Market Review
September 26, 2012

In 2011, Gross Premiums Written Grew 25.4%

Kazakhstan's Insurance Market Recovers But Testing Times Remain

Kazakhstan's insurance market was negatively impacted by the global financial crisis, although in 2010 and 2011 it enjoyed a strong recovery which is continuing into 2012.

The sector is small with low insurance penetration, especially for the life segment. Nevertheless, drivers for insurance growth are diverse and include economic development, which is resulting in greater demand for voluntary insurance. Compulsory lines of business also support the insurance market.

There are a variety of tests facing insurers, however, including changes to the motor claims process; exposures to natural catastrophe events; as well as political uncertainties. Insurers hold below-investment-grade debt securities issued in the local Kazakh market, exposing them to the country's high-risk political and financial systems. Additionally, insurers are ceding risks, to some extent, to reinsurers with vulnerable or no ratings.

Foreign participation in Kazakhstan's insurance market is limited given the size of the market in comparison to neighbouring Russia and the dominance of domestic insurers. Furthermore, overseas companies find it difficult to identify attractive acquisition targets.

Exhibit 1

Kazakhstan – Key Market Statistics (2007-2011)

Indicator	2007	2008	2009	2010	2011
Population (Millions)	15.6	15.8	16.2	16.4	16.7
Gross Domestic Product (KZT Billions)	12,640.52	16,267.92	17,007.56	21,815.49	26,372.28
Change in Real GDP (%)	8.9%	3.2%	1.2%	7.3%	7.5%
Inflation (%)	18.8%	9.5%	6.2%	7.8%	7.4%
Insurance Penetration (Life[1]) %	0.1%	0.1%	0.1%	0.2%	0.2%
Insurance Penetration (Non-Life[2]) %	0.9%	0.5%	0.4%	0.3%	0.3%
Insurance Penetration (Compulsory[3]) %	0.2%	0.2%	0.2%	0.2%	0.2%
Insurance Penetration (Total) %	1.2%	0.8%	0.7%	0.6%	0.7%
"Insurance Premiums Written (Life[1]) (KZT Billions)"	16.19	18.88	21.92	35.14	53.52
"Insurance Premiums Written (Non-Life[2]) (KZT Billions)"	111.48	84.61	60.86	69.38	76.54
"Insurance Premiums Written (Compulsory[3]) (KZT Billions)"	19.67	29.99	30.51	35.44	45.47
"Insurance Premiums Written (Total) (KZT Billions)"	147.34	133.49	113.29	139.96	175.53
Change in Premium Volume (Total) %	**22.51%**	**-9.40%**	**-15.13%**	**23.55%**	**25.41%**

Sources: International Monetary Fund, World Economic Outlook Database, April 2012; The National Bank of the Republic of Kazakhstan
Notes:
[1] Referred to in regulator's statistics as "Voluntary Personal Insurance." Life includes accident and sickness written by non-life companies.
[2] Referred to in regulator's statistics as "Voluntary Property Insurance."
[3] Compulsory insurance comprises non-life insurance only.

Analytical Contact
Carlos Wong-Fupuy, London
+44 20 7397 0287
Carlos.Wong-Fupuy@ambest.com

Researcher & Writer:
Yvette Essen, London
+44 207 397 0322
Yvette.Essen@ambest.com

Editorial Management
Carole Ann King

While Kazakhstan's insurance sector may be small, its regulator, the National Bank of the Republic of Kazakhstan, is regarded as one of the most stringent in the region. Insurers are required to report every 10 days, although the ability of market participants to manage all the regulatory changes simultaneously remains to be seen.

The National Bank is encouraging insurers to increase retention ratios instead of acting as fronting insurers. Despite the absence of a national reinsurer, it is also attempting to nurture a domestic reinsurance market and alter the current trend to cede risks overseas. Insurers currently underwrite some reinsurance risks, although the local market's ability to provide sufficient quality reinsurance support, and its appetite for greater retention levels, will be tested in the coming months by the recent regulations.

