Namibia National Reinsurance Corporation Limited

Namibia Reinsurance Analysis **September 2009**

Security class	Rating scale	Currency	Rating	Rating watch	Expiry date
Claims paying ability	National	N$	AA-		
Claims paying ability	Regional	Rand	A-	No	09/2010
Claims paying ability	International	US$	BB		

Financial data:

(US$'m Comparative)

	31/03/08	31/03/09
N$/US$ (avg)	7.25	8.98
N$/US$ (close)	8.16	9.85
Total assets	10.0	9.8
Total capital	7.5	7.5
Cash & equiv.	8.5	7.3
GPI	9.6	9.0
U/w result	0.6	0.6
NPAT	1.6	1.5
Op. cash flow	2.3	1.3
Market cap.	n.a.	
Market share	n.a.	

Fundamentals:

Namibia National Reinsurance Corporation Limited (Namib Re) commenced operations in 2001, following the enactment of the Namibia National Reinsurance Corporation Act (of 1998). The main purpose of the Act was to stem the outflow of funds through offshore reinsurance placements. As at FYE09, most of the company's business was generated locally, with some success achieved in garnering business in other African countries.

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Rating rationale

The rating is based on the following key factors:

- Namib Re is 100% owned by the Namibian Government and is the only registered reinsurance company in Namibia. This position is further supported by its legal mandatory cessions in the domestic market.
- The reinsurer has recorded an increase in the level of shareholders funds in each year since inception, and continues to exhibit an international solvency ratio of over 100%.
- Namib Re maintains a conservative investment policy with a strong focus on liquidity and the preservation of capital.
- The reinsurer's established track record of consistently achieving underwriting profitability, which is expected to be sustained in the medium term.
- Concentration risk is evident in terms of Namib Re's client base.
- The reinsurer's diversification into the African insurance arena implies a level of operational and financial risk, given the highly competitive nature of these markets and the company's related inexperience. Namib Re has, however, employed a very conservative stance to the risks that it underwrites, while also utilising the expertise of their brokers.
- The international scale rating is constrained by Namibia's sovereign rating.

Solvency & liquidity

Driven by retained earnings, shareholders interest increased by 22% to N$74m in F09. The rate of capital accumulation outpaced net premium income growth for the year, and accordingly, the international solvency margin increased to 117% in F09 from 104% previously. The reinsurance programme provides further protection to the capital base, whereby an XOL treaty limits the company's maximum potential exposure to any single risk to NS$0.5m (less than 1% of FYE09 capital). Cash holdings increased by 4% to NS$72m in F09, and accounted for 87% of total investments (F08: 93%). Claims cash coverage remained strong, and was recorded at 22 months in F09 from 25 months previously.

Operating environment

Following several years of solid economic growth, Namibia's real GDP growth moderated to 2.9% in 2008 (2007: 4.1%), reflecting a downturn in the mineral sector as a result of weak export demand, and the lagged impact of monetary tightening in 2007. It is further forecast that real GDP will contract in 2009 (by 0.7%), as the slowdown in world economic activity takes full effect. The marked tightening in international financial markets could also jeopardise several investment projects that are expected to be the main drivers of medium term growth, including investments in electricity generation and water desalination. However, economic activity is forecasted to gradually pick up in 2010, with growth forecast at 1.8%. Substantial increases in international food and fuel prices pushed inflation into double digits in 2008, compared with an average of 6.7% in 2007. Although world fuel prices fell significantly in late 2008, this was partly offset by the sharp depreciation of the Namibian Dollar.

Table 1: Namibian economic indicators	**2005**	**2006**	**2007**	**2008**	**2009f**	**2010f**
GDP growth (%)	2.5	7.2	4.1	2.9	(0.7)	1.8
GDP per capita (US$)	3,709	4,007	4,296	4,127	3,892	4,034
Inflation (%)	2.3	5.1	6.7	10.3	9.1	6.3
Population (millions)	1.96	1.99	2.03	2.05	2.06	2.08

Sources: Namibian authorities and IMF.

