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Research Update:

Milli Reasurans T.A.S. Turkiye National Scale Rating Affirmed At 'trBBB-' Following Revised Capital Model Criteria

March 26, 2024

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Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions"). The revised criteria have no material impact on Milli Re's credit quality.
- The high inflation and foreign exchange risks to which the company is exposed in Turkiye continue to affect its underwriting performance, although strong investment income has helped the company report positive net earnings.
- We affirmed our 'trBBB-' rating on Milli Re.

Rating Action

On March 26, 2024, S&P Global Ratings affirmed its 'trBBB-' Turkiye national scale rating on Milli Reasurans T.A.S. (Milli Re).

Impact Of Revised Capital Model Criteria

The implementation of our revised criteria for analyzing insurers' risk-based capital had no material effect on our view of Milli Re's credit quality. Although our analysis now captures the higher risk diversification benefit more explicitly, this is offset by the higher asset and liability charges under the new model.

Credit Highlights

Overview

Key strengths	Key risks
Leading position in the Turkish reinsurance market.	Poor technical performance due to high inflation and adverse foreign exchange movements.
Stable and experienced management team.	Material property catastrophe exposure, particularly to earthquakes in Turkiye, albeit with significant reinsurance protection.

Rationale

Milli Re's status as Turkiye's leading national reinsurer is a key rating strength. S&P Global Ratings expects the company's experienced management team will continue to maintain the company's market position. Although Milli Re's premium generation is still concentrated in Turkiye, its international division provides some geographic and business line diversification.

We anticipate that Milli Re will maintain its positive net income, despite weak underwriting performance. High inflation, the weakening Turkish lira (TRY), and exposure to natural catastrophe losses have depressed Milli Re's underwriting performance, such that net combined ratios often exceed 100%. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) This is offset by the company's high investment income, supported by high interest rates and the revaluation of invested assets and affiliates. Thus, on a net income basis, Milli Re has consistently reported positive net income over the past five years and we expect this to continue for the next two years.

Our forecasts indicate that capital adequacy and liquidity are likely to remain at the current levels for the next two years. Turkiye's rampant inflation and the weakness of the lira have created additional insurance liability reserves on Milli Re's balance sheet. In addition, the earthquakes on Feb. 6, made 2023 an exceptionally bad year for Turkish insurers, in terms of losses. Nevertheless, Milli Re improved its shareholders' equity for the year on an absolute basis, as well as its capital adequacy, measured according to our models. We consider that the company has adequate retrocession protection, backed by highly rated international reinsurers. This covered most of the earthquake claims. Therefore, we expect that Milli Re's capital adequacy will remain above the 99.50% level in 2024-2026, measured using our risk-based capital model.

Milli Re's investments are concentrated in Turkiye, which weighs on its risk exposure. The company holds most of its investments in local financial institutions, the credit quality of which is predominantly 'BB+' or below. As a result, the average asset quality of its portfolio is low. In addition, while Milli Re's management aims to manage foreign-exchange volatility risk by holding some long positions in foreign currency-denominated assets that match its liabilities, the rampant depreciation of the lira in recent years continues to affect underwriting performance. Foreign-exchange risks remain high.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Insurance Industry And Country Risk Assessment: Turkiye Property/Casualty, Feb. 23, 2024

Ratings List

Ratings Affirmed	
Milli Reasurans T.A.S.	
Issuer Credit Rating	
Turkey National Scale	trBBB-/--/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.