Insurance Demand Returns, but Insurance Penetration Remains Low

In 2011, total gross premiums written (GPW) grew 25.4% to 175.5 billion Kazakhstani tenge (KZT) (USD 1.2 billion). A significant proportion of these risks are ceded to international and regional reinsurers, with Kazakhstan insurers acting as fronting vehicles. Furthermore, insurers effectively operate in some instances as captives for their parent company but retain little risk.

As **Exhibit 1** shows, heightened demand for insurance in 2011 came on top of a strong 23.6% uplift in total premiums in 2010. This growth followed the sharp contraction of the insurance market in 2008 and 2009 because of depressed energy prices during the financial crisis. Banks in Kazakhstan faced a solvency crisis in 2009 that contributed to slower economic growth.

From 2007 to 2011, total GPW increased 19.1% although insurance penetration remains low. Gross Domestic Product (GDP) during this period more than doubled, reaching KZT 26.4 trillion in 2011, while total insurance premiums as a percentage of GDP almost halved. Total insurance penetration was 0.7% in 2011, down from 1.2% in 2007.

Insurance penetration is low, in part because under the former Soviet economic and social system, people typically relied more on government aid. However, insurers anticipate that perceptions of the need for insurance and purchasing habits will change with the emergence of a new generation.

Most insurers in Kazakhstan are focused entirely on greater domestic demand, with all planned growth expected to come from increasing insurance penetration in the country. Insurance cover tends to be centred on the capital, Astana, and key cities such as Almaty.

A.M. Best is of the opinion that non-life insurers will continue to focus on local risks in the near future. Eurasia Insurance Co. is an exception in its seeking risk diversification by expanding outside Kazakhstan, especially within Asia and the Commonwealth of Independent States (CIS).

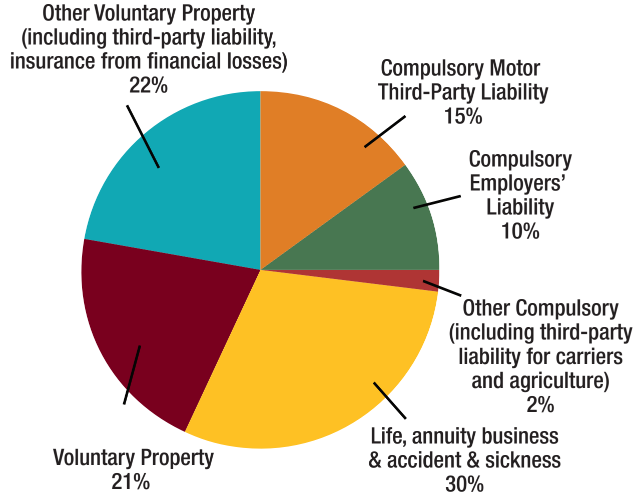
Insurers expect GPW to rise as the Kazakh economy recovers from the recent global financial crisis. GDP rose by a modest 1.2% in 2009 but is forecasted to expand by 5.9% in 2012, underpinned by output from natural gas and oil reserves.

Kazakhstan's insurance sector contrasts with other emerging insurance markets where compulsory risks such as motor and medical tend to drive demand for coverage. **Exhibit 2** shows that all compulsory risks represented 27% of total premiums in 2011, while life, annuity and accident and sickness made up 30% of premiums, and 43% came from voluntary lines of business. The relative strength of the non-life voluntary segment reflects the strong energy industry in Kazakhstan. The growth of this sector is anticipated to continue as the country's GDP expands.

The insurance market has continued to grow in 2012, according to data from the National Bank's Committee for the Control and Supervision of the Financial Market and Financial Organizations. Total insurance premiums in 2012 leading up to 1 July, reached KZT 99.5 billion, representing a 12.5% increase on the first six months of 2011.

Exhibit 2

Kazakhstan - Total Premiums Written By Line of Business (2011)



Source: Committee for the Control and Supervision of the Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan

The life sector enjoyed the greatest growth in the first half of 2012, with voluntary personal insurance (life, annuity, accident and sickness products) reaching KZT 43.1 billion, equating to 43.3% of total premiums. In the first half of 2012, the life segment had grown by 75% compared to a year earlier. This, in part, reflects regulatory changes whereby from January 2012, only life insurers are permitted to underwrite employers' liability (EL) coverage. This has resulted in premiums moving from non-life insurers to life affiliates or life companies. (**See Kazakhstan's Small but Growing Life Market**).