The Namibian economy remains highly integrated with that of South Africa, as the bulk of Namibia's imports originate there. Namibia is also part of the Common Monetary Area (CMA) comprising Lesotho, Swaziland and South Africa. The Namibian Dollar is pegged to the South African Rand, and accordingly, movements are dependent on the underlying factors affecting the Rand's performance against other currencies. As a result of the CMA agreement, the scope for independent monetary policy in Namibia is largely limited, although cognisance is taken of the fact that the BON did not follow all interest rate movements imposed by the SARB for the year under review.

The Namibian insurance industry comprises 14 insurance companies, including 3 foreign (South African) owned insurers, which account for in excess of 80% of the industry's premiums. The insurance industry is focused on the commercial segment and higher end of the market, with little penetration in the lower income bracket. Growth has remained somewhat stagnant in recent years, with the market valued at around N$1bn. Growth opportunities in the corporate sector are, however, expected to materialise going forward, in line with a number of large construction developments and a recent multi million US Dollar investment by an American company in a uranium plant. The broker market plays an important role in placing business and is largely dominated by a few key players. Intermediary competitiveness could intensify in the medium term, following the entrance of Alexander Forbes in July 2009.

Competitive positioning

The following table compares key statistics of Namib Re with some regional reinsurers. The reinsurer has a smaller book of business and lower capital base than most of its competitors. In addition, Namib Re's loss ratio compares unfavourably with its counterparts. However, the reinsurer is the most cost effective, thereby supporting adequate profitability. Furthermore, the reinsurer is well capitalised relative to the size of its book, and displays strong liquidity measures.

Table 2: Peer analysis 2008 (US$'m)	**Malawi Re**	**Namib Re***	**East Africa Re**	**TAN-Re**	**ZEP-Re**	**Kenya Re**
GPI**	4.0	9.0	14.8	24.2	46.0	48.4
NPAT	0.9	1.5	1.5	2.4	7.9	7.5
Capital	2.6	7.5	11.4	7.4	31.3	89.5
Solvency (%)	91.9	116.6	122.0	42.2	84.9	278.3
Retention (%)	70.2	78.2	80.4	80.0	80.2	93.5
Loss ratio (%)	28.9	62.6	52.9	44.2	53.0	50.1
Commission ratio (%)	22.4	21.3	32.3	29.5	25.1	31.7
Expense ratio (%)	28.2	7.8	14.6	12.7	9.4	21.6
U/W margin (%)	20.5	8.3	0.2	13.6	12.5	(3.4)
Cash coverage (mnth)	13.0	21.6	31.9	12.1	22.3	6.2

*As at 31 March 2009.
**Life and non-life where applicable.

Risk diversification

The reinsurer sources the bulk of its business from the Namibian market, through two distinct groups, namely mandatory cessions from insurer's with stand alone Namibian reinsurance treaties (OUTsurance, Nasria and Prosperity), and insurer's with group reinsurance treaties, these being M&F, Santam and Hollard:

- Local reinsurance treaties - Namib Re receives 20% of the treaties. It retains the pre-emptive right towards all facultative business.
- Group reinsurance treaties – 7.5% (previously 5%) of their net account (strictly Namibian business written) and pre-emptive rights toward all facultative business.

In addition to the aforementioned locally derived business, Namib Re continues to pursue opportunities outside Namibia, in particular the generally well developed and competitive Kenyan, Tanzanian, Zambian and Malawian markets. The company has adopted a very conservative approach to the risks that it underwrites, with profitability rather than growth being the key consideration. Underwriting skills have been provided by some of the larger African reinsurers, and with the assistance of international reinsurance brokerages that have extensive experience with respect to the pricing of risks in these countries.

All risks are underwritten in Namibia, thereby limiting any additional cost burden. Namib Re has been reasonably successful in the aforementioned markets, writing N$4.9m in GPI for F09 from virtually a zero base previously. The company tends to write small amounts of facultative risks on its foreign business, through follow lines ranging between 2% and 10%, and sources the bulk of this through 3 key intermediaries. The reinsurer recently opened up a foreign denominated bank account to simplify transactional requirements.

