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Namibia National Reinsurance Corporation Limited

Melanie Brown brown@globalratings.net *Reinsurance Analysis*

Security class	Rating scale	Currency	Rating	Expiry date	Rating watch
Claims paying ability	National	N$	AA-	07/2007	No
Claims paying ability	International	US$	BB		

Fundamentals

Namibia National Reinsurance Corporation Ltd ("NamibRe") began underwriting in July 2001, following the promulgation of the Namibia National Reinsurance Corporation Act (of 1998). The company was established to minimise the outflow of reinsurance business from the local economy (80% of reinsurance is placed in external markets). The company is 100% owned by Government and is the only registered reinsurance company in Namibia.

Rating rationale

The rating is based on the following key factors:

- Management is considered to be appropriately conservative in light of the company's expansion plans.
- The reinsurer's high solvency margin and secure investment portfolio, with liquidity supported by the high level of Government bonds held.
- Risk is implied by the high client concentration, with three insurers contributing 80% of the company's premium income.
- The international scale rating was constrained by Namibia's sovereign rating.
- Business and financial risk is evident in terms of NamibRe's expansion into new markets, although this will be undertaken with the assistance of their brokers, who have extensive experience in these markets.
- While NamibRe is a very small player by regional standards, the fact that it is 100% Government owned is considered to be a major supporting factor to the ratings.

Capital structure / risk management

In F06, the company's international solvency ratio increased from 119% in F05 to 126%, due to the slower growth in NPI relative to capital. The minimum regulatory requirement is 15%, which the company comfortably exceeds. In addition, the balance sheet is adequately protected by retrocession cover, which is led by Munich Re. The reinsurer's net retention has been bought down to N$500,000, which equates to 1.3% of shareholders' interest. The net retention on riot claims has been bought down to N$1.3m (3.4%). The reinsurer displays a conservative and secure investment portfolio, supported by adequate liquidity levels and augmented by the high percentage of government bonds held, representing 74% of investments.

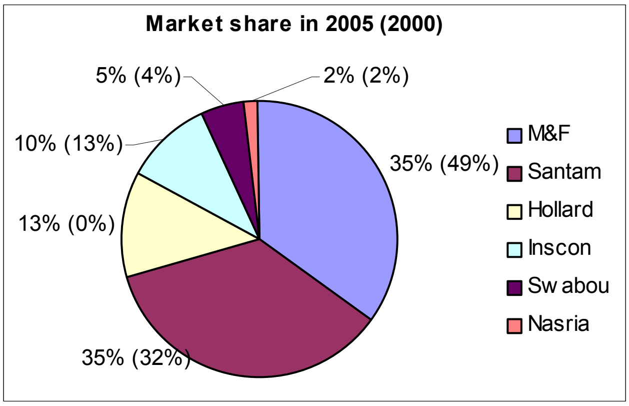
Potential risks

- Given the limited growth opportunities for insurers in Namibia, competitive pressures may come to bear, compromising the quality of underwriting in the country. In addition, the size and lack of diversity of NamibRe's risk pool exposes the company to significant underwriting risk.
- Similarly, the company is significantly exposed to conditions in the local economy, given that 100% of income is currently derived from Namibia.
- In this regard, the company intends increasing its geographic footprint. NamibRe's diversification into new markets implies a level of operational and financial risk, given the highly competitive nature of these markets and the company's related inexperience.

Background and Operating environment

Namibian insurance companies are predominantly South African owned and therefore purchase reinsurance through their parent companies. Namibia National Reinsurance Corporation Ltd ("NamibRe") started operating in 2001. The company was established following the promulgation of the Namibia National Reinsurance Corporation Act (of 1998), to minimise the capital outflow from the local economy as a result of the placement of reinsurance business outside of the country (representing in excess of N$160m per annum). The company has been operating for over four years and is the only locally registered player in the market. The company has benefited from a mandatory environment since inception, although this came to an end in July 2006. Notwithstanding this, insurers have agreed to continue supporting the reinsurer for another five years.

The company is 100% owned by the Namibian Government. All of NamibRe's business is garnered from Namibia, although it is the company's intention to increase its footprint in F07. NamibRe is forecasting around 3% of premium income to be sourced from outside its traditional market in F07.