There are a number of compulsory lines of business, which will continue to support the insurance industry. Obligatory risks include third-party motor liability (TPML), EL, civil liability cover for passengers and agricultural cover. Since 14 March 2011 insurance programmes have been submitted to the Ministry of Oil and Gas for approval. The ministry has recommended insurance programmes provide coverage for property damage, third-party liability and financial loss.

Insurers Face Diverse Challenges

A.M. Best examines factors that could impact Kazakh insurers' abilities to meet their obligations and hamper the insurance market's growth. Under A.M. Best's methodology, countries fall into different categories, with CRT-5 (Country Risk Tier 5) representing the highest tier for countries considered to present the most risk, while CRT-1 (Country Risk Tier 1) denotes the least proportion of risk. Kazakhstan is classed as CRT-4, in line with neighbouring Russia.

All Central Asian countries evaluated by A.M. Best, including Kazakhstan, have high risk scores for political risk. The issue of the succession of President Nazarbayev is a medium-term concern and potential source of political uncertainty.

Kazakhstan's economy rebounded in 2010, when the government restructured key banks, and capital injections brought the banking system back towards stability. The National Bank also ceased intervention in support of the exchange rate in 2009, resulting in a sharp depreciation of the currency. However, financial system risk is regarded as high because asset quality is weak, non-performing loans are rising and capital markets are not highly developed.

The insurance industry has withstood significant losses, particularly in the past four years. Major industry losses have included property damage and business interruption claims from a large fire at the Arcelor Mittal Temirtau plant in 2008, for which AIG Kazakhstan paid USD 42 million. The loss of the KazSat-1 national satellite that same year was another large insurance payment, with an estimated USD 40 million of claims paid, although there was significant use of reinsurance.

Certain lines of business could further test insurers. Proposed changes to the reporting of motor claims may have a negative impact on the industry. Until recently, drivers making claims for road traffic accidents were required to contact the police. This resulted in some motorists paying the obligatory TPML premiums, but after an accident, not filing claims under their insurance policies because they were reluctant to involve the authorities.

Registration of traffic accidents was simplified in April 2012, enabling claims to be made without requiring police involvement, with the goal of accelerating settlement of insurance claims, reducing litigation and saving police force time. As a result, claims ratios could rise for TPML insurers, which may result in insurers having to reduce their commissions for this class of business, or incur greater losses. However, insurers hope that any rise in claims will not be significant as limits are imposed on TPML payouts.

Potential major loss events for area insurers include floods and landslides. However, A.M. Best considers a key disaster scenario to be an earthquake impacting Almaty. Furthermore, although risk management for some companies is in line with local regulatory requirements, probable maximum loss exposures are unsophisticated compared to international standards.

Nurturing talent to support the insurance industry represents another challenge, according to the Development Bank of Kazakhstan, an investment institution of the Government of Kazakhstan, which funds the non-primary sector of the economy. In its information memorandum dated 11 June 2012, the Development Bank stated: "There is a considerable shortage of adequately qualified personnel in Kazakhstan's financial sector, particularly in such areas as risk management and brokerage services."

Domestic Insurers Dominate While Foreign Insurers Limit Involvement

In recent years, the number of insurance organisations operating in Kazakhstan has contracted from 44 to 38, from January 2009 to October 2011, according to the National Bank's Financial Stability Report in December 2011. During this period, a number of weak market players exited as a consequence of the competitive environment. This figure has dropped further to 35 companies as of 1 August 2012.

Kazakhstan's insurance market is dominated by a handful of domestic companies. **Exhibit 3** shows the six largest non-life insurers, by GPW, controlled a 53.5% market share on 31 Dec. 2011. Figures for GPW also include inward reinsurance.