Namib Re derives the bulk of its premiums through proportional treaties, which accounted for over 90% of GPI in F09 and 92% of NPI. The 3 largest cedents (M&F, Santam and Hollard) accounted for a significant 76% of gross premiums in F09, indicative of a high level of client concentration, although risk is mitigated in the medium term by the mandatory limits in place. In addition, intermediary participation remains high, with the top 2 brokers responsible for 62% of the book as at FYE09 (F08: 55%). Direct sales comprise the majority of the remainder, at 28% in F09 (F08: 35%).

Table 3: Class	**GPI**		**NPI**		**Retention**	
(% of total)	**F08**	**F09**	**F08**	**F09**	**F08**	**F09**
Fire	18.6	18.8	17.6	16.8	79.8	70.0
Motor	42.4	44.0	45.0	48.0	89.5	85.2
Marine	2.2	2.3	1.6	1.3	60.4	44.1
Personal lines*	13.3	9.2	12.1	8.7	76.8	74.1
Guarantee	5.0	5.0	4.3	3.5	72.4	55.6
Miscellaneous**	18.5	20.8	19.5	21.7	88.7	81.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**84.4**	**78.2**

* Includes medical and life.
** Includes liability, 3rd party liability.

All classes of business except personal lines (which witnessed a decrease in GPI from N$9.3m to N$7.5m, a direct result of the difficult prevailing economic environment) experienced growth during F09. The growth was particularly pronounced in the motor class, with GPI increasing by 21% to NS$38m, to account for 44% of total gross premiums from 42% previously. Above average growth was also evidenced in the miscellaneous class, driven by 3rd party liability policies. Overall, Namib Re retroceded a higher component of business written in F09, and accordingly, overall retention levels decreased to 78% from 84%. The fairly high net retention on fire results from the low participation on facultative risks (mostly associated with large industrial risks). With respect to business written in Namibia, the reinsurer is comfortable with current levels of risk being absorbed directly, while premiums written outside the country are heavily reinsured as the company develops experience in these markets.

Table 4: Performance by class (N$m)	**Claims incurred**		**Technical result^**	
	F08	**F09**	**F08**	**F09**
Fire	1.4	5.3	0.6	2.6
Motor	18.5	18.5	3.8	6.1
Marine	0.1	0.5	0.5	0.2
Personal lines*	6.6	6.3	0.7	(2.0)
Guarantee	0.4	0.5	1.3	1.2
Miscellaneous	6.8	8.9	2.3	2.3
Total	**33.9**	**40.1**	**9.2**	**10.3**

* Includes medical and life.
** Includes liability, 3rd party liability.
^ Namib Re does not allocate management expenses per class.

In terms of claims experience, the motor book reflected a lower loss ratio of 61% in F09 (F08: 70%), following the implementation of a number of claims control measures across the industry. This supported an increase in the technical profit for this class to N$6.1m from N$3.8m in F08. The fire book recorded a jump in claims experience to N$5.3m, from N$1.4m in F08. This was largely due to the inclusion of a special provision for claims of N$3.7m in February 2009 (towards the end of the financial year). Miscellaneous business also reflected an increase in claims experience, to 65% from 60% in F08, which was attributed to increased group personal accident claims.

Overall, claims equated to a higher 63% of earned premiums in F09 (F08: 59%). Namib Re reported a higher technical profit of N$10.3m in F09 (F08: N$9.2m), supported by a 4 percentage point decrease in the commission ratio (a direct result of higher relative retrocessions and concomitant increased commissions received). In addition, the underwriting margin increased to 8.3% from 7.7% previously.

Solvency and reserving

Shareholders funds increased by a further 22% to N$74m in F08, driven by retained earnings and a smaller dividend of N$0.7m (F08: N$2m). This, coupled with a comparatively lower increase in NPI (of 8%), contributed to the international solvency margin increasing to 117% in F09 from 104% previously. Solvency remains well above the minimum regulatory requirement of 15% and is considered to be high. The F10 budget suggests solvency will remain high, at around 110% for the year.

Insurance funds decreased by N$0.6m to N$4.6m in F09. Given the growth in NPI for the year, the ratio of insurance funds to NPI decreased for a fourth consecutive year to 7.3% (F08: 8.8%). Conversely, outstanding claims expressed as a percentage of net premiums increased to 14.3% from 9.1% in F08.

