

Fitch downgrades Euroins Romania to 'CC'

Fitch Ratings has downgraded Euroins Romania Asigurare-Reasigurare S.A.'s (Euroins Romania) Insurer Financial Strength Rating (IFS) to 'CC' from 'B+' and placed it on Rating Watch Evolving (RWE).

At the same time, the agency has placed the remaining IFS ratings of the Euroins Insurance Group (EIG), Insurance Company Euroins AD (Euroins Bulgaria) and Insurance Company EIG Re AD (EIG Re), on Rating Watch Negative (RWN)

The rating actions follow the Romanian insurance regulator ASF's announcement on 17 March that it has withdrawn Euroins Romania's insurance licence appointed an interim administrator and that it intends to open bankruptcy proceedings, says Fitch.

The agency mentions that the ASF's decision to withdraw Euroins Romania's licence and its intention to call for its bankruptcy reflects the regulator's opinion that Euroins Romania's Solvency II (S2) capital funds would fall RON2.17 billion (about EUR441 million) below the S2 capital requirement and RON1.75 billion (about EUR355 million) below the minimum capital requirement. These actions have materially raised the probability that Euroins Romania could default on its obligations, in Fitch's view.

The gap in capitalisation is primarily driven by the ASF de-recognising an intra-group reinsurance contract between Euroins Romania and EIG Re.

ASF has appointed the Insured Guaranteed Fund (Fondului de Garantare a Asiguratilor) as the interim administrator of Euroins Romania. This means that Euroins Romania is no longer under control of its owner EIG. Consequently, Fitch has revised Euroins Romania's strategic importance to EIG down to 'Limited Importance' from 'Core'. This means Euroins Romania's rating is de-linked from that of EIG RE and Euroins Bulgaria.

The RWE is driven by the substantial uncertainties around the fate of Euroins Romania and its relative probabilities. While a bankruptcy could occur, other scenarios that we cannot rule out are a licence reinstatement or an orderly run-off.

The management of Eurohold has called the ASF decision on Euroins a hostile takeover of the assets of its Romanian subsidiary and announced that it will start the process of challenging the decision regarding the bankruptcy procedure.

"The European Bank for Reconstruction and Development (EBRD), which is a shareholder in our company, is on our side. We will take them to court for a failed investment of tens, if not hundreds of millions of euros, unless they reinstate the licence," according to Chairman of the Eurohold Supervisory Board Assen Christov.

He explains that the decision of the Romanian regulatory authority will be the biggest reputational damage of the holding company, and in the next 2-3 months "it will be more difficult for us to go to the debt market, although that will not be necessary". He adds that there are no significant payments of group companies due until the end of the year.

Previously, the Bulgarian Financial Supervision Commission announced that the withdrawal of the business licence of Euroins Romania will not affect the Bulgarian clients of Euroins Insurance Group.