

ZK „Lev Ins” AD

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

Vesela Velichkova, Financial Analyst
v.velichkova@bcra-bg.com

CLAIMS PAYING ABILITY RATING	Initial Rating 6.2006	Non-solicited Rating 11.2007	Non-solicited Rating 11.2008	Update 7.2009
Long-term Rating:	BB+	iBBB-(ns)	iBBB(ns)	iA-
Outlook:		<i>positive</i>	<i>positive</i>	<i>stable</i>
	Update 20.07.2010	Monitoring 07.12.2010	Monitoring 25.05.2011	Update 25.10.2011
Long-term Rating:	iA-	iA-	iBBB+	iBBB+
Outlook:	<i>stable</i>	<i>negative</i>	<i>negative</i>	<i>developing</i>
	Update 29.11.2012	Update 04.11.2013	Update 13.12.2014	
Long-term Rating:	iBBB+	iBBB+	iBBB+	
Outlook:	<i>positive</i>	<i>stable</i>	<i>stable</i>	

BCRA – Credit Rating Agency (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) No. 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 the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.


BCRA affirms the long-term claims paying ability rating of ZK “Lev Ins” iBBB+ (outlook: stable). The officially adopted methodology by BCRA for assigning a claims paying ability rating is used (http://www.bcra-bg.com/files/file_202.pdf).

To elaborate the credit report and to assign the credit rating, BCRA uses information from the rated insurance company, the FSC, the National Statistical Institute, BCRA’s database, consultants and other sources of public information.

During the period under observation (6.2013 – 6.2014), Bulgaria’s economy was under the impact of the effects of the financial crisis and economic activity was still weak. During the past year, there has been some slow and hesitant recovery, which strongly depends on exports (and accordingly on the pace of recovery of EU’s economy), growing unemployment, weak domestic consumption and investment activity.

In the period of updating, the general insurance sector operated in an unfavourable economic environment. However, it showed signs of recovery – the sustainable downtrend was discontinued in Gross Premium Income over the past years, and the income increased. A positive technical result was reported, as well as an increased net profit compared to the past year. The main factors, hindering the development of the sector, still remained the uncertain recovery of the Bulgaria’s economy, weak economic activity and reduced domestic consumption. The sector maintained its high growth potential with a view of the low levels of insurance density and penetration. Despite the growing number of companies, the market concentration remained high. Car insurances with a ~ 70% share continued to hold a major share of the aggregated insurance portfolio in the sector.

During the period of updating, the shareholding capital and the ownership structure of ZK „Lev Ins” AD remained the same. The Supervisory Board and Managing Board remained without any changes. With a view of the considerable share of the insurance „Motor Third Party Liability” in the company’s portfolio and its character, the management continued to set among its goals the diversification of the insurance portfolio and extension of its positions in the property insurance. No considerable changes

	CLAIMS PAYING ABILITY RATING ZK „Lev Ins“ AD iBBB+ (outlook: stable) December 2014
95, Evlogi Georgiev Blvd., fl. 1 1142 Sofia	phone: (+359-2) 987 6363 www.bcra-bg.com

occurred in the organizational structure of ZK „Lev Ins“ AD. With regard to the branch network, the activity of ZK „Lev Ins“ is focused on optimization of the existing agencies from the point of view of implementation of the plans and financial discipline, as well as optimization of the points of sale with aim at developing the market positions. During the past analyzed period, a number of changes have been made in the liquidity activity of the company in order to improve the service quality of customers, who claimed for incurred insurance events. A customer service line is open for complaints, recommendations and opinions. During 2013, the company won the award „The most honest Insurer in paying damages“ at the competition „Insurer of the Year“, organized by Bulgarian Association of Insurance Brokers.

