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Namibia National Reinsurance Corporation Limited

Namibia Reinsurance Analysis **November 2014**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	AA-$_{(NA)}$	Stable	11/2015
Claims paying ability	International	BB	Stable	

Financial data:

(US$'m Comparative)

	31/03/13	31/03/14
N$/US$ (avg.)	8.40	10.12
N$/US$ (close)	9.23	10.73
Total assets	18.7	18.6
Total capital	13.4	12.0
Cash & equiv.	11.1	10.6
GWP	17.6	15.6
U/w result	0.0	0.5
NPAT	0.6	0.6
Op. cash flow	2.5	1.8
Market cap.	not listed	
Market share	n.a.	

Rating history:

Initial rating (September 2006)
National scale: AA-$_{(NA)}$
Rating outlook: Stable
International scale: BB
Rating outlook: Stable

Last rating (April 2014)
National scale: AA-$_{(NA)}$
Rating outlook: Stable
International scale: BB
Rating outlook: Stable

Related methodologies/research:

Criteria for Rating Insurance Companies, Updated July 2014

Namibia National Reinsurance Corporation Limited ("Namib Re") rating reports 2006-2014.

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Summary rating rationale

The ratings are based on the following key factors:

- Namib Re's corporate profile is supported by its status as the only domestically licenced reinsurer and 100% Namibian government shareholding. Whilst the recently approved protracted increase in its mandatory cession serves to support predictability in revenue streams over the medium term, its market standing continues to be undermined by its relatively small capital base (US$12m at FYE14) and perceived limited underwriting capacity.
- The demonstrated track record of sustained underwriting profits has been favourably considered. However, higher delivery cost pressure has given rise to an increasing degree of margin erosion of late. Amidst relatively subdued investment earnings, this served to limit net profit generation, with the outlook on future profitability viewed as mixed.
- Asset quality is a relative rating strength, with a low risk balance sheet and strong weighting in cash instruments supporting a high degree of liquidity. Whilst the proposed larger scale investment in unit-linked instruments is noted, the cash-near nature of these investments does not materially alter GCR's view on liquidity and balance sheet strength.
- Capitalisation is a relative rating strength of reinsurer, with a high degree of profit retention supporting stability in the international solvency margin above the 100% mark over the review period. Further, risk based capital adequacy continues to measure at strong levels and is expected to underpin relative capital strength over the rating horizon, although the adoption of a revised investment strategy and the pending increase in the mandatory cession rate are likely to drive higher future risk adjusted capitalisation requirements.
- Retrocession counterparty strength is considered robust (with programme placements pertaining mainly to strongly rated participants), whilst net treaty deductibles per risk and event remain well contained relative to FYE14 capital.
- Portfolio diversification remains a relative rating weakness, with only two lines of business (namely motor and fire) contributing meaningfully to premium volumes in F14.
- Given that the insurer's financial assets are domiciled exclusively in Namibia, its international scale rating remains constrained by the country's sovereign rating, which has recently been affirmed at BBB-; stable outlook.

Factors that could trigger a rating action may include:

Positive change: In the absence of protracted strong premium and capital growth (indicating a notably enhanced underwriting capacity) an upward adjustment of the rating or the rating outlook is considered unlikely over the medium term.

Negative change: Conversely, downward rating pressure could stem from a notable weakening in risk adjusted capitalisation, a protracted deterioration in asset quality and/or sustained underwriting losses. In addition, a protracted weakening in underwriting profitability and/or a sustained deterioration in key credit protection metrics would be viewed negatively. From an international perspective, a change in the sovereign rating of Namibia could have adverse rating implications.

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Operating environment

Economic overview

Following a reduction in GDP growth in 2013 to 4.2% (5% in 2012), the growth trajectory stabilised at 4.3% in 2014. Economic growth continues to be driven by ongoing construction activities, large mining projects and sustained government spending. Growth expectations remain favourable over the medium term, with GDP projected to advance by a further 4.4% in 2015. Key risks to the medium-term growth trajectory include weak global demand for mineral exports, adverse weather-related conditions (impacting negatively on agricultural output), delays in construction projects, and lower Southern African Customs Union ("SACU") revenues (partly stemming from the recent economic slowdown evidenced in South Africa- one of the country's key trade partners).