Retrocession

The following table details Namib Re's retrocession programme, which caters for the reinsurer's Namibian business, and also includes a US$ schedule to cater for risks in other African countries. The company's lead is Munich Re on the surplus, excess of loss and FAC quota share treaties, and also includes Everest Re, Africa Re and GIC of India, amongst others. Africa Re is the lead on both the healthcare quota share (which increased to 60% retention from 50% previously) and aggregate stop loss treaties, followed by PTA Re. Africa Re is also the lead on FAC obligatory. The reinsurer's net retention has been bought down to N$500,000 (0.7% of FYE09 shareholders interest) through an excess of loss bouquet of treaties, structured into five layers providing capacity up to N$20m.

Table 5: Reinsurance	Namibian business (N$)	Other territories (US$)
	Limits	Limits
Healthcare		
Quota share	5.7m	n.a.
Surplus (lines)		
Fire	20m	1.5m
Misc. accident and TPL	5.25m	350,000
Motor (OD)	2.63m	175,000
Marine, hull & cargo	3m	200,000
FAC quota share		
Fire	15m	1.5m
Misc. accident & motor	3m	200,000
Motor (OD)	1.5m	200,000
Marine, hull & cargo	3m	200,000
FAC obligatory	5m	200,000

Premiums ceded increased by 62% to N$18m in F09, above the rate of growth in combined claims and commission recoveries (of 51%). Accordingly, Namib Re transferred a higher N$5m to its reinsurers in F09 (F08: N$2.5m).

Table 6: Reinsurance result (N$m)	F07	F08	F09
Premium ceded	11.7	10.9	17.7
Claims recovered	(10.2)	(5.5)	(7.5)
Commission received	(3.3)	(2.9)	(5.2)
Net transfer	**(1.8)**	**2.5**	**5.0**

Counterparty risk

The four largest counterparties participating on Namib Re's retrocession programme are internationally rated Munich Re (A-), Everest Re (AA-), Africa Re (BBB+) and GIC (A-). The overall diversity of all the counterparties participating provides a degree of comfort.

Asset conversion & currency risk

Namib Re's investment assets are entirely domiciled in Namibia, and mainly held in Namibian Dollars (less than 1% is US Dollar denominated) with a spread of domestic banks. This implies exposure to the sovereign risk of Namibia, which is rated BBB- internationally.

Asset management

Namib Re purchased two government properties during F09. The properties will be developed into Namib Re Head office at a total estimated cost of NS$18m. The properties will be funded through internal reserves. The associated longer term benefits include rental savings on the previously leased property, rental income potential on surplus availability at the new head office, and capital appreciation.

Table 7: Investment portfolio	F08		F09	
	N$m	%	N$m	%
Cash & cash equivalents	69.5	92.9	72.0	87.3
Government bonds	5.3	7.1	10.5	12.7
Total investments	**74.8**	**100.0**	**82.5**	**100.0**

The reinsurer exhibits an investment portfolio geared towards preserving capital through low risk liquid instruments. In this regard, cash and cash equivalents of N$72m (F08: N$70m) comprised a significant 87% of the total investment portfolio in F09 (F08: 93%), with the balance encompassing government bonds of N$11m. Claims cash coverage remained strong, and amounted to 22 months in F09 from 25 months previously (notwithstanding the aforementioned property purchase). The investment yield increased to 11% in F09, from 10% in F08.

Financial performance

A 5-year financial synopsis of the reinsurer's performance is reflected at the end of this report, and brief comment follows.

Growth in gross premium income is largely reliant on the size of the net book of foreign controlled insurers, and rate increases. In F09, gross premiums grew by 17% to N$81m, driven by the aforementioned motor business growth. Net premiums increased by a comparatively lower 8%, following a decrease in retention levels to 78%, from 84%. Net premiums earned amounted to N$64m in F09 (F08: N$58m).