Demand for reinsurance is a derived demand and is thus dependent on growth in the underlying insurance market. There has been little growth in the Namibian insurance industry in the last few years (reporting compound growth of 8% per annum since 2001), with growth reported by industry participants mainly due to premium adjustments and churn. Under the NIA umbrella, there are 6 traditional insurance companies operating in Namibia, with this market valued at only N$800m (US$114m), having grown from N$153m in 1998 – the Kenyan insurance industry is valued at around US$300m and Tanzania is valued at US$60m.

To date, the market remains concentrated in the hands of Santam, Mutual & Federal ("M&F") and Hollard, who underwrite in excess of 80% of the industry's premiums. Hollard has only been operating in the market for two years and already the company's GPI has exceeded that of the largest locally owned insurer. In 2005, Hollard gained market share (increasing GPI by 136%) from all participants apart from Santam, who reported GPI growth of 13%, whilst all other insurers reported a decline in premium flows.

Risk diversification

NamibRe is not a lead reinsurer, but operates in the follow market. It sources its business from two distinct groups, namely companies with stand alone Namibian reinsurance treaties, predominantly Swabou, Inscon and Nasria, and companies with group reinsurance treaties, these being M&F, Santam and Hollard:

- Local reinsurance treaties - NamibRe receives 20% of the treaties and retains the pre-emptive right towards all facultative business. This was reaffirmed in August 2006 for another five years.
- Group reinsurance treaties - 5% of their *net* account (strictly Namibian business written) and pre-emptive rights toward all facultative business. This has increased to 7.5% and is valid for another 5 years effective 1 July 2006 (although the renewal period for M&F and Santam is only on 1 January 2007).

Concentration risk is evident in terms of the company's distribution network, with over 50% of business sourced from two brokers, although this has improved slightly from 60% in F05. A high level of risk is further implied by the significant client concentration, with the three international insurers registered in Namibia contributing 80% of the company's premium income.

The table below shows the nature of business accepted by NamibRe, with the majority (91%) accepted on a proportional basis.

GPI (N$m)	**F05**	**F06**	**B07**
Proportional	37.2	38.5	42.4
Non-proportional	1.0	1.7	1.9
Fac	1.9	2.0	2.0
Total	**40.1**	**42.2**	**46.3**
Retention (%)			
Proportional	71.5	75.1	75.9
Non-proportional	24.5	11.6	12.0
Fac	52.0	50.0	50.0
Loss ratios* - %			
Proportional	48.0	61.0	51.0
Non-proportional	6.0	4.0	4.0
Fac	53.0	60.0	84.0

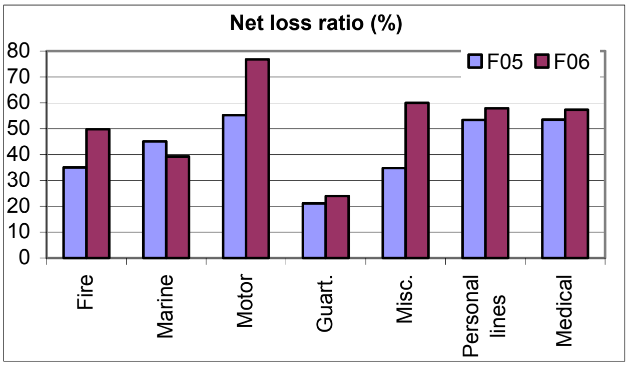
**Net claims before provisions as a percentage of NPI*

In terms of product diversification, the three largest classes represented 75% of total business secured.

Whilst retention levels increased in both fire and miscellaneous, it reduced in motor.

Mix (%)	GPI		NPI/GPI	
	F05	F06	F05	F06
Fire	26.0	30.7	60.8	69.2
Marine	3.3	4.1	59.8	50.4
Motor	35.9	31.1	80.0	74.2
Guarantee	3.1	3.5	49.1	50.4
Miscellaneous	9.1	13.4	54.0	80.1
Personal lines	17.2	11.1	80.9	85.4
Special riot	0.6	1.3	10.0	23.7
Medical	4.8	4.8	52.0	52.2
Total	**100.0**	**100.0**	**69.0**	**71.0**

Notwithstanding this, the net loss ratio in motor increased significantly, from 55% to 77%, impacted by a high incidence of low value claims.