Table 1: Economic indicators	2012	2013	2014	2015*
Real GDP growth (%)	5.0	4.2	4.3	4.4
Real per capita GDP growth (%)	3.1	2.3	2.4	2.5
CPI inflation (%)	6.5	5.8	5.8	5.0
Budget balance % GDP	(7.1)	(0.1)	(3.0)	(5.5)

*African Economic Outlook estimates

Namibia continues to trade in a fiscal deficit, although the budget shortfall reduced substantially in 2013 to 0.1% of GDP. Low deficits are expected to be maintained, owing to an expected recovery in the SACU revenues and increased revenue collection associated with higher domestic economic growth and initiatives to improve the tax-administration regime.

Inflationary pressures reduced in 2013, with average CPI inflation registering at 5.8% (2012: 6.5%). The reduction in inflation was mainly due to decelerating costs for food and well contained energy costs. Inflation is expected to remain within single digits, as sustained fiscal disciplines contribute to relative price stability.

The monetary stance remains supportive of the peg to the Rand, with the Namibian Dollar weakening notably against the US$ in 2013, to N$10.3/US$ in December 2013 from N$8.6/US$ in December 2012. For 2014, currency pressure persisted, with the US$/N$ exchange rate depreciating further to N$11.2/US$ in October 2014. This depreciation of the Namibian dollar has been driven in part by a reduction in foreign direct investment, as a result of investors preparing for a U.S Federal Reserve interest hike (which renders investments in developing economies less attractive).

Industry overview

Based on the 2013 industry statistics, the Namibian Insurance industry encompasses 29 players, comprising in detail of 12 non-life insurers and 16 life assurers and 1 reinsurer (namely Namib Re). In view of this, life business continues to dominate domestic premium flows, accounting for 70% of consolidated gross premium income of N$9.2bn in 2013. This translated to an insurance penetration relative to GDP of around 2%, a level which compares favourably to most Southern African territories (indicating a moderate insurance awareness amongst the general public). Non-life industry gross premiums increased by 14% to N$2.8bn in 2013, supported by ongoing large public construction projects. In terms of participation, the short term insurance arena remains dominated by subsidiaries of well-established South African insurers, with the three largest (namely Santam, Hollard and Mutual & Federal) accounting for a combined market share of 59% in 2013. In view of this and given the high level of risk awareness and focus on operational disciplines exhibited by these entities (in line with group policies), this continues to support relative stability in industry operating results. Reflective of this, the industry underwriting margin remained sound in 2013 (at 7.2%), albeit trending somewhat below the 2012 margin of 10% and the 5-year industry average of 9.5%. Generally, industry underwriting profitability remains supported by relative stability in the earned loss ratio (62% in 2013 vs. 5-year average of 63%), and a well contained delivery cost structure (31% of NPE in 2013), albeit that increased operating cost pressure has seen margin levels soften somewhat of late.

Table 2: Key industry data	
Regulatory authority:	**NAMFISA**
Min. capital req. (non-life insurance):	**N$4m**
Min. capital req. (reinsurer):	**N$10m**
# of registered non-life insurers in 2013:	**12**
# of registered life assurers in 2013:	**16**
# of registered reinsurers in 2013:	**1**
Insurance penetration (% of GDP):	**±2%**
Non-life industry GWP 2013 :	**N$2,788.1m**
GWP growth 2013 (2012) (non-life) :	**14.1% (14.3%)**
International solvency 2013 (2012) (non-life):	**46.3% (45.2%)**
Retention ratio 2013 (2012) (non-life):	**70.1% (69.4%)**
Earned loss ratio 2013 (2012) (non-life):	**62.2% (60.3%)**
Delivery cost ratio 2013 (2012) (non-life):	**30.6% (29.2%)**
U/w margin 2013 (2012) (non-life):	**7.2% (10.4%)**

