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Key rating assessment factors

Key assumptions

## ACRA upgrades Kapital Life Insurance, LLC to BBB+(RU), outlook Stable

ACRA has upgraded the credit rating of [Kapital Life Insurance, LLC](#) (hereinafter, the Company) based on the Company's strengthened financial position, as capital adequacy and asset quality have improved. The credit rating is based on the Company's strong business profile, average financial profile, and adequate management. The rating is supported by the Company's position in the insurance market and strong asset liquidity. ACRA assesses the Company's large agency network in the life insurance segment as a competitive advantage. Unresolved legal disputes with PJSC Rosgosstrakh have a negative impact on the rating.

Kapital Life, which until September 3, 2018, operated under the name IC RGS Life, Ltd., is an insurance company that was founded in 2004. At the end of H1 2019, the company ranked 6<sup>th</sup> in terms of collected life insurance premiums. 90.1% of the Company's shares belong to Invest Life LLC, while 9.9% belong to Evgeniy Giner. The Company's shareholding structure is currently undergoing a transformation, which, after approval by the Bank of Russia, will assign actual and formal control of the Company to Evgeniy Giner.

**The strong business profile** is determined by a combination of operating indicators and the Company's position in the Russian insurance market. ACRA assesses the Company's market position as strong and the diversification of its client base as high. The Company's market share was 4.4% for H1 2019. The Company operates in 82 regions of Russia. Its top 10 customers account for less than 8% of the total insurance premium. ACRA assesses the diversification of the Company's sales channels as high. In 2018, sales through the Company's agency network accounted for 40% of sales, while its partner channel (banks and auto dealers) accounted for around 50%. The quality of the Company's product range is assessed as high. The brand change from IC RGS Life, Ltd. to Kapital Life Insurance, LLC in 2018 did not negatively affect the loyalty of the company's clients.

The moderate assessment of operating indicators is based on the Company's performance outlook data. The Company's operational effectiveness is at an average level. In 2018 and Q1 2019, there was a drop in fees due to the termination of insurance policy sales through a handful of large banks. Because the Company has no corporate ties with a major bank, this may constrain its ability to increase the volume of insurance premium through the banking sales channel in the medium-term.

**The Company's average financial profile** is based on an average capital to asset ratio and capital adequacy. In 2018, the Company's authorized capital increased. The improvement in the capital to risk ratio has led to an increase in the capital adequacy assessment. The asset quality assessment is based on a combination of factors: a high weighted average asset risk index (1.3) and a low capital to asset ratio (0.06). The Company's strong liquidity is based on ratios in the short- and long-term: 3.4 and 1.0, respectively.

**The quality of the Company's management** is adequate due to positive assessments of experience, management structure, and actuarial function. Strategic management, risk management, and the quality of corporate governance received a neutral assessment.

- Implementing the business plan within the 12 to 18-month horizon according to the Company's outlook;
- Conclusion of litigation with PJSC Rosgosstrakh without substantial financial consequences.

## Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

### A positive rating action may be prompted by:

- Increase in the capital to asset ratio.

### A negative rating action may be prompted by:

- Unfavorable outcome of litigation with PJSC Rosgosstrakh;
- Decrease in return on assets.

## Rating components

**SCA:** bbb+.

**Adjustments:** none.

## Issue ratings

No outstanding issues have been rated.

## Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation based on the Methodology for Credit Ratings Assignment to Insurance Companies Under the National Scale for the Russian Federation, and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit rating of Kapital Life Insurance, LLC was published by ACRA for the first time on October 10, 2018. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The assigned credit rating is based on the data provided by Kapital Life Insurance, LLC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the GAAP and IFRS financial statements of Kapital Life Insurance, LLC. The credit rating is solicited, and Kapital Life Insurance, LLC participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by Kapital Life Insurance, LLC in its financial statements have been discovered.

ACRA provided no additional services to Kapital Life Insurance, LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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