



FINANCE

Fitch upgrades Continental Insurance to 'A(lka)'

Fitch Ratings has upgraded Sri Lanka-based Continental Insurance Lanka Limited's (CILL) National Insurer Financial Strength Rating and National Long-Term Rating to 'A(lka)' from 'A-(lka)'. The Outlook is Stable.

The upgrade reflects the non-life operator's improving underwriting performance, satisfactory capitalisation, improving market franchise and prudent investment policy.

The company continued its disciplined approach to underwriting, which has resulted in an improved non-life combined ratio of below 100 percent for the last two years (2016 and 2015: 98 percent). CILL started booking net profit from 2012 - its third year of operation.

CILL has satisfactory capitalisation, as measured by its risk-based capital (RBC) ratio of 274 percent, compared with a regulatory minimum of 120 percent. The rating upgrade also factors in Fitch's expectation of RBC being maintained comfortably above 200 percent in the medium term. Management expects capitalisation to further improve amid continued profitability and low dividend pay outs.



Managing Director
Chaminda De Silva



Chairman Harry
Jayawardena

CILL's franchise continues to improve and is supported by its expanding branch network and association with its corporate group -Melstacorp PLC and Distilleries Company of Sri Lanka PLC (DIST, AAA(lka)/Rating Watch Negative (RWN)). CILL's market share by gross written premiums (GWP) improved to 4.3 percent at end-2016, from 3.6 percent at end-2015. Management expects further growth to moderate from the previous high levels, given the higher GWP.

The company's network increased to 45

branches at end-2016, from 37 in the previous year. Branch related business accounted for half of total GWP in 2016 (2015: 52 percent, 2014: 46 percent), while business related to its corporate group fell to 17 percent of total GWP (2015: 18 percent, 2014: 24 percent).

CILL's former ultimate parent, DIST, became a subsidiary of CILL's immediate parent, Melstacorp, in September 2016, following a group restructure. As a result, Fitch placed DIST's rating on RWN - the resolution of which will depend on DIST's final capital structure. CILL's ratings do not factor in explicit support from DIST and are unlikely to be affected by the resolution of DIST's RWN. CILL has minimal exposure to equities, which comprised less than 1 percent of its invested assets at end-2016. Corporate debentures -all of which were of investment-grade quality on the national scale - accounted for 38 percent of invested assets, while government securities accounted for 28 percent. Management plans to maintain this disciplined investment approach, mindful of the effects of the RBC capital regime that was introduced in 2016.