The Namibian insurance industry is governed by the Financial Institutions Supervisory Authority Act, 2001 and regulated by the Namibia Financial Institutions Supervisory Authority ("NAMFISA"). NAMFISA, in turn, operates under the auspices of the Ministry of Finance. Regulatory oversight manifests mainly via the enforcement of a minimum capital requirement, which has remained unchanged for several years (at NS$4m for non-life and life insurers and NS$10m for reinsurance companies). In addition, various other regulatory aspects are currently being pursued, including i) the harmonisation of internal processes; ii) the regulation and supervision of cell captives and alternative risk transfer carriers; as well as iii) the adoption of a formalised risk-based capital management regime (consistent with current development in other Southern African territories).

Challenges facing the industry at present are fairly similar to other neighbouring markets and include delays in the collection of premiums, high business churn, the lack of insurance specific skill sets, as well as the externalisation of premiums (with only a very limited degree of domestic participation). The latter is the result of a relatively lacklustre enforcement of local content rules (particularly with respect to the application of the “first right of refusal” afforded to Namib Re), with insurers in most cases only satisfying the prevailing compulsory cession mandate of 7.5% to this entity. In turn, this gives rise to a considerable loss in potential premium income for Namib Re (with an estimated NS$600m in premiums following to international markets) and ultimately involuntary forfeiture in tax revenue. In an effort to counter these prevailing market-circumventing tendencies, Namib Re recently approached NAMFISA with a catalogue of proposed remedial initiates. Besides a closer engagement with market participants, this included a proposal for the gradual raising in the mandatory cession rate (in yearly increments of 2.5 percentage points to 20% by 2018), as well as a more stringent control of prevailing local content rules. The proposal currently vests with the regulatory authority, which following the conclusion of an internal viability study and risk assessment on the impact of the proposed mandatory cession increase was submitted to parliament and subsequently approved in principle (with the associated gazetting expected for early 2015). This serves to enhance local insurance entrenchment and further cements the competitive standing of Namib Re.

Competitive positioning

Corporate profile

Namib Re commenced operations in 2001, following the enactment of the Namibia National Reinsurance Corporation Act (of 1998), the main purpose of which was to contain the outflow of funds by means of offshore reinsurance placements. In terms of company ownership, the business remains 100% owned by the Namibian government, which serves to significantly underpin the reinsurer’s domestic rating.

Strategic outlook

Historically Namib Re focused exclusively on non-life insurance risks, however, given the prominence and significant growth potential inherent in the domestic life market, the reinsurer is expected to expand into the life arena effective 1Q F15 (focusing primarily on group life risks). In preparation thereof, internal structures were adjusted, resulting in the establishment of a formal life division and the hiring of complement staff contingent. As part of ongoing efforts to improve market recognition, Namib Re remains committed to a more stringent application of the “first right of refusal” clause issued in their favour (entailed in the aforementioned Act). In this regard, all parties concerned were actively engaged in recent months to improve sensitisation on this matter. Feedback thus far is mixed, with a number of players remaining reluctant to cooperate. Whilst from a legal standpoint an enforcement is permissible, in practice this might come at the cost of a marked increase in acquisition costs (as the Act does not explicitly stipulate commission rates applicable to this aspect), leaving for room for opportunistic behaviour on the part of opposing market participants. Nevertheless, in view of the favourable decision on the compulsory cession mandate, the short to medium term growth outlook remains promising.

Peer analysis

Against select peers operating in Southern Africa (all of which currently benefit from comparatively higher mandatory cession rates), Namib Re remains relative small in absolute size, reflecting dollarized gross premium income and capital of US$15.5m and US$12.2m respectively. Key operating ratios, however, compare favourably, with Namib Re reflecting the highest underwriting margin in the sample set (at 4.1%), supported by a well contained earned loss ratio and a very competitive delivery cost structure. Liquidity remains robust closely aligned with leading peers, whilst the international solvency margin is trending in line with the aggregate sample average.

