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AM Best Downgrades Credit Ratings of Arab Reinsurance Company SAL

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AM Best has downgraded the Financial Strength Rating (FSR) to B- (Fair) from B (Fair) and the Long-Term Issuer Credit Rating (Long-Term ICR) to “bb-” (Fair) from “bb+” (Fair) of Arab Reinsurance Company SAL (Arab Re) (Lebanon). The outlook of the FSR has been revised to negative from stable, whilst the outlook of the Long-Term ICR is negative.

The Credit Ratings (ratings) reflect Arab Re’s balance sheet strength, which AM Best assesses as strong, as well as its marginal operating performance, neutral business profile and marginal enterprise risk management (ERM).

The rating downgrades reflect the deterioration of Arab Re’s balance sheet strength following a further weakening of economic, political and financial conditions in Lebanon, where Arab Re is headquartered and held half of its total investments at the end of 2020. Arab Re’s liquidity has been constrained by capital controls in Lebanon, which prevent the company from servicing foreign liabilities with assets held in Lebanon. Concurrently, AM Best has revised its assessment of Arab Re’s ERM to marginal from appropriate, due to the impact of operating conditions in Lebanon on the company’s risk profile and the rising difficulties that it faces in navigating an increasingly challenging environment.

In AM Best’s view, economic, political and financial system risk in Lebanon, which was already elevated, has continued to rise following the devastating explosion in the port of Beirut on Aug. 4, 2020, and the subsequent resignation of the government. Through 2021, political uncertainty in Lebanon has increased and economic and financial conditions have worsened, with the country facing hyperinflation. The significant weakening of the local banking sector has amplified capital flow constraints in the economy.

The negative outlooks reflect ongoing country risk pressures, which could lead to a further deterioration in the company’s balance sheet strength. The negative outlooks also reflect pressures on Arab Re’s business profile assessment due to concerns over its strategic positioning.

Arab Re has a track record of marginal operating profitability, with the company consistently reporting underwriting losses in all of the past eight years (2013-2020). Performance was supported historically by stable investment income primarily from interest yielding securities. However, since the company re-invested a material portion of its cash deposits into a single equity security and non-yielding real estate in 2020, future investment income is expected to be limited and subject to volatility. Over 2019 and 2020, net income also was impacted by a cumulative USD 19 million of impairments relating to holdings of Lebanese Government bonds and deposits.

Arab Re has a niche position in its core markets in the Middle East and North Africa region, built upon its original role as a reinsurer for Arab insurance markets and longstanding relationships with cedants. Despite the company’s geographical scope, its growth potential is limited, as reinsurance markets in the region

remain highly competitive, whilst AM Best expects the domestic insurance market to be impacted by significant economic difficulties and political uncertainty.

This press release relates to Credit Ratings that have been published on AM Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best's [Recent Rating Activity](#) web page. For additional information regarding the use and limitations of Credit Rating opinions, please view [Guide to Best's Credit Ratings](#). For information on the proper use of Best's Credit Ratings, Best's Preliminary Credit Assessments and AM Best press releases, please view [Guide to Proper Use of Best's Ratings & Assessments](#).

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