

RATING ACTION REPORT

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Dagong Europe Assigns a Long-Term Credit Rating of 'B+' to Onix Asigurări S.A.

Dagong Europe has assigned a Long-Term Credit Rating of 'B+' and equivalent Short-Term Credit Rating of 'B' to Romanian-based Onix Asigurări S.A. (Onix). The Outlook is 'Stable'.

RATING RATIONALE:

The Long-Term Credit Rating is based on an **Insurer Financial Strength Rating (IFSR) of 'B+'** assigned to Onix. Our credit opinion is based on the following factors:

Strong solvency ratio and capitalization

Onix has a satisfactory capital ratio at 41.9%¹ by YE18. Solvency II ratio is 143.6% by YE18 and remains relatively stable compared to YE17 (149.5%). We consider that for the current size of the company, its capitalisation is a strength.

Satisfactory operational environment

The insurance industry for niche players like Onix that operates in the sector of A.15 products (Suretyship) benefits from a well-developed regulatory framework that allows companies to operate in different countries within the EU supported by the concept of 'freedom to provide services'. This allows Onix to, despite having the legal seat in Romania, be able to provide services across all EU countries based on the Articles 26, 49 to 55 and 56 to 62 of the Treaty on the Functioning of the European Union (TFEU). In this context, the operational environment applicable for Onix under our assessment is based on the geographic distribution of its main client's exposures.

Satisfactory competitive position

Onix has a satisfactory competitive position in its niche segment of Suretyship. We consider that the specialisation that the company has been able to develop allows it to actively compete in terms of pricing and response to potential clients, however in our view, its size still limits the ability to compete against larger players. Nevertheless, the company has been able to approach important corporate clients and extend geographically underwriting policies in Poland and Greece.

Moderate development strategy

The company wants to continue growing in the EU market taking advantage of the "freedom to provide services". However, Onix faces fierce competition from larger players in our view. By the end of 2019 Onix will have a full operating branch in Italy (Rome) and also is planning to enter the Greek market, which will allow to improve diversification and growth. However, because of its size, we consider that Onix has a limited ability to compete in larger markets, which we view as a relative disadvantage for its development strategy going forward.

¹ Dagong calculations, shareholders' equity divided by total assets, adjusted for reinsurance assets and unit linked assets.

Strong liquidity

Onix maintains 'Cash or cash equivalents' enough to meet its short-term obligations. In 2018, cash equivalents amounted to EUR 9.5Mn and the ratio of 'Cash to Net Technical Reserves' stood at 5.2% for YE18.

Corporate governance

Based on our analysis, we consider that Onix has a weakness in terms of corporate governance, based on still lack of formalisation of detailed processes and information related to performance and risk management. We acknowledge that the company has processes and a proper organizational structure in place but, we consider that, for the complexity of the business in different countries and different legal frameworks, the company could improve the formalisation of internal processes. Despite the above, we would expect an improvement on Corporate Governance in the medium term as a result of better formalization of processes and risk management considering the expected growth and internationalisation.

Satisfactory profitability

Profitability remained satisfactory in 2018 with a return on equity above 10% and a combined ratio of 82%, however it has been declining since 2016. This is due to higher expenses (technical reserves and reinsurance fees) following the increase in gross premium written in the last years.

High investment portfolio concentration

Onix has single concentration of its investment portfolio. The company keeps all investments in only one asset class, banks' deposits, which amounted to EUR 21Mn by YE18 and represented about 62% of the total assets. Based on this, we consider that investments concentration is very high.

RATING OUTLOOK

The stable outlook reflects our expectations that Onix will maintain or slowly grow its premium volumes and protect its satisfactory competitive position in the Suretyship sector. We also expect the company to further develop and strengthen its risk management practices, maintain its risk profile and preserve profitability. We also expect SII solvency ratio to be around 150% and the net combined ratio over the next three years to be below 80% (on average) and return on equity around 15%.

We could consider a positive rating action if we see significant improvements in formalisation of processes (corporate governance), and better diversification of the insurance and investment portfolio. We would consider a negative rating action if we see weakening in capitalisation/solvency and profitability.

COMPANY PROFILE

Onix Asigurări S.A. is a small insurance company registered in Romania and based in Bucharest. Since 2012, due to the change in the shareholders' structure, the company underwrites exclusively insurance policies from class A.15 - Suretyship. In 2014 the company was authorized by the Financial Supervisory Authority of Romania (ASF) to extend its underwriting activity for class A.15 through a branch in Rome, Italy, which is planned to become operational by the end of 2019. The company operates under the EU freedom to provide services (Directive of the Treaty on the Functioning of the European Union (TFEU), Articles 26, 49 to 55 and 56 to 62) and it is allowed to operate in Austria, Bulgaria, Croatia, France, Germany, Greece, UK, Italy, Poland, Portugal, Slovenia, Spain and Hungary.

FULL LIST OF SOLICITED RATINGS:**Onix Asigurări S.A.**

Long-Term Credit Rating (FC&LC)	B+
Outlook	Stable
Short-Term Credit Rating (FC&LC)	B
Insurer Financial Strength Rating (IFSR)	B+

FC & LC: Foreign Currency and Local Currency

CRITERIA APPLIED

Criteria for Rating Insurance Companies (October 5th 2018)

Definitions: Credit Ratings and Other Analytical Products (August 15th 2018)

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