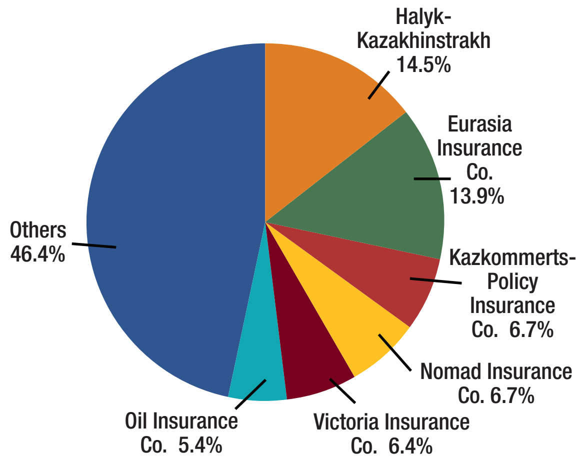
Insurers often have strong banking affiliations, enabling distribution through agents and bancassurance arrangements. For example, Halyk-Kazakhinstrakh is a subsidiary company of Halyk Bank of Kazakhstan, and Eurasia is affiliated to Eurasian Bank.

However, after the financial crisis, some banks have been considering selling their holdings in insurance companies. For example, following its restructuring plan, BTA Bank identified insurer London-Almaty Insurance Company and pension fund Ular Umit among its non-core assets.

Exhibit 3

Kazakhstan – Market Share of Six Largest Non-Life Insurers (2011)

(By GPW)



Source: A.M. Best Co., BestLink – Statement File Global

International companies have limited involvement in Kazakhstan's insurance sector. Italy's Generali is present on the life side, with staff based in Almaty, while Allianz had an operating subsidiary in Kazakhstan (Allianz Kazakhstan ZAO, Almaty) but withdrew from the market in December 2011.

Kazakhstan's 2011 total premiums of USD 1.2 billion were modest compared to the USD 39.7 billion of GPW for Russia's insurance market. Some international insurers prefer to access Russia first, then the periphery, given that Russia is considered to have greater potential for the development of a middle class. The dynamics of Russia's market have been outlined in A.M. Best's Special report *Russia's Insurance Revolution Begins to Gain Pace*, published 25 June 2012.

In Kazakhstan, certain classes of insurance, including business interruption, are considered potential avenues for growth, but other risks, such as motor, are not expected to expand significantly.

Chartis Kazakhstan Insurance Co., one of the few foreign insurers in the country, highlighted other difficulties in its Financial Statements and Independent Auditor's Report, dated 31 Dec. 2011. It stated: "The tax, currency and customs legislation within the Republic of Kazakhstan is subject to varying interpretations and frequent changes. The insurance sector in Kazakhstan has continued to be particularly impacted by political, legislative, fiscal and regulatory developments." Chartis added "unpredictable changes in the financial and economic environment" may have an adverse effect on its operations.

While Kazakhstan's insurance market is regarded as more transparent than Russia's, where there is an ongoing drive to eliminate tax avoidance schemes, it can be difficult to operate in Kazakhstan. In a World Bank and International Finance Corporation survey examining the ease of doing business, Kazakhstan is ranked 47 out of 183 economies, although this was an improvement from its 58th position in 2010. Russia is ranked 120 in the study.

Transparency International's Corruption Perceptions Index for December 2011 has Kazakhstan ranked at 120 out of 182 countries. At 120, Kazakhstan shares joint placing with Bangladesh, Ecuador, Ethiopia, Guatemala, Iran, Mongolia, Mozambique and the Solomon Islands. Russia was ranked 143 in the index.

Kazakhstan's Regulator Respected

From 1998 to 2004, the insurance sector was regulated by the National Bank of Kazakhstan until the Agency for the Regulation and Supervision of the Financial Market and Financial Institutions (AFN) was founded. In 2011, the AFN transferred back regulation of the insurance market to the National Bank of Kazakhstan.

Kazakhstan's insurance regulatory environment is considered to be one of the most developed in the region, with a good flow of information owing to stringent reporting requirements. Insurers are obliged to file returns every 10 days, which include data on capital, claims, reinsurance arrangements, risk exposure and solvency by line of business. Weekly records detailing assets covering technical provisions must also be submitted.