Table 3: Peer analysis 2013 (US$’m)	**Namib Re***	**Kenya Re**	**Tan Re**	**CICA Re**
Domicile	Namibia	Kenya	Tanzania	Togo
GWP	15.6	112.0	39.6	52.5
NPAT	0.6	28.7	0.6	4.3
Capital	12.0	170.9	24.3	66.1
Solvency (%)	102.1	179.9	69.3	145.2
Retention (%)	80.1	95.9	87.0	84.6
Earned loss (%)	55.1	56.8	59.2	48.0
Commission (%)	29.1	29.0	24.0	29.1
Mgmt. exp. (%)	11.7	12.9	15.8	19.9
U/w margin (%)	4.1	1.4	0.9	3.1
Cash cov. (month)	20.0	22.5	8.4	25.3

* Namib Re reflects a March year-end.

Earnings diversification

Market segment diversification

Given the untapped growth potential inherent in the domestic market and in-depth knowledge of local risks, the Namibian insurance market remains the reinsurer’s primary target market (at a stable 90% of GWP in F14), pertaining overwhelmingly to mandatory cessions. Domestic voluntary business, however, remains notably subdued, given Namib Re’s perceived limited underwriting capacity. Cross border risks accounted for around 10% of GWP in F14, with greater penetration typically constrained by a limited market acceptance (given its status as a foreign counterparty), as well as prohibitively high commission rates (when compared to domestic mandatory business).

Distribution channel diversification

Against this backdrop, premiums are mainly of a proportional nature (87% of GWP in F14), whilst facultative acceptances (originating mainly from foreign clients) constituted 10% of the gross book. The negligible remainder (3%) pertained to non-proportional participations. In view of the limited degree of diversification in the underlying insurance market (and resultant strong dominance of the top tier), cedant concentration remains considerable, with the 3 largest clients combined representing 71% of GWP in F13 (single largest: 30%). Intermediary representation is equally concentrated, with the single largest and 5 largest brokers combined accounting for 42% and 85% of total GWP respectively in F14. The balance (7%) is garnered via direct sales efforts.

Table 4: Premium composition (%)	F12	F13	F14
Proportional	88.6	87.8	87.4
Non-proportional	2.7	2.5	2.8
Facultative	8.7	9.7	9.8
Total	**100.0**	**100.0**	**100.0**

Gross premium diversification

Total GWP amounted to N$158m in F14, which represented stable growth of 7% over the prior year and largely matched initial conservative gross premium projections. This translated to compound annual growth of 13% over the review period, albeit that the growth trajectory remained skewed towards the years F10 to F12, with top-line growth having slowed notably of late. Mirroring the risk spread in the underlying market and given sustained limited voluntary business volumes, Namib Re's gross earnings stream displays very limited diversification, with only 2 lines of business producing material volumes of premium income over the past two years (namely motor and property).

Table 5: Earnings diversification (%)	GWP		NWP		Retention	
	F13	F14	F13	F14	F13	F14
Property	29.5	29.8	26.0	26.6	68.2	70.9
Transport	1.7	1.3	1.7	1.1	79.0	69.4
Motor	61.7	63.4	66.9	69.0	84.0	86.5
Medical	6.9	5.0	5.4	2.8	60.4	45.0
Miscellaneous	0.2	0.6	0.1	0.4	45.8	64.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**77.6**	**80.1**

The largest line of business on a gross basis is motor, which advanced by 13% in F14, to cement its unrivalled standing in the portfolio mix (at a 63% weighting). The reinsurer's secondary line of business is property, which registered GWP of N$47m in F14. This corresponded with a 9% increase in premium volumes year-on-year, leaving its gross portfolio weighting little changed, at 30%. All remaining lines combined accounted for collective 7% of the gross book, which was down 2 percentage points against the prior year. A key driver in this regard was medical, which owing to the adoption of a more selective underwriting stance (including the refusal of unprofitable mandatory business) saw its gross premiums volumes contract by 22% in F14.

Net premium diversification

Total NWP amounted to N$126m in F14, compared to the prior year of N$115m. Overall risk retention was little changed, equating to 80% in F14 (F13: 78%). This largely approximated the review period average of 79%, thus indicating relative stability in the business mix in recent years. Against this backdrop, the net portfolio largely matched the composition of the gross book, with motor and property driving NWP volumes (at respective shares of 69% and 27%). NPE amounted to N$124m in F14 (F13: N$115m), compared to budget of N$123m.