Table 8: Income statement F09 (N$m)	Budget	Actual	% of budget
Gross premium income	**77.3**	**81.2**	**105.0**
Reinsurance	(17.0)	(17.7)	104.1
Net premium income	**60.3**	**63.5**	**105.3**
Transfer (to)/from UPR	(0.9)	0.5	n.a.
Earned premium	**59.4**	**64.0**	**107.7**
Net claims	(37.4)	(40.1)	107.2
Net commission	(15.1)	(13.7)	90.7
Management expenses	(5.6)	(5.0)	89.3
Underwriting result	**1.3**	**13.9**	**1,069.2**

The gross loss ratio, before reinsurance recoveries, was maintained at 65% in F09, but increased on a net basis, to 63% from 58%, driven by an increase in the outstanding claims provision (resulting from the aforementioned floods). The earned loss ratio increased to 63% for F09 (F08: 59%), following a rise in claims incurred to N$40m, although this ratio was in line with budget.

Table 9: Claims incurred (N$m)	F08	F09
Claims paid	***34.0***	***38.5***
Gross	40.0	43.9
Reinsurance	(6.0)	(5.3)
Change in provision for o/c	***(0.2)***	***1.6***
Gross	5.3	9.1
Reinsurance	(5.5)	(7.5)
Claims incurred	**33.9**	**40.1**
Gross ratio (%)	65.1	65.3
Net ratio (%)	57.7	63.1
Earned ratio (%)	58.6	62.6

The higher earned loss ratio was offset by a lower commission expense ratio, supported by higher commission receipts. Management expenses were well contained, increasing by N$0.2m to Z$5m in F09, supporting a lower management expense ratio of 7.8% (F08: 8.3%).

Namib Re recorded its sixth consecutive underwriting profit, of N$5.3m from N$4.5m in F08. N$2m of this amount was generated outside Namibia. This translated into a higher underwriting margin of 8.3% (F08: 7.7%). Investment income increased by N$1.8m to N$8.6m, driving a N$14m net profit for the year. Namib Re is not required to pay tax until the general reserve fund exceeds twice the amount of the authorised share capital of the company (currently 1.3x). ROaE remained fairly stable at 21% in F09 (F08: 20%). The board, in consultation with the Minister of Finance, determines the payment of dividends. The lower dividend of N$0.7m paid in F09 (F08: N$2m), together with the higher profit achieved saw dividend cover increase to 19.2x from 5.6x in F08.

Future prospects

GPI is budgeted to increase by 9.5% to N$89m in F10, supported by growth into other African countries. In particular, externally sourced business is budgeted to account for 8% of GPI in F10 (N$6.9m), from 6% in F09. A very conservative approach will continue to be adopted in these countries.

Table 10: Income statement (N$m)	Budget F10	Budget F11
Gross premium income	**88.9**	**102.3**
Reinsurance premiums	(19.6)	(22.5)
Net premium income	**69.4**	**79.8**
UPR	(1.4)	(1.6)
Net premium earned	**68.0**	**78.2**
Claims paid	(43.0)	(49.5)
Net commission	(17.3)	(19.9)
Management expenses	(6.2)	(7.2)
Underwriting result	**1.5**	**1.6**
Ratio analysis (%)		
GPI growth	9.5	15.1
Premiums reinsured / GPI	22.0	22.0
Earned loss	63.2	63.2
Commission	25.5	25.5
Mgnt expense	9.2	9.2
Underwriting margin	2.1	2.1
International solvency	109.5	104.4

The projected underwriting performance reflects a significantly lower underwriting margin of 2.1% in both F10 and F11 (F09: 8.3%). It is noted that the reinsurer budgeted to achieve a N$0.4m and N$1.3m underwriting profit in F07 and F08 respectively, compared to the actual result achieved of N$8.5m and N$4.5m. In addition, the overall net result will be bolstered by investment income, supported by the reinsurer's tax free status. Solvency is budgeted to be sustained at above 100%, a level management deem comfortable over the medium term.