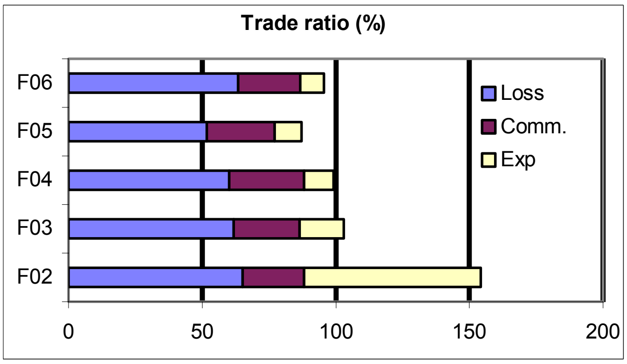


As can be seen from the above, an overall deterioration was noted in the loss experience of the book in F06 (particularly in the three largest classes of business), with the company's net loss ratio deteriorating from 48% to 60%. The only exception noted was in marine.

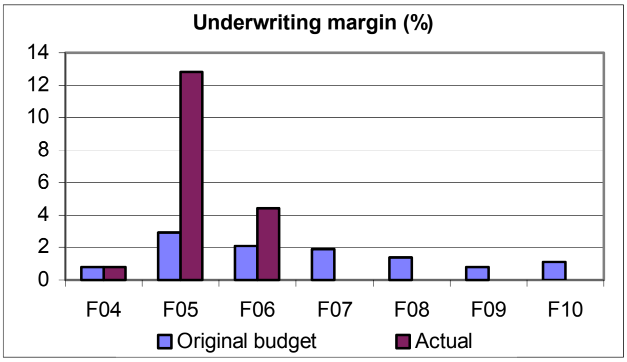
%	NPI		Net claims/ NPI		Net comm./ NPI	
	F05	F06	F05	F06	F05	F06
Fire	22.8	29.8	35.0	49.8	27.6	27.6
Marine	2.9	2.9	45.1	39.2	32.5	28.2
Motor	41.4	32.4	55.2	76.8	19.9	18.4
Guarantee	2.2	2.5	21.1	24.0	37.5	36.7
Miscellaneous	7.1	15.1	34.8	60.0	26.7	24.8
Personal lines	20.0	13.4	53.4	57.9	25.4	24.5
Special riot	0.1	0.4	-	-	23.0	36.9
Medical	3.5	3.5	53.5	57.3	16.5	18.2
Total	**100.0**	**100.0**	**47.7**	**60.3**	**23.9**	**23.7**

Note: breakdown of management expenses by class was not available.

On the back of the worsening in claims experience, the company reported a decline in the underwriting margin from 13% to 4.4%. This was despite an improvement in both the overall commission and management expense ratios. The poor claims experience in 2006 was largely ascribed to floods in the Hardap, Khomas and Erongo regions, as well as a deterioration in claims experience in the motor class evident across the entire industry. As can be seen below, this served to reverse the positive trend established in F02.



Although management had forecast a decline in profitability after 2005, the rate of decline was far greater in actual terms in 2006, exacerbated by the size and lack of diversity of the risk pool.



Peer comparison

US$m – F04	Namib Re*	ZEP Re	Africa Re	Ghana Re
Income statement				
GPI	5.7	24.4	299.1	21.2
NPI	4.0	18.8	264.0	15.4
UW profit/(loss)	0.5	2.4	4.0	1.9
Net income after tax	1.1	2.0	9.7	5.0
Balance sheet				
Shareholders' equity	4.7	12.4	130.0	21.4
Total assets	7.2	29.5	476.3	44.3
Ratios (%)				
Solvency ratio	118.5	66.0	49.2	138.3
Retention ratio	69.4	77.3	88.2	72.8
Earned loss ratio	51.7	52.2	59.8	28.3
Trade ratio	87.2	87.6	98.2	87.4
Underwriting margin	12.8	12.4	1.8	12.6
Claims cash cover (mths)	4.5	17.1	20.1	45.1

**** year ended March 2005 and converted at an average rate of N$7:US$***

A peer comparison is provided above based on latest information available. Relative to earned premium levels, the company remains in line with its peers in terms of its underwriting performance. NamibRe's liquidity, however, is poorer.

Capital adequacy

Shareholders' funds have increased at a compound rate of 17% since its inception in F02, from N$20m to N$38m in F06, solely on the back of retained earnings. Net premium income has grown at a compound rate of 65% over the same period. In F06, the company's international solvency ratio increased from 119% in F05 to 126%, due to the slower growth in NPI relative to capital. The minimum regulatory requirement is 15%. Provision for IBNR reserves amounted to 34.2% of outstanding losses in F06, from 42.8% in F05.

