

DZI – General insurance

Vesela Velichkova, Lead Financial Analyst
v.velichkova@gmail.com

Kalina Dimitrova, Financial Analyst
k.dimitrova@bcra-bg.com

Claims paying ability rating*	Monitoring	Update	Update
Date of Rating Committee:	06.01.2017	21.02.2017	21.02.2018
Date of Publication:	12.01.2017	22.02.2017	22.02.2018
Long-term rating:	BBB-	BBB-	BBB-
Outlook:	negative	stable	stable
Long-term national-scale rating:	AA+ (BG)	AA+ (BG)	AA+ (BG)
Outlook:	stable	stable	stable

* To become familiar with the full rating history, please, see the chart at the bottom of the document

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 affirms the assigned ratings to DZI-General Insurance:

- **Long-term claims paying ability rating: BBB-, outlook: „stable”;**
- **Long-term national-scale rating: AA+ (BG), outlook: „stable”.**

The methodology - officially adopted, approved and entered into force on 06.07.2016, by BCRA for assigning rating of the ability of insurance companies to pay claims is in use (http://www.bcra-bg.com/files/file_202.pdf).

The report has been prepared and the rating – assigned, based on information, made available by the rated insurance company, the FSC, the NSI, BCRA’s database, consultants and other public sources.

In 2016, the growth of Bulgarian economy accelerates, from 3.6% in 2015 to 3.9% in 2016. In the first half of 2017, the economy of the country increases by 3.7% compared to the same period of 2016.

The uptrend started after 2013 is reinforced in the reserve assets of the BNB which is a solid buffer

for guaranteeing the stability of the currency board.

In 2016, the flow of DFI decreases to 1.4%, reaching the lowest values for the last 5 years. The preliminary data say that the decline in the investment flows continues in the first half of 2017.


The data for the labour market in the first half of 2017 reports record-breaking high indicators for economic activity and employment of the population. Ascending remains the labour income trend. Unemployment rate reaches its pre-crisis levels (6-7%).

Since June 2017, total average annual growth rate of prices register increasing positive values and reach 0.6% as of the end of September.

The balance on government budget reports improvement. The deficit in the size of 2.3% of GDP in 2015 reduces to 1.2% of GDP as of the end of 2016 (size of 1.9% in the State Budget of the Republic of Bulgaria Act).

The budgetary balance on CFP (Consolidated Fiscal Programme), set out in the draft budget for 2018, is a deficit in size of 1.0% of GDP. The government intends to continue the policy for gradual consolidation and reaching a balanced budget in 2020. In the forecast period there are not planned substantial changes in the tax policy.

The level of the state debt (27.4% of GDP at the end of 2016, 23.6% of the forecast GDP as of the end of September 2017) continues to be a positive

	<p>DZI – General insurance Long-term claims paying ability rating: BBB- (outlook: stable) Long-term national-scale rating: AA+ (BG) (outlook: stable) February 2018</p>
<p>95, Evlogi Georgiev Blvd., fl. 1 1142 Sofia</p>	<p>phone: (+359-2) 987 6363 www.bcra-bg.com</p>

factor for Bulgaria¹. The Ministry of Finance expects a fall in the state debt to 22.3% of GDP as of the end of 2018 and reach 20.0% as of the end of 2020.

For the period of updating the banking system in the country is characterized by:

- Retention of the substantial share of foreign capital in total capital in the banking system;
- The assets in the banking system continue to increase in the last two complete years and in the first half of 2017;
- The ascending trend in the profit remains the same in the banking system, which is observed in the previous three years. In the mid-2017 the profit of the banks reports a substantial move downwards compared to a year earlier (a decline of 14.6% in nominal value compared to the substantial growth of 53.7% as of Q2 2016), as it should be taken into consideration that the indicated is not due to negative trends with regard to the generated income and/or costs of the banks, and is a result of the circumstance that in the first half of 2016 a major part of the realized incomes had a single character (more than 150 mln. BGN are added as a result of the completion of the transaction for Visa Europe);
- In 2016 and first half of 2017, the uptrend in the attracted funds in the form of deposits retains (exclusive credit institutions);
- After the delay in the fall in lending in 2015, in 2016 there is a slight positive change in the size of given loans and advance payments to the non-financial sector (0.6% on a yearly basis), and in the first half of 2017 the registered growth accelerates to 3.4% compared to the same period for 2016. The Ministry of Finance plans this process to continue in the period 2017-2020;
- The non-performing loans decrease to 12.9% of gross credit portfolio as of the

end of 2016 (14.5% as of 2015). A continuous improvement in the quality of the portfolio is observed in the first half of 2017 (by nearly 2 p.p. in comparison with a year earlier), as the level of non-performing exposures remain relatively high – 12.1% of gross loan portfolio;

- High levels of liquidity and capital adequacy continue to be reported.

