

AM Best

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AM Best Revises Outlooks to Positive for FAIR Oil & Energy Insurance Syndicate

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FOR IMMEDIATE RELEASE

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AM Best has revised the outlooks to positive from stable and affirmed the Financial Strength Rating of B+ (Good) and the Long-Term Issuer Credit Rating of "bbb-" (Good) of FAIR Oil & Energy Insurance Syndicate (the Syndicate) (Bahrain).

The ratings reflect the Syndicate's balance sheet strength, which AM Best assesses as strong, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

The positive outlooks reflect ongoing improvements in the resilience of the Syndicate's balance sheet. Management has taken action to improve the quality of the reinsurance programme, resulting in higher credit quality of receivables. Retained earnings due to strong underwriting margins since 2021 have resulted in growth in the Syndicate's capital base and risk-adjusted capitalisation.

The Syndicate is one of four reinsurance vehicles formed by the Federation of Afro-Asian Insurers and Reinsurers (FAIR), with a remit to write energy business. The Syndicate's members are drawn from participants of FAIR, who subscribe to the Syndicate's units of capacity. Whilst unique in its legal structure, the Syndicate operates like a traditional reinsurer, providing capacity and expertise to its cedants.

The Syndicate's balance sheet strength is underpinned by its risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), which is assessed at the strongest level. Given the Syndicate's relatively small capital base, prospective risk-adjusted capitalisation is susceptible to volatility due to potential exposure to large net losses. The balance sheet strength benefits from a conservative investment portfolio by asset class and a prudent reserving strategy.

The Syndicate demonstrated adequate profit generation between 2018 and 2022, with a weighted average combined ratio of 97.8%, negatively affected by weak performance in 2019 when it reported a combined ratio of 171.1% and a net loss of USD 3.9 million. The Syndicate subsequently returned to profitability, as demonstrated by combined ratios for 2022 and 2021 of 67.0% and 80.7%, respectively. Preliminary results for 2023 show continued positive earnings, with a net profit of USD 4.9 million (2022: USD 3.8 million), driven by an improved loss ratio. Operating profits are driven by technical earnings and are augmented by marginal but stable returns from investment activities.

Although limited in size, the Syndicate benefits from a defensible niche business profile. The generally stable member base provides the Syndicate with good access to energy risks across the Afro-Asian territories, supplemented by business written through the open market across the region. Whilst the Syndicate is concentrated heavily by line of business, it benefits from diversification through the geographical spread of its business.

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AMB#	Company Name
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