Solvency is considered to be relatively high, in view of the growth forecasts in the short term (gross premium growth forecast for 2007 is 10%). Although cognisance must be given to the fact that the mandatory increase from 5% to 7.5% does not take full effect until the *last* quarter of the financial year and the company is only forecasting 3% contribution from external markets in 2007. Premium forecasts beyond 2007 are expected to increase proportionately, although contributions from outside Namibia are not expected to be significant, given that the company will only be taking follow lines. Notwithstanding this, these markets are highly competitive and NamibRe does not have any related experience operating therein.

Retrocession

The company's lead is Munich Re (except on the Facultative obligatory treaty, which is Africa Re), with the balance of lines take by Africa Re, East Africa Re, Zep Re, Everest Re, GIC of India and Labuarn Re.

Class	Retention
Healthcare	
Quota Share	50:50
Aggregate Stop loss	130% of NWP
Surplus	
Fire	N$2m
Misc. Accident & Motor	N$500,000
Marine Hull & Cargo	N$750,000
FAC Quota share	
Fire	N$750,000
Misc. Accident & Motor	N$150,000
Marine Hull & Cargo	N$150,000
FAC Obligatory	> N$150,000

The reinsurer's net retention has been bought down to N$500,000, which equates to 1.3% of shareholders' interest. The net retention on riot has been bought down to N$1.3m (3.4%).

The table below outlines the losses incurred on the company's retrocession treaties over the last 2 years.

N$m	**F05**	**F06**
Retrocession premiums	12.3	12.1
Claims recovered	(5.2)	(5.1)
Commission received	(3.9)	(3.8)
Underwriting (profit)/loss	**3.2**	**3.2**

Asset management

The following table shows an overview of the company investment portfolio over the last two years.

Investment portfolio (N$m)	**F05**	**F06**
Cash equivalents	5.1	12.4
Namibia Equity Brokers (fixed)	-	1.5
Treasury Bills	5.7	-
Gov. bonds	32.8	39.7
Total investments	**43.6**	**53.6**
Investment return (%)	**10.5**	**9.7**
Cash coverage (months)	**4.5**	**7.5**

NamibRe's investment policy is aimed at achieving the maximum return for conservative levels of risk, in order to preserve capital. In this regard, NamibRe's mandate restricts the company from investing offshore or in equities and property.

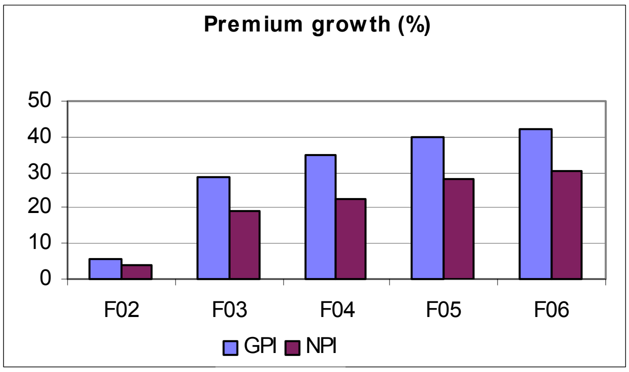
Liquidity was reported at a higher 7.5 months in F06. Cash coverage going forward is expected to be around 7 months (or N$12m), with liquidity further supported by the high level of Government bonds held.

Financial performance

A 5-year financial synopsis of NamibRe's performance is reflected at the end of this report, and brief comment follows (NamibRe began operating in mid-2001). The following table compares NamibRe's actual performance to the budget for F06.

Income Statement (N$m)	Actual F06	Revised budget F06
GPI	42.2	42.1
NPI	30.1	28.6
EPI	**31.0**	**28.2**
Net claims	(19.7)	(16.2)
Net commission	(7.1)	(8.0)
Management expense	(2.8)	(3.2)
Underwriting profit	**1.4**	**0.8**
Ratios		
Gross premium growth	5.2	4.9
Earned loss ratio	63.6	57.4
Commission ratio	23.0	28.4
Expense ratio	9.0	11.0
Underwriting margin	4.4	3.1
Solvency ratio	126.1	107.0

Growth in gross premium income is largely reliant on the size of the internationals' net book, and thus rate increases. In F06, gross premiums grew 5% to N$42.2m, from 15% the previous year (F04: 21.2%). Net premiums increased by a higher 8%, following an increase in retention levels to 71%, from 69%.



