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AM Best Removes From Under Review With Positive Implications and Upgrades Credit Ratings of Himalayan Reinsurance Limited

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FOR IMMEDIATE RELEASE

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AM Best has removed from under review with positive implications and upgraded the Financial Strength Rating to B+ (Good) from B (Fair) and the Long-Term Issuer Credit Rating to “bbb-” (Good) from “bb+” (Fair) of Himalayan Reinsurance Limited (Himalayan Re) (Nepal). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect Himalayan Re’s balance sheet strength, which AM Best assesses as very strong, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management.

The rating upgrades reflect an improvement in Himalayan Re’s balance sheet strength fundamentals following the successful execution of its initial public offering, which was completed on 7 January 2024. The company’s balance sheet strength assessment is underpinned by risk-adjusted capitalisation that is expected to remain at the strongest level over the medium term, as measured by Best’s Capital Adequacy Ratio (BCAR). Following the company’s public listing in January 2024, shareholders’ equity close to doubled, increasing from NPR 7.7 billion (USD 60 million) as of fiscal year that ended 16 July 2023 (FY 2023) to approximately NPR 14 billion (USD 108 million). In addition, the company’s financial flexibility and capital management have strengthened following its public listing. Himalayan Re maintains a low-risk investment portfolio, with a majority allocation to cash and term deposits, and the remainder mainly in fixed-income securities. However, AM Best views the company’s exposure to severe earthquake events in Nepal as an offsetting factor to the balance sheet strength assessment, notwithstanding that the risk is mitigated through the use of retrocession coverage.

AM Best views the company’s operating performance as adequate. Himalayan Re generated positive earnings despite being in its formative years. However, underwriting performance is expected to be negatively impacted by a mismatch between earned premiums and incurred claims during the initial growth phase, including FY 2023, as the increase in the company’s earned premium lagged that of its incurred claims. In addition, the company’s combined ratio is expected to be marginally above 100% for FY 2023 and is expected to stabilise as business growth moderates over the near term. As a start-up reinsurer, Himalayan Re’s operating performance is exposed to potential volatility arising from elevated operational risk and business execution risk. Prospective underwriting performance will depend heavily on the company’s ability to source good quality domestic business. Investment returns, mainly from interest income, are expected to remain the key driver of earnings over the medium term.

Himalayan Re’s business profile is assessed as limited. Himalayan Re is a domestic reinsurer that was established in the Nepal market in July 2021. Business acquisition currently benefits from mandatory domestic reinsurance cessions approved in 2022, which includes an 8% direct policy cession and a minimum 15% of reinsurance treaty cession in FY 2024. The company also benefits from a first right of refusal to domestic facultative reinsurance business to domestic reinsurers. AM Best views the regulatory support during the company’s early years to be favourable to its strategic growth objectives as it matures. Notwithstanding an expected decline in the mandatory domestic reinsurance cession ratio over time, regulatory support during the company’s early years is viewed to be favourable to the company’s strategic growth objectives as it matures. Nonetheless, the underwriting portfolio is expected to show a line of business concentration toward property and engineering risks. In addition, the company will have geographic concentration in Nepal, albeit with gradual diversification planned over time.

Ratings are communicated to rated entities prior to publication. Unless stated otherwise, the ratings were not amended subsequent to that communication.

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AMB#	Company Name
074846	Himalayan Reinsurance Limited



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