For the favourable condition of the banking sector testify the results in 2016 of asset quality review and stress tests for stability of banks in Bulgaria (announced in August 2016). They show that the banking sector is stable, well capitalized, and public support of banks with state resources is not needed.

The general insurance market in Bulgaria during the period of updating is characterized by:

- Strengthening the uptrend in written gross premiums income;
- High growth potential (in view of the relatively low levels of insurance density and insurance penetration);
- High level of market concentration – in 2016 72.3% of Gross Premium Income (GPI) in the sector is formed by the seven largest companies (70.7% for 2015);
- High percent of motor insurances in the structure of the aggregate insurance portfolio - 70.0% at the end of 2016 (68.4% at the end of 2015).

Main changes in the regulatory framework:

- In April 2016, the FSC adopted Ordinance (No. 51 of 28.04.2016) on own funds and solvency capital requirements of insurance and reinsurance undertakings, and groups of insurance and reinsurance undertakings;
- In December 2016, the FSC adopted Ordinance No. 53 of 23.12.2016 for the requirements of reporting, evaluation of assets and liabilities and formation of technical reserves of the insurance and reinsurance undertakings and the Guarantee Fund, and Ordinance No.54 of 30.12.2016 for the registers of the Guarantee Fund for exchange and protection of information and for the issuance and reporting of the compulsory

¹ The maximum permissible reference value of the Maastricht convergence criterion is 60%

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(outlook: **stable**)
Long-term national-scale rating: **AA+ (BG)**
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1142 Sofia

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insurances under Items 1 and 2 of Art. 461 of the Insurance Code;

- FSC had a session on 13.02.2017 and adopted Ordinance amending and supplementing Ordinance No. 13-41 of 12.01.2009 for documents and order for drawing them up in case of road traffic accidents and the procedure of communication between the Ministry of the Interior, the FSC and the Guarantee Fund;
- FSC had a session on 07.04.2017 and adopted Ordinance amending and supplementing Ordinance No. 49 of 16.10.2014 on the compulsory insurance pursuant to Items 1 and 2 of Art. 249 of the Insurance Code and on the Procedure of Settlement of Claims for Compensation of Damages Caused to Motor Vehicles.

The major factors hindering the development of general insurance companies continue to be the slow recovery of the Bulgaria's economy from the crisis and low economic activity and determined by this insecurity with regard to future households revenues. The sector keeps high growth potential concerning relatively low levels of insurance density and insurance penetration.

The results from the conducted Asset Quality Review (AQR) and Stress Tests (ST) of the insurance companies in the country published on 03.02.2017 bespeak for the stability of the rated company. The recommendations to the company for increasing the amount of admissible basic own funds that cover sufficiently the minimum SIC (Solvency Capital Requirement) according to Solvency II requirements are carried out in 2016 and 2017.

During the period of updating, there are no changes in the share capital of DZI - General Insurance" in the amount of 66 586 779 BGN, distributed in 9 512 397 shares, each with a nominal value of BGN 7. The sole owner of the capital is DZI - Life Insurance, as a sole ultimate owner - KBC Group NV.

There has been a change in the Supervisory Board - in August 2017 is released Lucien Heisens and is replaced by Luc Popelier. At present, the Supervisory Board is composed of Johann Demen, Grigoriy Vazov and Luc Popelier. There is also a change in the Management Board (the BD): Milen Glushkov is replaced by Bistra

Vasileva, as of February 2018. Thus, the BD is currently in the composition of Geert De Kegel, Kosta Cholakov and Bistra Vasileva.

In 2016, Gross premium income (GPI) of DZI - General Insurance reports growth of 7.1%, with a 2.7% increase in the adjusted sector², as a result of which the market share of the company increases by 0.39 p. p. to 10.45%. The company's main insurance "Autocasco" reports an increase of 16.7%, and the market share increases from 14.2% to 15.7%. However, the GPI on other motor insurance (Motor Third Party Liability) declines by 3.2% and the market share decreases to 7.6% (8.2% a year earlier). The company slightly increases its market share (from 9.5% to 10.0%) and by insurance "Fire and natural disasters" as a result of growth in GPI of 3.1%. The GPI decreases insignificantly on the other property insurance - "Other property damages".

During the first nine months of 2017, the market share of the company continues to grow, reaching 10.62% after a 12.5% annual growth rate of GPI (8.1% growth of the adjusted sector). The increase is mainly in line of the two car insurances: 9.6% for "Autocasco" and 24.2% for "Motor Third Party Liability", as the market shares of the two companies reach 15.5% (retention compared to the period a year ago) and 8.2% (7.2% as of September 2016). The market share of "Fire and natural disasters" slightly decreases, despite the increase in GPI (4.2%). "Other Property Damages" reports an increase of 12.3%. The most other insurances report growth.