Kazakhstan differs to other emerging insurance markets as insurers use a national standard that is closely aligned with International Financial Reporting Standards (IFRS).

The main product lines are split into three categories dictated by the insurance regulator: compulsory insurance, voluntary personal insurance and voluntary property insurance. These categories then contain several individual business lines. Rates for compulsory lines are determined by the regulator. Policy wordings on compulsory business are also prescribed, while companies maintain control for voluntary business.

The Ministry of Justice of the Republic of Kazakhstan specifies the minimum authorised capital for newly established (re)insurers as follows:

- Non-Life insurance – KZT 1.1 billion;
- Life insurance – KZT 1.2 billion;
- Non-Life insurance and reinsurance – KZT 1.2 billion;
- Life insurance and reinsurance – KZT 1.3 billion;
- Reinsurance as singular type of activity – KZT 1 billion.

The regulator's new rule on the use of reinsurance is one of the greatest challenges facing Kazak insurers (see **Reinsurance Rules to Discourage Fronting**). Currently, insurers retain little premium and rely heavily on reinsurance. However, the regulator is effectively attempting to prohibit fronting to continue at existing levels.

Kazakhstan's Small but Growing Life Market

The life market in Kazakhstan is relatively new, albeit growing. In line with other former CIS states, insurance penetration is low, at just 0.2% in 2011. Out of the 35 insurance organisations serving the market, just seven are registered to underwrite life business.

Attractive products have not necessarily been developed for this sector as high inflation has deterred savings. Inflation reached 18.8% in 2007 but has fallen and is forecasted to be 6.4% in 2012 – at a level where consumers seek savings products to outperform inflation and provide better returns.

In 2011, life premiums totalled KZT 53.5 billion, representing a greater than three-fold increase in premiums since 2007. As cited earlier, this in part reflects recent regulatory change, whereby EL can only be underwritten by life insurers.

The new EL requirements do not account for all the recent growth in the life sector. There has been greater demand for retirement annuity products. However, the National Bank warns in its Financial Stability Report that this new line of business "may also lead to inadequate assessment of insurance risks by insurance organizations in their pursuit of short-term profitability".

The life sector is forecasted to continue to grow, although insurers have limited business profiles owing to the small size of the life market. Companies increasing their scale are expected to post improved performances, although A.M. Best remains cautious about the impact of growth on technical profit margins. Given the relatively new life sector in Kazakhstan, companies have limited market experience to support their underwriting assumptions. Prudent mortality assumptions will assist in supporting reserves.

Reinsurance Rules to Discourage Fronting

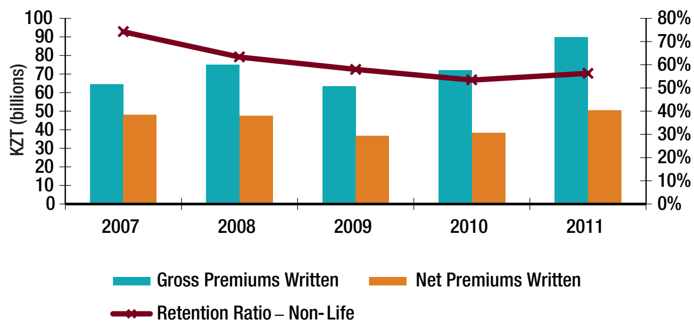
Kazakh insurers are heavily reliant on reinsurance, given the dominance of non-life voluntary premiums and the large, volatile industrial risks insured. A.M. Best's analysis of the six largest non-life insurers shows that retention levels have fallen from 74.2% in 2007 to 56.2% in 2011 (**Exhibit 4**). During this period, total GPW by the group of insurers rose 39.2%, while NPW increased by 5.6%.