Profitability

Claims experience

Net claims incurred were well contained in F14, amounting to a largely flat N$68m. Against an 8% increase in net premiums earned, this saw the earned loss ratio reduce to 55% in F14 (from 59% previously). This closely tracked budget of 61% and trended marginally below the 5-year average of 57%. Overall, the earned loss ratio fluctuated in a moderate band around the 55% mark over the review period, highlighting the benefit of the mandatory cession mandate in a relatively homogenous underlying domestic insurance market.

Table 6: U/w account (%)	Net incurred loss ratio		Delivery cost ratio		Underwriting margin	
	F13	F14	F13	F14	F13	F14
Property	40.5	40.9	51.1	56.2	8.4	2.9
Transport	36.3	34.7	41.2	37.1	22.5	28.2
Motor	61.4	60.5	37.1	35.2	1.5	4.4
Medical	130.7	72.3	31.7	37.4	(62.5)	(9.7)
Misc.	18.8	10.7	33.6	26.4	47.6	63.0
Total	**59.2**	**55.1**	**40.5**	**40.8**	**0.3**	**4.1**

Year-on-year, the reduction in the overall earned loss ratio was in part driven by the medical book, which saw its losses more than half to N$2m in F14, resulting in a notable reduction in the medical earned loss ratio to 72% (F13: 131%). This followed the aforementioned refusal of various unprofitable mandatory domestic risks and the shedding of select international accounts. The performance of this book, however, has to be viewed in the context of the limited underlying net premium scale, which gives rise to a considerable degree claims ratio volatility. Losses in the dominant motor portfolio were well contained (at a flat N$45m), which saw the corresponding earned loss ratio reduce slightly to 60.5% in F14 (F13: 61.4%). Claims stability in this line of business is supported by a continued focus on appropriate risk pricing, with subsidiaries of South based insurance groups driving underwriting sophistication in the market (by means of leveraging group-internal expertise and systems). In the absence of any major incidents during the year, the property earned loss ratio was equally well contained, equating to a largely unchanged 40.9% (F13: 40.5%).

Table 7: Income statement (N$'m)	F14		% of budget
	Actual	Budget	
GWP	157.8	157.1	100.5
NWP	126.4	122.5	103.2
NPE	**124.1**	**122.5**	**101.3**
Claims	(68.4)	(74.7)	91.5
Commission	(36.2)	(34.9)	103.6
Management expenses	(14.5)	(19.4)	74.6
U/w result	**5.1**	**(6.5)**	**n.a.**
Investment income	8.4	9.2	91.2
Ratios (%)			
GWP growth	6.8	6.3	
Retention	80.1	78.0	
Earned loss	55.1	61.0	
Commission	29.1	28.5	
Mgt. expense	11.7	15.9	
U/w margin	4.1	(5.3)	
Intern. solvency	102.1	115.2	

Commission
With a slight uptick in relative acquisition costs (29.4% of GWP vs. 27.7% in F13) offsetting the impact of higher commission recoveries (30.5% of retrocessions vs. 27.2% in F13), the net commission ratio increased marginally in F14, to 29.1% (F13: 27.9%), thus tracking slightly ahead of both budget (28.5%) and the 5-year review period average (27.6%). Nonetheless, in light of the favourable claims experience, the technical margin improved from 13% in F13 to 15.7% in F14 (5-year review period average: 15.6%).

Operating costs
Following two years of increased operating cost pressure, management expenses remained flat in F14, at N$15m. Against an 8% increase in NPE, this saw the management expense ratio reduce by one percentage point to 12% in F14, compared to budget of 16% and a review period average of 10%. As a percentage of GWP, operating costs represented a low 9% (F13: 10%), a level which by international standards points to a high level of cost efficiencies. Year-on-year, cost reprieve stemmed mainly from a notable reduction in bad debt provisions, as well as the absence extraordinary penalties (F13: N$1.9m penalty relating to income tax). Jointly, these helped to absorb a 59% year-on-year increase in staff costs, with the staff contingent for F14 notably enhanced to address latent operational shortfalls and improve reporting efficiencies.

