

**„DZI – General insurance” EAD**

**Delyan Pehlivanov, Lead Financial Analyst**  
d.pehlivanov@bcra-bg.com

**Silvia Berova, Financial Analyst**  
berova@bcra-bg.com

**Claims Paying Ability Rating**

**Initial Rating**  
**25.05.2015**

**Long-term Rating:**

**iA**

**Outlook:**

**Stable**

“BCRA – CREDIT RATING AGENCY” (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are entirely equal with other ratings, recognized by the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

**BCRA assigns the long-term claims paying ability rating iA (outlook: stable) to „DZI – General Insurance” EAD.** The officially adopted methodology by BCRA for assigning claims paying ability ratings to insurance companies is used: ([http://www.bcra-bg.com/files/file\\_202.pdf](http://www.bcra-bg.com/files/file_202.pdf)).

To elaborate the rating report and assign the rating, information is used from the assessed insurance company, the Supervision Financial Commission, the National Statistical Institution, database of BCRA, consultants and other sources of public information.

During 2014, a growth was registered in the Gross Domestic Product (GDP) of the country (a 1.4% real annual change rate), as compared with 2013 the growth rate ran high (0.3 pp). The inflation decreased significantly - by -1.6% (0.4% at end of the previous year). The unemployment decreased to 10.7% (11.8% during 2013).

During the period 2013-2014, the general insurance sector operated in an unfavorable economic environment as a result of the effects of the global crisis on the economy of Bulgaria. However, it showed signs of recovery – the sustainable downtrend was interrupted in the Gross Premium Income over the last years, and for second consecutive year a revenue growth and a positive net financial result were reported. The main factors hindering the development of the general insurance

companies still remain the uncertain recovery of the Bulgarian economy from the crisis and the weak economic activity and reduced domestic consumption. The sector retained a high growth potential, having in mind the low levels of insurance density and penetration. Despite the growing number of the companies, the market concentration remained high. The main share in the aggregate insurance portfolio of the sector is taken by car insurances with a share of ~ 68%.

„DZI – General Insurance” EAD was registered on the 27th of February, 1998. The fixed capital is in the amount of 51 586 773 BGN and is allocated in 7 369 539 registered shares with a nominal value of 7 BGN, which is fully paid. As of the time of the preparation of the report, 100% of the capital of the company is owned by „DZI – Life Insurance” EAD. A sole owner of the shareholding capital of „DZI – Life Assurance” EAD is KBC Insurance HB, owned by KBC Group HB. The company has a two-tier management system – Management and Supervisory Board. „DZI – General Insurance” EAD has a developed distribution network in the country. The company has policies and procedures for risk management and control with the aim at identifying, managing and controlling the level of financial and insurance risk. These policies and procedures are adopted by the Management Board and approved by the Supervisory Board. The main purpose of the risk policy is to enforce clearly defined parameters for the operations of the company, so as to restrict at the most the potentially negative influence upon the financial results of the company. From rating point of view, we assess positively the degree of preparation of the company for introducing the Solvency II Directive.

	<b>CLAIMS PAYING ABILITY RATING</b> <b>ZAD „DZI – GENERAL INSURANCE” EAD</b> <b>iA (outlook: stable)</b> <b>May 2015</b>
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The Gross Premium Income (GPP) of "DZI - General insurance" EAD for the period 2010-2014 decreased by 17.2%, while the adjusted sector reported a growth of 6.7%. GPP decreased annually during each of the years except the last, when an increase of 1.0% was observed. The overall market share of the company reduced gradually, which from 12.5% during 2010 decreased to 10.0% during 2014. The insurance portfolio of "DZI - General insurance" EAD was characterized with a stable structure and a low concentration of customers. During the analyzed period, leading insurances were the motor insurances with a share between 73.7% and 78.2% over the years. "Autocasco" occupied a dominating position in the the portfolio during the period 2010-2014. During the period, the rated company reported a value of the Combined Expense Ratio above 100%, indicating a loss from insurance activity. In comparison with the leading companies, "DZI - General insurance" EAD had a favourable position on this index only during the first and last year of the period.

A priority in the activity of DZI EAD is the development and improvement of the reinsurance programme. The main reinsurance contracts concluded at the European markets in 2014 covered the portfolios of property, transport and agricultural insurance. Due to its experience in passive reinsurance and availability of sufficient insurance capacity, the company has the opportunity to launch activities of active reinsurance on single risks offered in the market. DZI reinsures in accordance with the terms of KBC Group, as among them is the requirement that the reinsurers on the major contracts to be rated at least with "BBB+" by Standard & Poor's.