A.M. Best's analysis of data from the National Bank for the first six months of 2012 shows 74% retention of total risks by all insurers (**Exhibit 5**). Foreign reinsurance is significant, with 80% of all risks ceded to foreign reinsurers, driven by cessions for voluntary property risks. Reinsurance for compulsory risks and voluntary personal insurance tend to be provided by the domestic market, while reinsurance for voluntary property risks is largely provided by regional and international reinsurers, with some insurers having significant exposure to reinsurers with vulnerable or no credit ratings.

The insurance regulator is attempting to redress the balance toward the domestic

Exhibit 4

Kazakhstan – Retention Ratios of the Six Largest Non-Life Insurers* (2007-2011)



*Halyk-Kazakhinstrakh, Eurasia Insurance Co., Kazkommerts-Policy Insurance Co., Nomad Insurance Co., Victoria Insurance Co. and Oil Insurance Co.
Source: A.M. Best Co., BestLink® – Statement File Global

Exhibit 5

Kazakhstan – Retention Ratios and Cessions To Foreign and Local Companies (Year to 1 July 2012)

Class of Business	Retention Ratio (%)	Reinsurance Ceded to Foreign Reinsurers (%)	Reinsurance Ceded to Local Companies (%)
Compulsory Insurance	82%	16%	84%
Voluntary Personal Insurance	99	19	81
Voluntary Property Insurance	47	92	8
Total	74	80	20

Source: A.M. Best research

reinsurance market. Resolution No 131, registered by the Ministry of Justice on 15 March 2012, states the total amount of reinsurance to non-residents of Kazakhstan (net of commissions to the cedent) shall not exceed 25% of total premiums. Reinsurance premiums for all reinsurers must not exceed 40% of total annual insurance premiums.

Insurers that cede risks to a reinsurer outside Kazakhstan with a rating below A- must increase their minimum solvency margin or guarantee fund by a specified percentage on a sliding scale.

The regulations aim to increase the retention of risks domestically, although there is no state reinsurer to support the new legislation. Risks can only be ceded to an international reinsurer lacking the minimum rating level if the ceding insurer has complied with certain requirements. In such cases, risks must be offered locally first to five (re) insurers, and in the event of refusals, then to a further five companies. Insurers can then seek to reinsure with international companies if there is no local capacity.

Market participants feel there is sufficient capacity in the local market to retain more risk. However, A.M. Best expects some domestic insurers will not accept much local business offered, enabling these risks to be ceded internationally.

The change in regulation will encourage companies to either reinsure each other in the market, or enter into co-insurance agreements. If the local market accepts treaty reinsurance, in the event of a significant loss, companies could find themselves heavily exposed. International reinsurers help prevent an aggregation of risks, as well as provide expertise to the market. The new reinsurance regulations became effective in May 2012, making it too early to gauge their impact on cession rates.

Kazakhstan – Key Insurance Market Rating Considerations

A.M. Best rates three insurers in Kazakhstan – Eurasia, Halyk-Kazakhinstrakh and Halyk-Life. As part of the ratings process, A.M. Best conducts quantitative and qualitative analyses of a company's balance sheet strength, operating performance and business profile.

The following analysis of the key rating components of the six largest Kazakh non-life insurers has been drawn by collating data from the annual reports filed by the six insurers.

Balance Sheet Strength

A company's balance sheet strength is the most important area in determining a company's ability to meet its current and on-going senior obligations. **Exhibit 6** shows that Kazakhstan's six largest non-life insurers are well capitalised, with a combined capital and surplus of KZT 126.1 billion, equivalent to two-and-a-half times net premiums written.

The National Bank's Financial Stability Report examining the entire insurance market, said the sector had a "high capitalisation" and the "solvency margin in the insurance sector is still higher than required". However, it noted that there are a number of insurance organisations "whose solvency margin is at a threshold." The regulator added that a stage-by-stage increase of the minimum amount of insurers' guarantee funds from April 1, 2010 to January 1, 2012 (by 20% each year for non-life insurance organisations and 30% for life insurance companies) "may lead to inadequate actual solvency margin of some insurance organisations, the majority of which operate in the non-life insurance business."

In A.M. Best's opinion, the consolidation of the insurance industry should improve the general solvency positions of companies, with the weaker participants exiting.