Net underwriting result
In view of the above, Namib Re posted a higher N$5.1m underwriting profit in F14 (F13: N$0.3m profit), with the corresponding margin recovering to 4.1% from 0.3% previously. Whilst this was in stark contrast to the projected N$6.5m underwriting loss forecast, underwriting profitability remains notably constrained against historic levels (3-year aggregate underwriting margin of 8.6% between F10 and F12), with margin erosion of late driven by rising delivery cost pressure. From a line of business perspective, all classes (barring property) displayed improved levels of profitability in F14, with motor driving profits in absolute terms (67% profit share in total underwriting profit), thereby compensating for sustained losses incurred in the medical book.

Net operating result
In view of the prominence of low interest yielding cash instruments, investment income remained somewhat subdued in F14, at N$8.4m (F13: N$8.6m), comprising overwhelmingly cash and government security interest receipts. This corresponded with an investment yield of 5.7% in F14 (F13: 6.6%). As a proportion of NPE, investment income represented 6.7% in F14 (F13: 7.5%). Coupled with the underwriting result reported for the year, this translated to F14 operating income of N$13.5m, with corresponding operating margin totalling 10.8% (F12: 7.8%; 5-year average: 14.1%).

Net profit result
After accounting for a N$7m taxation charge, NPAT totalled N$6.5m in F14, which was marginally above the N$5m posted previously, however, notably trailed historic profits posted prior to F13. Correspondingly, return on equity (including unrealised investment movements) equated to 5.1% (F13: 4.2%). This was notably below the aggregate equity return of 16.9% posted between F10 and F12, highlighting the impact of the aforementioned softening in underwriting profitability of late. In the absence of any unrealised investment gains and with all earnings retained for the benefit of solvency enhancement (F13: N$1.4m dividend distribution), capitalised income matched post-tax profits for the year (at N$6.5m vs. N$3.7m previously).

Table 8: Budget (N$'m)	**YTD***		**Budget F15**
	Actual	**Budget**	
GWP	78.7	80.6	161.3
NPE	**64.4**	**62.9**	**125.8**
Claims	(35.2)	(35.2)	(70.4)
Commission	(17.1)	(15.1)	(37.7)
Management expenses	(13.1)	(15.4)	(23.1)
U/w result	**(1.0)**	**(2.8)**	**(5.5)**
Shareholders interest	**137.5**	**132.4**	**140.0**
Ratios (%)			
GWP growth	n.a.	n.a.	2.2
Retention#	81.8	77.9	78.0
Earned loss	60.7	56.1	56.0
Commission	31.1	29.9	30.0
Mgt. expense	15.1	23.9	18.4
U/w margin	(6.9)	(9.9)	(4.4)
Claims cash cover (months)	n.a.	n.a.	29.5
International solvency#	142.3**	140.3**	111.3

* 8 months to 30 November 2014.
**Annualised.
Based on NPE as a measure of risk retention.

Prospective
In line with prior years, the reinsurer has put forward a relatively conservative budget, which foresees GWP to advance by a low 3% to N$161m. For F16 premium levels are projected to rise notably as the increase in mandatory cessions feeds through. However, at this stage no revised projections have been provided by management. With risk retention in F15 forecast at 78%, NPE is budgeted to amount to N$126m. Whilst the claims experience is expected to closely track historic norms (55% earned loss ratio), the delivery cost ratio is projected increase markedly (to 48% from 41% previously), with rising staff costs exerting considerable operating cost pressure. Overall, this would translate to a N$5.5m underwriting loss for F15, starkly contrasting a prolonged trajectory of persistent historic underwriting profits.

