S&P Global
Ratings

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Research Update:

Turkiye-Based Milli Re Assigned 'B' Rating; Outlook Stable

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Overview

- Milli Reasurans T.A.S. (Milli Re) has maintained its market position and capital adequacy despite being exposed to high inflation and foreign exchange risks.
- We consider Milli Re to be a moderately strategically important subsidiary of its parent, IsBank (not rated), and we think the parent has capacity to provide financial support to Milli Re, if needed.
- We assigned our 'B' issuer credit and insurer financial strength ratings to Milli Re.
- The stable outlook reflects our expectation that Milli Re will maintain its competitive position and capital adequacy at current levels over the next two years, while gradually improving its operating performance and focusing on profitable business growth.

Rating Action

On Nov. 5, 2024, S&P Global Ratings assigned its 'B' issuer credit and insurer financial strength ratings to Milli Re. The outlook is stable.

Rationale

We consider Milli Re to be moderately strategically important to its parent IsBank (not rated). IsBank is one of the largest commercial banks in Turkiye and owns a 87.6% stake in Milli Re. We think IsBank has capacity to provide financial support to Milli Re, if needed. Consequently, our 'B' ratings on Milli Re incorporate a one-notch uplift from the 'b-' stand-alone credit profile (SACP).

Milli Re's status as Turkiye's leading national reinsurer is a key rating strength. We expect the 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. Therefore, 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 Feb. 6 earthquakes 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. We therefore expect that, over 2024-2026, Milli Re's capital adequacy will remain above the 99.50% level, as per our risk-based capital model.

Milli Re's concentration of investments in Turkiye heightens 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.

Outlook

The stable outlook reflects our expectation that Milli Re will maintain its competitive position and capital adequacy at current levels over the next two years, while gradually improving its operating performance and focusing on profitable business growth.

Downside scenario

We could lower the ratings over the next 12 months if:

- There is a significant deterioration in Milli Re's SACP due to weak capital and earnings, or its competitive position; or
- Our view of IsBank's creditworthiness weakens or Milli Re's strategic importance to the parent diminishes.

Upside scenario

We could raise our ratings over the next 12 months if we observe an improvement in IsBank's creditworthiness and in Milli Re's SACP.

Ratings Score Snapshot

Financial strength rating	B/Stable
Anchor	b-
Business risk	Weak
IICRA	High Risk
Competitive position	Satisfactory
Financial risk	Vulnerable
Capital and earnings	Marginal
Risk exposure	High
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Less than adequate
Comparable ratings analysis	0
Support	
Group support	1
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

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

- Milli Re Turkiye National Scale Rating Raised To 'trBBB+' From 'trBBB-', Sept. 2, 2024

Ratings List

New Rating	
Milli Reasurans T.A.S.	
Issuer Credit Rating	
Local Currency	B/Stable/--
Financial Strength Rating	
Local Currency	B/Stable/--

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.