Exhibit 6

Kazakhstan – Aggregated Data for the Six Largest Non-Life Insurers* (2009-2011)

(Million)

	2009	2010	2011
Gross Premiums Written (KZT)	63,423	71,890	89,930
Growth in Gross Premiums Written (Yr/Yr)	-15.5%	13.4%	25.1%
Net Premiums Written (KZT)	36,731	38,354	50,574
Growth in Net Premiums Written (Yr/Yr)	-22.7%	4.4%	31.9%
Net Retention Ratio	57.9%	53.4%	56.2%
Capital & Surplus (KZT)	94,718	116,164	126,050
Change in Capital & Surplus	17.1%	22.6%	8.5%
Loss Ratio - Non-Life	33.4%	15.6%	33.2%
Operating Expense Ratio - Non-Life	31.7%	36.5%	33.9%
Combined Ratio - Non-Life	65.1%	52.0%	67.1%
Return on Premiums	55.6%	68.4%	45.2%
Return on Capital & Surplus	21.9%	21.7%	15.1%
Net Premiums Written to Surplus	38.8%	33.0%	40.1%
Net Technical Reserves to Surplus	31.2%	24.4%	26.2%
Gross Premiums Written to Surplus	67.0%	61.9%	71.3%

*Halyk-Kazakhinstrakh, Eurasia Insurance Co., Kazkommerts-Policy Insurance Co., Nomad Insurance Co., Victoria Insurance Co. and Oil Insurance Co.
Source: A.M. Best Co., BestLink® – Statement File Global

Operating Performance

The six largest non-life Kazakh insurers collectively enjoyed a good underwriting performance, although loss ratios worsened in 2011 to 33.2%, from 15.6% in 2010. The insurance regulator attributes an increase in 2011 payouts primarily to increased payments under voluntary property insurance. Combined ratios in 2011 for the six biggest non-life insurers were subsequently 67.1% in 2011, compared to 52% a year earlier. However, in relative terms, while the loss ratios have increased, the six largest non-life insurers are still extremely profitable compared to those in other insurance markets.

When evaluating a company's operating performance, A.M. Best analyses the stability and sustainability of an insurer's sources of earnings relative to its retained liabilities.

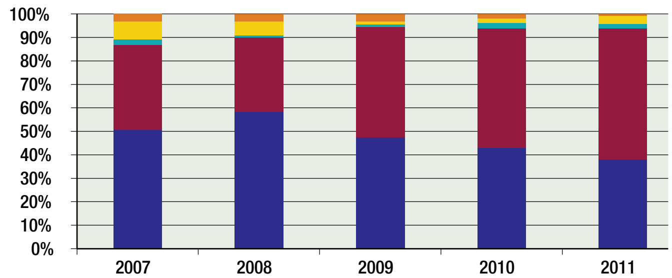
Exhibit 6 shows growth in GPW returned in 2010 and 2011 for the six largest non-life Kazakh insurers, although while the operating performance is currently good for insurers, it has been volatile.

Kazakh insurers also face particular challenges with their investments. Return on capital and surplus was 21.7% in 2010, declining to 15.1% in 2011 (**Exhibit 6**). **Exhibit 7** shows an adjustment in asset mix, in particular since 2008. In 2008, cash and deposits with credit institutions represented 56.5% of the six largest companies' investment portfolio, reducing to 37.8% in 2011. Bonds and other fixed interest securities equated to 30.8% of the aggregated asset mix in 2008, rising to 55.4% in 2011.

Negative factors relate to the low credit quality of insurers' investments. Some companies' investment portfolios are limited to the Kazakhstan market, for example, to the banking and corporate sector, which exposes companies to the high financial system risk of the country. A.M. Best has concerns relating to exposure to the local Kazakh banking sector through insurers' ownership of debt securities. However, A.M.