Claims experience in F06 was negatively impacted by the floods in the three regions and the poor performance of the motor book, which saw net claims increase from N$13.6m to N$19.7m (budget: N$16.2m). Accordingly, loss ratios deteriorated to 64% (F05: 52%), which eroded the underwriting margin down from 12.8% to 4.4% (total delivery costs declined from 35.5% to 32%).

The operating ratio (trade ratio plus investment income) increased from 71% to 80%, and accordingly retained earnings declined from N$7.7m to N$6.1m.

The company is not required to pay tax until the general reserve fund (currently N$8.3m) is equal to or exceeds twice the amount of the authorised share capital of the company (N$20m). The board, in consultation with the Minister of Finance, determines the payment of dividends, with a dividend having been paid in the last two years (translating to dividend cover of 12.8x and 5.3x in F05 and F06 respectively).

Future prospects

The following table outlines the company's expectations for the next 12 months, relative to their performance in F06.

Income Statement (N$m)	Actual F06	Revised budget F07
GPI	42.2	46.3
NPI	30.1	32.2
EPI	**31.0**	**31.6**
Net claims	(19.7)	(18.3)
Net commission	(7.1)	(8.9)
Management expense	(2.8)	(4.0)
Underwriting profit	**1.4**	**0.4**
Ratios (%)		
Gross premium growth	5.2	9.7
Retention ratio	71.3	69.5
Earned loss ratio	63.6	56.1
Commission ratio	23.0	27.3
Expense ratio	9.0	12.3
Trade ratio	95.6	94.8
Underwriting margin	4.4	1.2
Solvency ratio	126.1	111.0

Premium income growth of 10% is forecast for the year. This includes the increased business from Santam and M&F for only one quarter (as the new agreement only becomes effective for these two insurers from 1 January), and 3% contribution from outside Namibia. Loss ratios are expected to normalise, while management expenses incurred for the full year are expected to increase on the back of the company's diversification into new markets.

For the first three months of F07 the company has secured premium income of N$9.8m (21% of budget), of which N$7.4m (23%) was retained. Management costs of N$959,000 and investment income of N$1.4m were reported, whilst total claims of N$7.1m were incurred (of which N$5.6m was for NamibRe's account).

As mentioned previously, NamibRe's strategy is to expand its footprint beyond Namibia's borders. In this regard, certain key African markets have been identified, specifically East Africa and Southern Africa, which are highly competitive markets. Plans, however, are still in the very early stages, and therefore the company's strategy has not been clearly outlined. Essentially, although IT systems have been integrated and staff are being trained, key areas requiring attention include:

- Implementing rating tools
- Identifying new retrocession partners
- Acquiring the necessary knowledge and expertise to operate profitably in these markets.

Accordingly, a key challenge remains the company's ability to operate profitably and adapt in these new and highly competitive markets (particularly as a follow reinsurer). The company will now be exposed to the vagaries of the broader African reinsurance market and a key risk remains the reinsurer's lack of experience in these countries, although budgets suggest that growth will be on a measured and very conservative basis. Risk is further mitigated by the support the insurer will receive from its broker.

Comfort is provided by the implied support of the Namibian Government, in terms of injecting additional capital if the need arose.

International foreign currency rating factors

In according the international foreign currency rating the following main factors were considered.

Sovereign risk
Namibia's sovereign rating of BBB- (triple B minus) is a constraining factor on the international rating. International foreign currency ratings effectively benchmark credit quality off US Government risk, and measure the ability of an organisation to service foreign currency obligations.

Other risks
Currently all of NamibRe's income is garnered from Namibia, and hence all claims are paid in Namibian dollars. As such, premiums and claims are matched in terms of currency, although cognisance must be taken of the fact that the company is to start focusing on markets outside of Namibia.

In this regard, no foreign currency denominated assets are held at all. Some support is afforded by the fact that the lead reinsurers are investment grade rated internationally.

Conclusion

While NamibRe is a very small player by regional standards, and it does not benefit from an asset or premium base outside of Namibia, the fact that it is 100% owned by the Namibian Government is considered to be a major supporting factor to the rating, although cognisance is taken of the fact that no explicit Government guarantee is in place.