The structure of the insurance portfolio is characterized by a downtrend in the share of "Autocasco", which reaches 47.4% for 2016 and 46.3% as of 09.2017 as opposed to the other car insurance (Motor Third Party Liability), which decreases as weight - to 27.8% in 2016 and 29.6% of 09.2017. In a comparative basis, the company maintains a higher share of "Autocasco" and property insurances compared to the competitive group (formed by the other leading companies), while in the case of " Motor Third Party Liability" the comparison is in the opposite direction. Overall, the concentration in the company's portfolio remains close to the average for other leading companies.

² Adjusted with the data of the assessed company.

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The Gross claims ratios rise slightly in 2016 and more obvious in the nine months of 2017. The Net claims ratios also increase slightly in 2016, and in the first nine months of 2017 remain almost unchanged compared to the same period of the previous year. Regarding the net claims ratios, they are kept at a level close to the average for the other leading companies.

After 2015, when the company achieves a level of the combined expense ratio below 100% (99.3%), in 2016 the levels of the indicator rises again to 101.0%, driven by the growth of the net claims ratios and the expense ratio. This value is an indicator for a negative result of an insurance activity. By this indicator the company is unfavorably positioned compared to the competitive group. During the nine months of 2017, an improvement is observed in the combined expense ratio and the combined expense ratio falls to 90.5%.

During the period of updating there are no substantial changes in the level of self-retention of DZI - General Insurance and it remains at levels of 93-94%.

The size of the investment portfolio of DZI - General Insurance increases in 2016 (6.5%) and in the nine months of 2017 (5.3% compared to the end of 2016). The increase in both periods is mainly in line of government securities which dominate the portfolio. The major part of the government bonds are Bulgarian.

The company continues to maintain a significantly higher share of its highly liquid assets compared to the average for the adjusted sector, which is a

positive factor. In 2016, the realized investment profitability of the company is close to the average for the adjusted sector, while in the first nine months of 2017, it falls below it.

The net earned income of DZI - General Insurance reports growth in 2016 (10.7%) and in the nine months of 2017 (16.8% on an annual basis). The company generates a net profit of BGN 5 770 thousand BGN for 2016 and BGN 16 426 thousand for the nine months of 2017. The return on equity amounts to 7.1% for 2016 and 12.8% for the nine months of 2017.

The operating leverage of the company remains almost unchanged in 2016 and is close to the average for the competitive group. The financial leverage also remains unchanged, but it is higher than the average for the other leading companies.

The liquidity ratios of the technical reserves and of the company's outstanding payments reserve are higher than both the adjusted sector and the competitive group. The immediate liquidity ratio is lower than the sector, but higher than the average for the group, both at the end of 2016 and nine months later.

Main financial indicators:

Indicator / Year:	09.2017	09.2016	2016	2015	2014	2013
Gross Premium Income (thousand BGN):	138 408	123 029	169 241	158 067	142 926	141 561
<i>Change on a yearly basis</i>	<i>12.5%</i>	<i>-27.3%</i>	<i>7.1%</i>	<i>10.6%</i>	<i>1.0%</i>	<i>-4.5%</i>
Net Earned Income (thousand BGN):	137 370	117 587	157 111	141 904	129 509	133 128
<i>Change on a yearly basis</i>	<i>16.8%</i>	<i>-25.2%</i>	<i>10.7%</i>	<i>9.6%</i>	<i>-2.7%</i>	<i>-10.6%</i>
Net profit (thousand BGN)	16 426	10 195	5 770	8 823	6 243	7 343
Result from insurance activity	13 074	5 610	-1 540	935	-2 867	-1 092
Gross Claims Ratios	80.4%	51.8%	53.8%	49.8%	62.0%	49.29%
Net Claims Ratios	51.9%	50.5%	53.4%	50.3%	52.7%	52.50%
Expense Ratio	13.5%	9.4%	11.4%	11.2%	12.4%	13.59%

Acquisition Ratio	25.0%	35.3%	36.2%	37.8%	37.2%	34.73%
Combined Ratio	90.5%	95.2%	101.0%	99.3%	102.2%	100.82%
Operating Leverage	-	-	190%	187%	179%	182%
Financial Leverage	-	-	250%	267%	267%	251%
Liquidity Ratio	5.1%	5.6%	4.1%	3.4%	3.8%	2.71%
Return on equity	12.8%	16.4%	7.1%	12.1%	8.7%	9.4%

***Rating History:**

The ratings displayed in the chart are assigned under the previous Methodology for rating of the ability of insurance companies to pay claims, respectively with the applied rating scale and are not directly comparable with the ratings assigned after the entry into force of the current methodology on 04.07.2016.

Claims paying ability rating	Initial Rating 25.05.2015	Update 19.05.2016	Мониторинг 05.07.2016
Long-term rating:	iA	iA+	iA+ (under review)*
Outlook:	stable	stable	

*The rating is placed „under review“ according to the requirements of the Regulation (EC) No. 1060/2009 due to a procedure on changes in the methodology to the completion of the procedure and review of the ratings assigned under the particular methodology.