During 2013, ZK „Lev Ins“ realized a growth of 14.8% in the Gross Premium Income, leaving behind this of the adjusted sector¹ (5.4%). It also determined the increase of the company's market share. At the end of the year it was 12.8% (11.9% as of 12.2012). The increase is in line of the major insurance – „Motor Third Party Liability“. During the first half of 2014, however, ZK „Lev Ins“ reported a 5.9% decline in Gross Premium Income on a yearly basis, compared to a growth in the sector for the same period (7.9%). It had an effect on a decrease of the market share to 12.7%, by 1.6 p.p. lower compared to the middle of the previous year. In the structure of the insurance portfolio of ZK „Lev Ins“ during the period of updating there were not considerable changes and it continued to be dominated highly by „Motor Third Party Liability“. The company maintained Net Claims Ratio, close to the average for the leading companies. Net Acquisition Ratio is lower in a comparative aspect. The Expense Ratio retained high as of the end of the half year exceeded considerably the average value of the group. The Combined Expense Ratio is higher compared to the average for the leading companies and indicates an insurance loss.

During the period of observation, no considerable changes occurred in the reinsurance programme of the company. The levels of self-retention of ZK „Lev Ins“ AD remained high.

During the period of updating (6.2013 – 6.2014) the volume of the investment assets of ZK „Lev Ins“ AD increased faster than the sector. The portfolio earmarked to cover the technical reserves is structured in accordance with the requirements for diversification of the assets defined in the Insurance Code. The company's overall investment

portfolio is less liquid compared to that of the adjusted sector, due to a lower share of the government securities and bank deposits. In managing the investment portfolio as of the end of 2013 and as of the end of the first half of 2014, the profitability achieved is positive and much higher compared to the average for the other companies in the sector, as income come mainly from asset revaluations.

During 2013, ZK „Lev Ins“ registered a certain increase in the Net Earned Income. Claims Ratios increased and a negative result from insurance activity was reported. The net financial result increased highly as well. As a result of the higher realized profit, the return on equity increased highly and is over the average for the other companies in the sector. During the first half of 2014, the assessed company registered a decline of 5.9% on an yearly basis in the Gross Earned Income (7.9% for the adjusted sector). Net Earned Income reported a considerable growth (11.9%), leaving behind the registered average increase for the other companies in the sector (8.0%). Gross Claims Ratio and Net Claims Ratio increased and the loss from insurance activity compared to the first half of the past year also increased. An increasing positive net financial result was reported in comparison with the same period of 2013. The value of the coverage ratio ran high. The values of the operating and financial leverage are considerably higher than the average for the group. The values of the liquidity ratio of the technical reserves and the liquidity of the reserve for forthcoming remain lower in a comparative aspect.

During the period of updating, ZK „Lev Ins“ AD retained a comparatively stable financial condition, as realized a positive net financial result due to re-estimation of the assets. The negative influence on the assigned rating of the company could be a reason to keep the trend of generating a loss from insurance activity.

The diversification of the insurance portfolio and liquidity of ZK „Lev Ins“ AD are lower compared to these of the other general insurance companies. A certain increase in these directions would have a positive effect on the rating.

¹ Here and further in the section the sector's data are adjusted with these of the assessed company.

Main financial indicators of ZK "Lev Ins" AD:

	6.2014	6.2013	2013	2012	2011
Gross Premium Income	91 597	97 304	182 063	158 632	143 485
<i>Change on a yearly basis %</i>	-5.9%	9.9%	14.8%	10.6%	6.1%
Net Premium Income	91 396	81 663	162 435	159 463	115 683
<i>Change on a yearly basis %</i>	11.9%	0.4%	1.9%	37.8%	-13.9%
Result from insurance activity	-3488	-801	-1081	3 666	9 621
Net Profit	7424	273	13704	915	10 601
Gross Claims Ratio	60.1%	52.1%	59.8%	56.4%	50.5%
Net Claims Ratio	57.1%	54.3%	58.1%	54.6%	45.1%
Combined Expense Ratio	103.8%	101.0%	100.7%	97.7%	91.7%
Operating Leverage	-	-	280%	359%	266%
Financial Leverage	-	-	317%	363%	349%
Liquidity Ratio	2.9%	2.7%	2.4%	2.8%	2.2%
Return on Equity	38.3%	2.3%	28.9%	2.1%	29.2%