

Rating Action: Moody's affirms Chubb Arabia's A3 IFS Rating; stable outlook

15 November 2021

London, November 15, 2021 - Moody's Investors Service ("Moody's") has affirmed the A3 insurance financial strength rating (IFSR) of Chubb Arabia Cooperative Insurance Company (Chubb Arabia) with a stable outlook. Based in Saudi Arabia, Chubb Arabia is the Saudi P&C affiliate of Chubb INA International Holdings Ltd. which is part of Chubb Limited ("Chubb" or "the Group", whose principal US and Bermuda-based insurance subsidiaries are rated Aa3 for insurance financial strength, with a stable outlook).

A list of affected credit ratings is available at the end of this press release.

RATINGS RATIONALE

The A3 IFSR of Chubb Arabia reflects the good stand-alone financial fundamentals of its operations as well as one-notch support stemming from its affiliation to Chubb. The company is 30% owned by Chubb and shares the Group's brand. It also receives technical expertise and operational support from the Group. Furthermore, Chubb provides reinsurance protection to Chubb Arabia's P&C business reflecting the Group's continued commitment to the region.

Chubb Arabia's stand-alone credit profile reflects its: (i) very strong asset quality driven by a conservative invested asset strategy with high risk assets (HRA, which include below-investment-grade and unrated deposits and bonds as well as equity investments) as a percentage of consolidated (shareholders' and policyholders') equity of 10.9% at YE 2020; (ii) strong capitalisation, with a gross underwriting leverage (GUL) of 1.1x at YE 2020; (iii) historically strong profitability with a five-year average return on capital (ROC) of 13.6% at YE 2020 driven by a strong underwriting five-year average combined ratio (COR) of 69.2%; and (iv) adequate reserves with actuarial-led reserve setting and monitoring.

More negatively, Chubb Arabia occupies a low-mid Saudi Arabian market position being number 23rd in terms of premiums written, with a 0.7% market share. However Chubb Arabia's market share of premiums excluding medical and motor business is much higher at 4%. Chubb Arabia intentionally does not write medical business which accounts for approximately 50% of the total market premiums. In addition, Chubb Arabia is concentrated to the Saudi insurance market which has an elevated level of competition.

Profitability has been a key strength of Chubb Arabia. However, given the elevated level of competition the margins have reduced with Chubb Arabia's COR weakening to c.89% for the nine months ended at September 2021. The company took corrective measures to improve profitability, but going forward, Moody's expects a level of profitability significantly weaker than the above 14% ROCs reported in 2018 and prior.

More positively, Moody's expects Chubb Arabia to maintain a strong level of capital given the management's focused action to organically grow capital adequacy with the support of their shareholders (which includes Chubb and El Khereiji Group). For example, the paid in capital increased to SAR300 million from SAR100 million over the past five years through capitalization

of retained earnings. Chubb Arabia also focuses on prudent underwriting supported by adequate reinsurance, as well as maintains a conservative investment strategy.

OUTLOOK

The stable rating outlook reflects Moody's expectation that, with the support of Chubb, Chubb Arabia will maintain good levels of profitability with underwriting discipline and maintain strong levels of capital adequacy.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Upward rating pressure for Chubb Arabia may arise over time in case of (i) Chubb Arabia's market position improves and the company increases its P&C market share (i.e. excluding medical) becoming a top-five P&C insurer with around 6% market share in the Saudi P&C market while maintaining similar levels of profitability; and/ or (ii) it accomplished wider geographic diversity, with a profitable commanding position in the wider GCC region; and/ or (iii) there is evidence of a stronger degree of correlation with Chubb with increase in the shareholding of Chubb Arabia to the status of a subsidiary level of over 50%.

Conversely, the rating may experience downward pressure in case of (i) a meaningful deterioration in underwriting performance, with the COR sustainably above 95% for years; and/ or (ii) its strong capitalisation deteriorates with GUL rising over 2x; and/ or (iii) its strong invested assets quality deteriorates with HRA as a percentage of shareholders' equity rising over 50%; and/ or (iv) there is a reduction in the support from Chubb.

AFFECTED RATING

..Issuer: Chubb Arabia Cooperative Insurance Company

Affirmation:

....Insurance Financial Strength Rating, Affirmed A3

Outlook Action:

....Outlook Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Property and Casualty Insurers Methodology published in September 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1254163. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The local market analyst for this rating is Mohammed Ali Riyazuddin Londe, +971.4.237.9503.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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