced in 2017. The capital position was also helped by an increase in total equity to TRY1.8 billion in 2017 (2016: TRY1.3 billion) supported by retained earnings. The insurer's regulatory solvency also improved in 2017.

Anadolu Sigorta maintained good profitability in 2017 (net income improved to TRY184 million from TRY88 million in 2016) supported by strong investment income, although the return on equity was 12%, the same level as the rate of inflation. The insurer's earnings are largely dependent on investment income as combined ratios remain above 100%. With interest rates remaining high, we expect investment income to continue supporting the overall profitability and to some extent offset the losses on the motor third party liability (MTPL) line.

Anadolu Sigorta's Fitch-calculated combined ratio remained broadly stable at 107% in 2017 and the five-year average combined ratio was 104%. The MTPL line, which represented 29% of Anadolu Sigorta's total net written premium (NWP) in 2017, was the major contributor to technical losses in 2013-2017. In 2017, MTPL performance slightly improved supported by higher premiums written during 2016, but we expect its performance to deteriorate substantially in 2018, as the full impact of the MTPL premium cap will be visible in 2018 results. As a result of the premium cap, Anadolu Sigorta's MTPL NWP was 33% lower in 2017 than in 2016.

Anadolu Sigorta is the second-largest non-life insurer in Turkey (gross written premiums of TRY4.7 billion) equating to a market share of 12% at end-2017. The majority of its portfolio comprises motor lines, which account for 49% of premiums, in line with the Turkish non-life insurance sector.

RATING SENSITIVITIES

Anadolu Sigorta's ratings will be downgraded if Turkey's LTLC IDR is downgraded.

The ratings could be downgraded if the insurer's capital position deteriorates as measured by a regulatory solvency ratio below 100% or a Prism FBM score of 'Somewhat Weak', possibly caused by a substantial underwriting or investment loss.

We may revise the Outlook to Stable if the Outlook on Turkey's LTLC IDR is revised to Stable.

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Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017) (<https://www.fitchratings.com/site/re/905036>)

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