The company has a conservative policy in respect with the investment activity. The investment portfolio of "DZI - General insurance" EAD for the period 2010-2014 was characterized by:

- Significantly higher liquidity and lower risk compared to that of the adjusted sector, having in mind much higher overall share of the government securities and bank deposits;
- Positive profitability as its average value for the period was slightly higher than that of the other companies in the sector;
- Low dependence of revenues on investment activities from revaluation of assets, which is a positive factor with view of their stability;

The portfolio for covering of the technical provisions was structured according to the requirements for diversification of assets set out in the Insurance Code and provides full coverage of the reserves.

During the period 2010-2014, there was a downtrend of the size of the Gross Premium Income of "DZI - General insurance" EAD. Compared to the beginning of the period, the decline at the end of 2014 was 17.2% (compared to a growth of 6.7% in total for other companies in the sector). The Net Earned Income followed similar dynamics as the change is -23.1% (a growth of 9.9% in total for the other companies in the sector). During the entire period, there was an insurance loss, compensated by a profit from investment activities. The net financial result was positive during each of the years of the period under review. The Gross Claims Ratio was characterized with significant volatility, and at the end of 2014 increased considerably and occupied its highest value for the whole analyzed period. The changes in the Net Claims Ratio were weaker and at the end of the last analyzed year did not change significantly compared to the previous year, as their value was about average for the leading insurers. The return on equity was positive during the whole analyzed period, as its value was higher than the average for the adjusted sector during each of the years of the analyzed period, except 2013.

The actual solvency of the company exceeded the solvency margin during the whole analyzed period. Although during the period 2010-2012, there was a trend to reduce the value of the coverage ratio, it remained very high. The operating leverage of the company occupied values significantly lower than the average for the group of the leading companies, and the financial leverage - about average. The Company was characterized with high liquidity in a comparative aspect. Although the liquidity of the technical reserves decreased in 2011 and remained without any significant changes in the rest of the period under review, its value exceeded greatly the average for the group of leading insurers and the sector. The Liquidity of the reserve for forthcoming payments during the whole period under review followed a similar trend and was much higher than the average for the leading general insurance companies. The immediate liquidity during the period 2010-2014 was at levels about the middle of the competitive group, but lower than those of the adjusted sector.

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*In general, "DZI - General insurance" EAD is characterized with a good financial condition. During the whole analyzed period (2010-2014) a positive net financial result was reported and the indicators for capitalization and liquidity of the*

*company remained relatively stable, as their values were much better compared to the average for the group of the leading insurers, as well as the average for the general insurance sector.*

***Main Financial Indicators:***

<b>Indicator / Year:</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Gross Premium Income (thousand BGN):</b>	<b>142 926</b>	<b>141 561</b>	<b>148 196</b>	<b>169 117</b>	<b>172 533</b>
<i>Annual Change Rate</i>	<i>1.0%</i>	<i>-4.5%</i>	<i>-12.4%</i>	<i>-2.0%</i>	<i>-14.6%</i>
<b>Net Earned Income (thousand BGN):</b>	<b>129 509</b>	<b>133 128</b>	<b>148 851</b>	<b>150 931</b>	<b>168 350</b>
<i>Annual Change Rate</i>	<i>-2.7%</i>	<i>-10.6%</i>	<i>-1.4%</i>	<i>-10.3%</i>	<i>-11.2%</i>
<b>Net Profit (thousand BGN)</b>	<b>6 243</b>	<b>7 343</b>	<b>12 435</b>	<b>12 440</b>	<b>7 880</b>
Result from Insurance Activity	-2 867	-1 092	-902	-2 383	-9 987
Gross Claims Ratio	62.0%	49.3%	58.2%	49.9%	60.7%
Net Claims Ratio	52.7%	52.5%	58.2%	54.2%	59.8%
Expense Ratio	12.4%	13.6%	12.3%	14.5%	14.6%
Acquisition Ratio	37.2%	34.7%	30.1%	32.9%	31.5%
Combined Ratio	102.2%	100.8%	100.6%	101.6%	105.9%
Operating Leverage	179%	182%	186%	140%	116%
Financial Leverage	267%	251%	237%	194%	144%
Liquidity Ratio of Technical Reserves	97%	89%	96%	92%	105%
Liquidity Ratio of upcoming payments	145%	131%	140%	140%	153%