Namibia National Reinsurance Corporation Ltd

(Namibian $ in millions except as noted)

Year ended : 31 March		2002	2003	2004	2005	2006#
Income Statement						
Gross premium income (GPI)		5.6	28.7	34.8	40.2	42.2
Retrocession premiums		(1.5)	(9.5)	(12.2)	(12.3)	(12.1)
Net Premium income (NPI)		4.1	19.2	22.6	27.9	30.1
(Increase) / Decrease in insurance funds		(0.8)	(2.2)	(0.1)	(1.6)	0.9
Net premiums earned		**3.3**	**17.1**	**22.5**	**26.3**	**31.0**
Claims incurred		(2.2)	(10.5)	(13.5)	(13.6)	(19.7)
Commission		(0.8)	(4.2)	(6.4)	(6.7)	(7.1)
Management expenses		(2.2)	(2.8)	(2.5)	(2.7)	(2.8)
Underwriting profit / (loss)		**(1.8)**	**(0.5)**	**0.2**	**3.4**	**1.4**
Investment income		1.9	2.7	3.7	4.3	4.7
Other income / (expenses)		0.0	0.0	0.0	0.0	0.0
Taxation		0.0	0.0	0.0	0.0	0.0
Net income after tax		**0.1**	**2.2**	**3.9**	**7.7**	**6.1**
Unrealised gains / (losses)		n.a	n.a	n.a	n.a	n.a
Cash Flow Statement						
Cash generated by operations		(1.7)	(0.4)	0.3	3.4	1.4
Cash flow from investment income		1.9	2.7	3.7	4.3	4.7
Working capital decrease / (increase)		(0.6)	7.7	5.4	(2.0)	5.0
Cash available from operating activities		(0.4)	10.1	9.4	5.7	11.1
Tax paid		0.0	0.0	0.0	0.0	0.0
Dividends paid		0.0	0.0	0.0	(0.6)	(1.2)
Cash flow from operating activities		**(0.4)**	**10.1**	**9.4**	**5.1**	**10.0**
Purchases of investments		(8.7)	(8.5)	(7.7)	(7.5)	(2.7)
Proceeds on disposal of investments		0.0	0.0	0.1	0.0	0.0
Other investing activities		0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities		**(8.7)**	**(8.5)**	**(7.6)**	**(7.5)**	**(2.7)**
Cash flow from financing activities		**0.0**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**
Net cash inflow / (outflow)		**(9.1)**	**1.6**	**1.8**	**(2.4)**	**7.3**
Balance Sheet						
Shareholders interest		**20.0**	**22.2**	**26.1**	**33.0**	**38.0**
Insurance funds		0.8	3.0	3.1	4.7	3.8
Other liabilities		3.1	8.5	13.3	13.0	15.2
Total capital & liabilities		**24.0**	**33.7**	**42.5**	**50.7**	**57.0**
Fixed assets		0.4	0.3	0.1	0.1	0.1
Investments		18.9	23.4	31.1	38.5	41.2
Cash and short term deposits*		0.1	5.7	7.5	5.1	12.4
Other current assets		4.6	4.4	3.9	7.0	3.3
Total assets		**24.0**	**33.7**	**42.5**	**50.7**	**57.0**
Key Ratios						
Solvency / Liquidity						
Shareholders funds / NPI	%	485.0	115.4	115.1	118.5	126.1
Cash claims cover	months	0.6	6.5	6.6	4.5	7.5
Average debtors turnover	days	149.7	57.0	43.2	49.2	44.4
Outstanding claims / NPI	%	42.5	19.4	26.7	23.3	27.4
Profitability						
ROaE (after unrealised gains / losses)	%	0.9	10.4	18.6	31.8	20.6
Investment yield (including unrealised gains / losses)	%	19.9	11.3	11.1	10.5	9.7
Efficiency / Growth						
GPI Growth	%	n.a.	414.3	21.2	15.4	5.2
Premiums reinsured / GPI	%	26.0	33.0	35.0	30.6	28.7
Earned loss ratio	%	65.2	61.7	60.0	51.7	63.6
Commissions / Earned premiums	%	23.1	24.8	28.2	25.3	23.0
Management expenses / Earned premiums	%	66.1	16.6	10.9	10.2	9.0
Underwriting result / Earned premium	%	(54.4)	(3.1)	0.8	12.8	4.4
Trade ratio	%	154.4	103.1	99.2	87.2	95.6
		211.5				
Operating						
Effective tax rate	%	0.0	0.0	0.0	0.0	0.0
Dividend cover	X	n.a.	n.a.	n.a.	12.8	5.3

** Net of bank overdraft*
 # draft financials