



RATING ACTION COMMENTARY

Fitch Affirms ONIX Asigurari at IFS 'BB'; Outlook Stable

Thu 06 Oct, 2022 - 8:05 AM ET

Fitch Ratings - Frankfurt am Main - 06 Oct 2022: Fitch Ratings has affirmed ONIX Asigurari S.A.'s (ONIX) Insurer Financial Strength (IFS) Rating at 'BB' and Issuer Default Rating (IDR) at 'BB-'. The Outlooks are Stable.

The ratings of ONIX reflect its small scale and franchise compared with larger, more diversified insurers' and its weak risk-mitigation policies. These weaknesses are offset by ONIX's sound capitalisation and strong financial performance.

KEY RATING DRIVERS

'Least Favourable' Company Profile: ONIX is a small Romania-based non-life insurer that operates predominantly in Spain and, to a lesser extent, in Italy, Poland, Portugal, Greece and, since 2022, Romania. It focuses largely on surety business for medium-sized to large corporations operating predominantly in the construction and energy industries.

Fitch assesses ONIX's business profile as 'Least Favourable' compared with larger, more diversified peers due to the company's small size and limited product diversification. In 2021, ONIX had EUR37 million in equity (2020: EUR24 million) and wrote EUR31 million in gross premiums (GWP; 2020: EUR33 million). Fitch assesses ONIX's business profile as its key rating weakness.

Lack of Reinsurance Protection: ONIX does not make significant use of reinsurance protection and ceded only 3% of GWP in 2021. While this high retention supports its

strong profitability, we believe that it exposes the company's capital to large external shocks.

Adequate Capitalisation, No Leverage: ONIX's sound capitalisation is reflected in an adequate credit exposure-to-equity score of 22% in 2021 (2020: 26%). Fitch categorised ONIX's guarantee portfolio as 'medium risk' due to the company's predominant focus on the civil engineering and renewal energy sectors in Spain and Italy. ONIX's Solvency II coverage ratio, calculated under the standard formula, was strong at 197% at end-2021, albeit down from 243% at end-2020, as a result of dividend distribution. The absence of financial debt is a favourable rating factor.

Strong Profitability: Our assessment of ONIX's profitability is driven by the company's record of very profitable underwriting results, due to effective underwriting discipline. This is reflected in a combined ratio of 54% at end-2021 (2020: 58%). Its net income return-on-equity (ROE) was very strong at 40% in 2021 (2020: 37%). We expect ONIX to continue to report very strong technical results. However, due to its small scale, net income is subject to potential volatility.

Moderate Asset Risk: Fitch views ONIX's investment and liquidity risk as moderate for the ratings. Exposure to Romanian sovereign debt (BBB-/Negative) was moderate at 0.8x shareholders' equity at end-2021 (2020: 1.1x). The company holds a highly liquid portfolio, approximately half of which is invested in cash or term deposits with Spanish and Romanian banks, some of which are small-scale and with a modest franchise. We consider term deposits held with small-scale banks in our calculation of ONIX's risky assets-to-equity ratio. As a result, ONIX's risky assets ratio, which measures risky assets as a share of capital, was moderate at 71% at end-2021.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A weakening of ONIX's business profile driven, for example, by lower premium volumes
- Deterioration in ONIX's capital position, as evident in a Solvency II coverage ratio of less than 120%
- A two-notch downgrade of Romania's Long-Term Local-Currency IDR is likely to lead to a one-notch downgrade of ONIX's ratings

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A significant improvement of ONIX's business profile through profitable growth and greater product diversification

--A strengthening in ONIX's risk-mitigation practices as evident in, for example, greater reinsurance utilisation

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⇄

RATING ⇄

PRIOR ⇄

ONIX Asigurari S.A.

LT IDR BB- Rating Outlook Stable

BB- Rating
Outlook
Stable

Affirmed

Ins Fin Str BB Rating Outlook Stable

BB Rating
Outlook
Stable

Affirmed

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 (1)

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ONIX Asigurari S.A.

EU Issued, UK Endorsed

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Insurance Europe Romania
