



## Media Release

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### **RAM Ratings reaffirms Tune Protect Group's A<sub>1</sub>/Stable/P1 ratings**

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RAM Ratings has reaffirmed Tune Protect Group Berhad's (Tune Protect Group or the Group) A<sub>1</sub>/Stable/P1 corporate credit ratings. The rating reaffirmation is premised on our expectation that the Group's underwriting performance will continue to be sustained by the superior claims experience of its digital global travel segment, conducted through its subsidiary, Tune Protect Re (TPRe). Under exclusive long-term agreements with AirAsia, the Group stands to benefit from the airline's growth. At company level, Tune Protect Group has remained debt-free. Moderating the ratings, however, are earnings pressure, dependence on AirAsia for travel insurance revenues, and the Group's modest size.

Tune Protect Group's gross premiums were stable at RM519 mil in FY Dec 2018 as premiums growth in travel segment offset a contraction in the premiums of its general insurance subsidiary, Tune Insurance Malaysia Berhad (Tune Protect Malaysia or TPM). The rebound in travel segment's premiums – after two consecutive years of decline – was supported by business growth from the EMEIA (Europe, Middle East, India, Africa) region, product bundling and the implementation of early-stage dynamic pricing initiatives. Meanwhile, TPM's premiums were lower on account of portfolio rebalancing efforts and heightened competition in the motor and fire business lines amid tariff liberalisation. TPM continues to command a small share of the general insurance industry's premiums, at 3% in 2018. Its modest scale may be a limiting factor to growth.

TPRe's claims ratio of 5% in FY Dec 2018 remains superior, backed by the low claims nature of travel insurance and its ability to accurately price and estimate losses, given access to AirAsia data. The Group's better claims ratio of 34% in FY Dec 2018 (FY Dec 2017: 44%) was attributable to TPM's one-off reserve releases relating to legacy inward treaties and an increased reliance on reinsurance which helped contain risks in TPM's motor portfolio. The Group's combined ratio however stayed elevated at 94% due to higher management expenses. Apart from an increase in expected credit losses owing to Malaysian Financial Reporting Standards 9 adoption, TPM had recorded impairments on disputed claims receivables from a reinsurer. A voluntary separation scheme (VSS) exercise at TPM had also contributed to an uptick in expenses.

Excluding VSS costs and adjusting for the one-off release of reserves, TPG's pre-tax profit would be lower at approximately RM50 mil in FY Dec 2018 (FY Dec 2017: RM53

mil). The Group's reported pre-tax profit climbed to RM55 mil, supported by a larger investment allocation to fixed income from money market and deposits, which generated higher investment income. In 1Q FY Dec 2019, the Group's pre-tax profits were a better RM22 mil (1Q FY Dec 2018: RM20 mil) despite a 31% contraction in its gross written premiums on the back of improved earnings from TPM and reversal of impairment charges from TPre. That said, profitability is likely to remain pressured given lower premiums from general insurance portfolio rebalancing, and elevated management expenses. Plans are underway for the Group to monetise its digital platform and insurance technology expertise to provide advisory and insurance solutions, but any significant contribution to earnings is unlikely over the near term.

A sustained unfavourable underwriting performance by the general insurance segment would be a negative rating trigger, as would persistent weakening in the momentum of the travel insurance business which affects the segment's underwriting performance. Acquisitions or expansions into new business lines which are debt-funded and/or entail additional unmitigated risks, or adverse changes in exclusive agreements between the Group and AirAsia, may also exert pressure on the ratings. Tune Protect Group's ratings may be revised upwards if it demonstrates significant and sustained business growth and meaningful diversification. Marked improvements in the Group's earnings profile, including a higher share of profits from its general insurance segment, will also lend support to an upgrade.

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#### **Date of release: 31 May 2019**

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