

## **National Re Receives Investment Grade Rating**

The National Reinsurance Corporation of the Philippines (Nat Re), the Philippines' sole domestic professional reinsurer, was assigned a financial strength rating of **PRS A** by the Philippine Rating Services Corporation (PhilRatings).

A **PRS A** rating means that an insurer has **strong** financial security characteristics, but is somewhat more likely to be affected by adverse business conditions compared to higher-rated insurance companies.

The assigned financial strength rating takes into consideration Nat Re's: a) solid market franchise; b) shareholders of good standing; c) experienced management; d) sound investment portfolio; and e) improving profitability outlook, though improvement may be at a relatively tempered pace. PhilRatings also took into account the resilience of the insurance industry amid the COVID-19 pandemic, supported by regulatory relief measures.

As the only domestic professional reinsurance firm in the country, Nat Re is considered to have a solid market franchise. Nat Re has a unique advantage granted by the law, which is that of being entitled to take up a minimum 10% share of all the outward reinsurance business of domestic insurance companies, otherwise ceded abroad. This gives Nat Re significant access to domestic reinsurers' business, and also a broader view of their reinsurance requirements. The company's marketing strategy is supported by its technical know-how, industry track record and familiarity with the domestic market.

As of end-March 2020, the Government Service Insurance System (GSIS) continued to be Nat Re's largest shareholder, with 25.7% ownership stake in the company. GSIS is a government-owned and controlled corporation mandated to provide and administer social security benefits for government employees. The company's other major shareholders are The Bank of the Philippine Islands (BPI) and MICO Equities, Inc. (MEI), with ownership interests of 13.7% and 12.9%, respectively. BPI, the banking arm of Philippine conglomerate Ayala Corporation is one of the country's largest and leading universal banks. MEI, on the other hand, operates as a holding company for the Yuchengco Group's non-life insurance business, Malayan Insurance Company Inc., which is the largest domestic non-life insurance company in terms of Gross Premium Written (GPW, P12.25 billion) as of end-2019.

Nat Re is led by a management team with extensive experience and understanding of the insurance and financial markets, both domestic and global. While relatively new to the company, members of the management team bring with them solid experience in the insurance industry. Since the last rating review of the company in December 2018, there have been some major changes in its Directors and key executive officers. On June 27, 2019, Wilfredo C. Maldia was elected as the new Chairman of the Board of Directors, effectively replacing Cezar Consing who finished his term on the same date. Elected as Directors were Atty. Nora M. Malubay (January 2019), Rex Maria A. Mendoza (June 2019), and Reginaldo Anthony B. Cariaso (June 2019), replacing Lt. Gen. Alan R. Luga, Romeo L. Bernardo, and Cesar P. Consing.

Allan R. Santos is President and Chief Executive Officer (CEO) of Nat Re as of report-writing date, and has been a member of the Board of Directors, since August 2018. Prior to joining Nat Re in April 2016, he was the Chief Operating Officer (COO) for Affiliate Companies and Head of Vitality of the Philippine American Life and General Insurance Company (Philam Life).

As of December 31, 2019, low-risk bonds made up 69.9% of Nat Re's total investment portfolio. Bond investments of the company include government securities and debt issues of Philippine private corporations. Equity securities, on the other hand, represented 17.5% of the total portfolio. Equity securities consist mainly of shares of stocks (common and preferred) in companies listed in the Philippine Stock Exchange (PSE); in particular, blue chip companies belonging to various industries. PhilRatings notes that the share of equity securities to the company's total investment portfolio is significantly lower than its share in 2018 (27%) and 2017 (30.6%). Cash equivalents, which were represented by short-term placements, on the other hand, comprised 11.1% of the company's total investment portfolio, as of end-2019.

Over the projected period, the company foresees positive and improving underwriting results. While both GPW and Net Premiums Written (NPW) are expected to both to taper off in the near-term due to the rebalancing of the company's foreign treaties, both will grow in double-digit rates in the medium-term. Net income is similarly expected to expand by double-digit rates over the projected period, to be driven by the launch of the Philippine Catastrophe Insurance facility by Nat Re in the near-term and the continued expansion of the company's life business. Based on historical attainment of projected underwriting and net incomes, however, PhilRatings, thinks that future improvement in profitability may be at a tempered pace relative to company forecast.

To help soften the impact of the COVID-19 pandemic on the industry, the Insurance Commission (IC) has issued various COVID-19-related circular letters, beginning March 2020. Measures to benefit domestic insurers include granting a 30-day grace period for submission of reportorial requirements, and the provision of relief and assistance programs to sales agents, among others. Furthermore, the Commission relieved insurers<sup>1</sup> from the quarterly compliance with the mandatory P900-million minimum net worth requirement. Measures to benefit policy holders, on the other hand, include relaxation of procedures to facilitate immediate processing of COVID-19-related claims, extension of grace period for payment of premiums, and extension of coverage of insurance policies that are about to expire, among others.

As of May 8, 2020, insurance payouts related to the COVID-19 pandemic have reached P327 billion, according to a survey conducted by the IC. The survey was done to assess the financial impact of the pandemic on the industry, as well as its (the industry) response to COVID-19-related claims. Based on the results, all four respondent industries – life and non-life insurance companies, mutual benefit associations (MBAs), and health maintenance organizations (HMOs) – have displayed financial resiliency in the handling and payout of pandemic-related claims. IC noted that the respondent companies honored their contractual obligations to their customers, and that some have even gone beyond said obligations by paying ex gratia (done out of moral obligation) settlements. COVID-19-related claims from April 16 to May 8, 2020, which amounted to P308.2 million based on the survey, were settled in full. Ex gratia settlements or payments made outside the terms of policy, on the other hand, amounted to P19.7 million.

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<sup>1</sup> Insurance companies who had complied with the end-2019 net worth requirement