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FOR IMMEDIATE RELEASE

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AM Best Affirms Credit Ratings of FAIR Oil & Energy Insurance Syndicate

LONDON, 17 March 2021—AM Best has affirmed the Financial Strength Rating of B+ (Good) and the Long-Term Issuer Credit Rating of “bbb-” of FAIR Oil & Energy Insurance Syndicate (the Syndicate) (Bahrain). The outlook of these Credit Ratings (ratings) is stable.

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 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 2020 risk-adjusted capitalization, which based on the syndicate’s initial unaudited financial data showed improvement to the strongest category, as measured by Best’s Capital Adequacy Ratio (BCAR). Previously, for 2019, the balance sheet strength had declined to a very strong assessment as a result of a 13% reduction in the Syndicate’s capital base, due to a USD 3.9 million net loss from unfavorable reserve development generated by two large losses from prior years. Further impacting 2019 results was a corresponding increase in reinsurance receivables from non-rated counterparties, which elevated the Syndicate’s credit risk capital requirement.

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A return to profitability and an increase the amount of funds withheld as collateral against these non-rated reinsurance assets restored the Syndicate’s risk-adjusted capitalization level to the strongest category. However, AM Best notes that this prospective risk-adjusted capitalization is based on preliminary financial statements and is susceptible to volatility due to the Syndicate’s comparatively small capital base.

The Syndicate has demonstrated healthy profit generation over the past five years (2015-2019), with a weighted average combined ratio of 98.4%. However, it reported a 171.1% combined ratio in 2019, and a net loss of USD 3.9 million, compared with a profit of USD 2.3 million in 2018. Preliminary 2020 results indicate a return to profitability with pre-tax earnings of USD 2.0 million. Operating profits are driven by the 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. Members provide the Syndicate with good access to energy risks across the Afro-Asia 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.

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 media use of Best’s Credit Ratings and AM Best press releases, please view [Guide for Media - Proper Use of Best’s Credit Ratings and AM Best Rating Action Press Releases](#).

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