

ZK „Lev Ins” AD

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	Initial Rating	Non-requested update	Non-requested update	Update
RCPA	6/2006	11/2007	11/2008	7/2009
Long-term rating :	BB+	iBBB-(n)	iBBB(n)	iA-
Outlook :		positive	positive	positive
Short-term rating :		ia-3	ia-2	ia-1

Bulgarian Credit Rating Agency is the only Bulgarian agency listed as eligible by the Financial Supervision Commission and its credit ratings are acknowledged for the purposes of article 75, paragraph 2 of the Bulgarian Insurance Code equally along with international agencies **Moody's, Standard & Poor's and Fitch**. BCRA has already assessed nearly all leading local insurance companies. In 2004 BCRA adapted the "Claims paying ability rating" methodology for insurance companies from their partner ICRA (An associate of Moody's Investors Service).

BCRA retains the long-term credit rating iA- (outlook: stable) and short-term rating ia-1 for claims paying ability of ZK „Lev Ins”AD. The officially adopted methodology of claim paying ability rating of insurance companies is used (http://www.bcra-bg.com/files/method_6.pdf).

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

As a whole, till the autumn of 2008, the insurance activity in Bulgaria was characterized with high rates of development, powerful competition and favorable prospects considering significantly low levels of insurance density and increasing purchasing ability of the population. Stable trend of growth of Gross Direct Premium is observed, as it increased by 20.8% compared to 2007. The values of insurance density and penetration also increased. The car insurances continued playing a leading role on the market of general insurance in Bulgaria (~70%). After this period the Sector functioned on conditions of intensifying global crisis. As a result of losses from investment activity (mainly due to collapse in prices of Bulgarian Stock Exchange) and high

claims on insurance "Third Party Liability", the companies, operating in the Sector, marked losses in 2008 amounting to BGN 2 366 thousand. There is a frequent change of positions of market players. The high intensity of competition (mainly in „Autocasko” insurance) determines the frequent changes of company's market shares. Having in mind the capacity of development of insurance market, BCRA sets the risk from condition of Sector as moderate.

During the period under review the activity of ZK „Lev Ins” continued increasing quickly and steadily, as the realized Gross Direct Premium increased by 56% (52% in 2007). The company continued growing up as the rate of growth is significantly higher compared to the average of the Sector – 21% (20% in 2007), as well as this of the other leading companies. This trend was kept during the first 3-month period of 2009. ZK „Lev Ins” grew up over 44% on an annual basis, whereas the growth in the Sector is hardly 2.74%. The market share of company increased from 6.32% in 2006 to 10.35% in 2008 r., in this way ZK „Lev Ins” takes forth position on the insurance market. As of the end of the first 3-month period of 2009 the company took the third position by realized Gross Direct Premium. The most significant is the growth of market share on „Credits” insurance – from 21.21% in 2006 to 80.63% in 2008. As a whole, the company demonstrates good diversification of insurance portfolio, as it keeps the lowest share of the leading insurances in its portfolio compared to the competitive companies. ZK „Lev Ins” marked decreasing values of net claims ratios. The net commission ratio slightly exceeded the average values of the competitive group, as this trend was kept to the end of 2008. During the first 3-month period of 2009 the analyzed indicator took values around the average from the excerpt. The high

growth in the amount of commission on direct business is determined by the increasing volumes of work. The combined expense ratio shows good level of expenses of insurance activity for the analyzed period. **BCRA assesses the risk from operating effectiveness of the company as relatively low.**

Within the actualization period significant changes in reinsurance politics of the company haven't been observed. **BCRA assesses the risk from reinsurance activity as relatively low.**

In 2008 the name of the company was changed from ZPK "Lev Ins" AD to ZK "Lev Ins" AD in accordance with changes in the Code of Insurance. Insignificant changes have set in the shareholding structure. The membership of Board of directors is changed as the new members have worked for more than 5 years for ZK "Lev Ins". The company capital is raised to BGN 32 415 thousand.

During the passed period the company has brought in new types of insurance. The Sofia Corporate Centre is open (registered as a branch of the company), which enlarged the volume of the business, registered by the insurance brokers. New liquidation centers are open in Sofia, Varna, Burgas, Plovdiv, Pleven and Russe. Online registration of claims is settled and the company starts a new service called online insurance. The improvement work to provide information of company's activity continues. New systems of management are introduced based on Oracle. **BCRA keeps the very good assessment of management of ZK "Lev Ins" AD.**

In 2008 investment incomes of ZK „Lev Ins” fell off compared to 2007. As of the end of the year the company gained net incomes from investment activity amounting to BGN ~656 thousand. The investment portfolio of ZK „Lev Ins” continued increasing firmly - 47.73% (compared to 46.93% growth rate in 2007). It is set up with relatively low level of risk and it complies with requirements of diversification of assets for coverage of technical reserves, defined in the Code of Insurance. As of the end of the period under review positive incomes in situation of economical crisis and unstability on financial markets are achieved. **BCRA assesses the risk from investment activity of the company as relatively low.**

The Gross Direct Premium of the company increases firmly – 55.9% (51.7% in 2007). The

Net Earned Income also increased with high rates – 52% for 2008 (150% in 2007), as well the result of insurance activity. Despite of the significant growth of Net Earned Income, the Operating Leverage is growing up more slowly due to capitalization of the profit of past year, as its levels are kept significantly lower compared to the average of the competitive group. Due to significant growth of the volumes of the rated company activity, the necessary frontier of solvency grew up over 105% in 2007 and over 81% during the next year. In spite of that the amount of own funds, reduced due to decreased amount of intangible fixed assets, continues exceeding it significantly and the value of solvency ratio is kept over 1. The liquidity ratio of technical reserves and liquidity ratio of reserve for forthcoming payments follows the trend of flowing growth. **BCRA assess the risk from the financial condition of the company as relatively low.**

Main indicators of ZK "Lev Ins" AD:

Indicator	3.2009	2008	2007
Gross Direct Premium (GDP):	42 161	158 561	101 681
% growth rate (year on year)	48%	56%	52%
Premiums less Reinsurance (PLR):	41 497	157 164	100 476
Net Earned Premium (NEP):	39 047	139 984	91 986
Net Financial Result	4 973	11 842	10 317
Retention	98.4%	99.1%	98.8%
Gross Claims Ratio	24.8%	23.8%	29.7%
Net Claims Ratio	40.7%	41.3%	41.5%
Expense Ratio	28.7%	27.4%	23.9%
Commission Ratio	19.4%	22.4%	25.3%
Combined Ratio	88.8%	91.1%	90.7%
Networth	55 605	50 632	38 790
Technical Reserves	97 590	89 703	52 353
Operating Leverage	70%	276%	237%
Financial Leverage	176%	177%	135%
Liquidity Ratio	14%	14%	11%
RONW	9%	23%	27%
Return on equity	15%	37%	44%