Namibia National Reinsurance Corporation Limited

(Namibian $ in millions except as noted)

Year ended : 31 March		2005	2006	2007	2008	2009
Income Statement						
Gross premium income (GPI)		**40.2**	**41.3**	**51.3**	**69.6**	**81.2**
Retrocession premiums		(12.3)	(11.8)	(11.7)	(10.9)	(17.7)
Net Premium income (NPI)		**27.9**	**29.4**	**39.5**	**58.7**	**63.5**
(Increase) / Decrease in insurance funds		(1.6)	0.9	(0.5)	(1.0)	0.5
Net premiums earned		**26.3**	**30.3**	**39.1**	**57.7**	**64.0**
Claims incurred		(13.6)	(19.5)	(17.2)	(33.9)	(40.1)
Commission		(6.7)	(7.2)	(9.2)	(14.6)	(13.7)
Management expenses		(2.7)	(2.8)	(4.2)	(4.8)	(5.0)
Underwriting profit / (loss)		**3.4**	**0.8**	**8.5**	**4.5**	**5.3**
Investment income		4.3	4.9	6.7	6.8	8.6
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		**7.7**	**5.7**	**15.2**	**11.3**	**13.9**
Unrealised gains / (losses)		n.a	n.a	n.a	n.a	n.a
Cash Flow Statement						
Cash generated by operations		3.4	0.8	8.6	4.5	5.3
Cash flow from investment income		4.3	4.9	6.7	6.8	8.6
Working capital decrease / (increase)		(2.0)	5.5	(7.5)	5.1	(1.9)
Tax paid		0.0	0.0	0.0	0.0	0.0
Cash available from operating activities		**5.7**	**11.3**	**7.8**	**16.4**	**12.0**
Dividends paid		(0.6)	(1.2)	(1.2)	(2.0)	(0.7)
Cash flow from operating activities		**5.1**	**10.1**	**6.7**	**14.4**	**11.3**
Purchases of investments		(7.5)	(2.7)	(6.4)	(17.1)	(6.6)
Proceeds on disposal of investments		0.0	0.0	0.0	0.0	0.0
Other investing activities		0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities		**(7.5)**	**(2.7)**	**(6.4)**	**(17.1)**	**(6.6)**
Cash flow from financing activities		**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**
Net cash inflow / (outflow)		**(2.4)**	**7.4**	**0.3**	**(2.7)**	**4.7**
Balance Sheet						
Shareholders interest		**33.0**	**37.5**	**51.6**	**60.8**	**74.0**
Insurance funds		4.7	3.8	4.2	5.2	4.6
Other liabilities		13.0	17.3	16.2	16.0	18.3
Total capital & liabilities		**50.7**	**58.6**	**71.9**	**82.0**	**96.9**
Fixed assets		0.1	0.1	0.1	0.1	3.8
Investments		38.5	33.9	9.3	5.3	10.5
Cash and short term deposits		5.1	20.0	51.2	69.5	72.0
Other current assets		7.0	4.6	11.3	7.0	10.6
Total assets		**50.7**	**58.6**	**71.9**	**82.0**	**96.9**
Key Ratios						
Solvency / Liquidity						
Shareholders funds / NPI	%	118.5	127.4	130.4	103.6	116.6
Cash claims cover	months	4.5	12.3	35.6	24.6	21.6
Average debtors	days	49.2	42.9	45.4	42.4	34.3
Outstanding claims / NPI	%	23.3	27.2	15.1	9.1	14.3
Insurance funds / NPI	%	16.8	12.7	10.7	8.8	7.3
Profitability						
ROaE (after unrealised gains / losses)	%	26.0	16.2	34.2	20.1	20.6
Investment yield (including unrealised gains / losses)	%	10.5	10.1	11.7	10.1	10.9
Efficiency / Growth						
GPI Growth	%	15.4	2.7	24.3	35.8	16.7
Premiums reinsured / GPI	%	30.6	28.7	22.9	15.6	21.8
Earned loss ratio	%	51.7	64.4	44.1	58.6	62.6
Commissions / Earned premiums	%	25.3	23.7	23.5	25.3	21.3
Management expenses / Earned premiums	%	10.2	9.2	10.7	8.3	7.8
Underwriting result / Earned premium	%	12.8	2.7	21.8	7.7	8.3
Trade ratio	%	87.2	97.3	78.2	92.3	91.7
Operating						
Effective tax rate	%	0.0	0.0	0.0	0.0	0.0
Dividend cover	X	12.8	5.0	13.2	5.6	19.2