Exhibit 7

Asset Mix of the Six Largest Non-Life Insurers (2007-2011)



Other investments, inc real estate and inter-company
Policy loans, mortgages & other loans
Shares & other variable interest instruments
Bonds & other fixed interest securities
Cash & deposits with credit institutions

*Halyk-Kazakhinstrakh, Eurasia Insurance Co., Kazkommerts-Policy Insurance Co., Nomad Insurance Co., Victoria Insurance Co. and Oil Insurance Co.
Source: A.M. Best Co., BestLink® – Statement File Global

Best recognises that this is unavoidable given the limited investment opportunities in the domestic market.

A.M. Best also notes that in order to protect consumers following troubles within the local banking sector, Kazakh regulators appear to have increased their focus on the financial markets. Regulators are monitoring financial results on an ongoing basis and results are published monthly. Solvency margins appear to be stringent and enforcement measures have been used in a small number of instances.

Insurers undertake repo transactions, whereby arrangements are established with large banks to provide revolving credit facilities against certain pledged assets of the company. These transactions create potential pressure on liquidity. However, concerns associated with repo transactions are somewhat alleviated due to the short-term duration of these investments.

Other Rating Considerations

Business profile factors that could impact an insurer's current and future operating performance and its ability to meet policyholders' obligations have been highlighted in this report in the sections examining the number of insurers, their market share, prospects for growth, insurance penetration and the use of reinsurance.

A.M. Best notes that insurers tend not to have an independent third-party actuarial review in line with international standards. However, some companies are commencing the utilisation of independent third-party actuarial services to support opinions as to the adequacy of reserves.

Published by A.M. Best Company

Special Report

CHAIRMAN & PRESIDENT **Arthur Snyder III**

EXECUTIVE VICE PRESIDENT **Larry G. Mayewski**

EXECUTIVE VICE PRESIDENT **Paul C. Tinnirello**

SENIOR VICE PRESIDENTS **Manfred Nowacki, Matthew Mosher, Rita L. Tedesco, Karen B. Heine**

A.M. BEST COMPANY
WORLD HEADQUARTERS
Ambest Road, Oldwick, N.J. 08858
Phone: +1 (908) 439-2200

WASHINGTON OFFICE
830 National Press Building
529 14th Street N.W., Washington, D.C. 20045
Phone: +1 (202) 347-3090

MIAMI OFFICE
Suite 949, 1221 Brickell Center
Miami, Fla. 33131
Phone: +1 (305) 347-5188

A.M. BEST EUROPE RATING SERVICES LTD.
A.M. BEST EUROPE INFORMATION SERVICES LTD.
12 Arthur Street, 6th Floor, London, UK EC4R 9AB
Phone: +44 (0)20 7626-6264

A.M. BEST ASIA-PACIFIC LTD.
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827-3400

A.M. BEST MENA, SOUTH & CENTRAL ASIA
Office 102, Tower 2
Currency House, DIFC
PO Box 506617, Dubai, UAE
Phone: +971 43 752 780

Any and all ratings, opinions and information contained herein are provided "as is," without any expressed or implied warranty. A rating may be changed, suspended or withdrawn at any time for any reason at the sole discretion of A.M. Best.

A Best's Financial Strength Rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile. The Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. These ratings are not a warranty of an insurer's current or future ability to meet contractual obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile and, where appropriate, the specific nature and details of a rated debt security.Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information.

A.M. Best does not offer consulting or advisory services. A.M. Best is not an Investment Adviser and does not offer investment advice of any kind, nor does the company or its Rating Analysts offer any form of structuring or financial advice. A.M. Best does not sell securities. A.M. Best is compensated for its interactive rating services. These rating fees can vary from US$ 5,000 to US$ 500,000. In addition, A.M. Best may receive compensation from rated entities for non-rating related services or products offered.

A.M. Best's special reports and any associated spreadsheet data are available, free of charge, to all *BestWeek* subscribers. On those reports, nonsubscribers can access an excerpt and purchase the full report and spreadsheet data. Special reports are available through our Web site at *www.ambest.com/research* or by calling Customer Service at (908) 439-2200, ext. 5742. Some special reports are offered to the general public at no cost.

For press inquiries or to contact the authors, please contact James Peavy at (908) 439-2200, ext. 5644.

SR-2012-411