Retrocession

Retrocession structure
The structure of the retrocession programme was little changed year-on-year, with the corresponding details tabulated below. More specifically, the framework provides surplus capacity to N$18m, subject to a N$3m net deductible. XoL cover extends to a higher maximum value of N$25m, with the last

layer of the corresponding fire, CAR and miscellaneous accident XoL treaty representing a dedicated CAT layer. By way of structuring, the largest net retention per risk and event on this facility is bought down to N$1m, which equated to a low 0.8% of FYE14 capital. Considering the limited capacity afforded by the treaty framework, and given the reinsurer's subdued capital base in absolute terms, facultative retrocession is used frequently, representing around half of total retrocessions placed in F14. Management has indicated that these placements serve purely the purpose of capacity extension, with no risk in excess of treaty limits retained for the reinsurer's account.

Table 9: Reinsurance programme 2015- N$	**Retention**	**Limit**
Quota share		
Healthcare	60%	5.7m
Surplus (# of lines)		
Fire (6)	3m	18m
Motor (6)	0.5m	3m
Misc. acc. (6)	1m	6m
Marine, hull & cargo (3)	1m	3m
Excess of loss (layers)		
Fire, CAR & misc. acc. CAT (5)	1m	25m
Obligatory fac		
All risks	0.25m	5m

* All table entries relate to Namibian business.

Retrocession counterparts

In accordance with prior years, Munich Re remains the lead retrocessionaire, accounting for a 40% share across most treaties. Other programme participants include Africa Re (lead on the healthcare quota share and obligatory fac treaty), Everest Re, Zep Re. Overall, the quality of Namib Re's retrocession panel is considered adequate, with all material counterparties evidencing a sound level of counterparty strength.

Table 10: Retrocession result (N$'m)	**F10**	**F11**	**F12**	**F13**	**F14**
Premium retroceded	(20.1)	(27.2)	(30.3)	(33.3)	(31.4)
Claims recovered	9.6	16.9	15.7	18.7	14.2
Commission received	6.2	8.0	7.9	9.0	9.8
Net transfer cash- basis	**(4.3)**	**(2.3)**	**(6.7)**	**(5.6)**	**(7.4)**

Amidst relative stability in the premium mix, premiums retroceded were little changed in F14, amounting to N$32m (F13: N$33m). However, with total recoveries easing off slightly against retrocessions (to 75% from 83% in F13), this corresponded to a higher net cash retrocession transfer of N$7.4m in F14 (F13: N$5.6m). Overall, this translated to a 3-year cash-based retrocession margin of 12%, which compared to the corresponding metric of 17% for Namib Re points to a relatively balanced retrocession trade-off.

Asset management

Total investments

Total invested assets increased by 12% to N$154.7m at FYE14, to comprise 78% of total assets and over 100% of the insurer's capital base. Investment coverage of net technical liabilities and net premiums written was equally sound, equating to 5x and 1.2x respectively. Overall, Namib Re continues to display a conservative investment mix, with cash holdings dominating the asset allocation at a stable 74% weighting at FYE14. This supports a high degree of asset quality and underpins a robust liquidity position, both are considered key rating strengths.

Table 11: Investment portfolio	**FYE13**		**FYE14**	
	N$'m	**%**	**N$'m**	**%**
Cash on hand	26.0	18.8	39.5	25.5
Fixed deposits	40.3	29.1	38.6	25.0
Government bonds	36.4	26.3	35.9	23.2
Cash & cash equivalents	**102.8**	**74.2**	**114.0**	**73.7**
Corporate bonds	35.8	25.8	40.7	26.3
Total investments	**138.6**	**100.0**	**154.7**	**100.0**

Cash and liquidity

Cash and equivalents stood at N$114m at FYE14 (or 88% of FYE14 capital), representing 11% growth over the prior year (supported by sustained sound operating cash flows). Consistent with prior years, the cash portfolio is exclusively Namibian Dollar denominated and fairly spread between government bonds, fixed deposits and cash on hand. In terms of institutional diversification, fixed deposits and cash on hand reflect limited diversification across select domestically licensed, moderately strong rated financial institutions (single largest exposure: 74%; 3 largest combined: 87%). This implies increased banking counterparty concentration.

Cash covered average monthly claims by 20 months (F13: 18 months), whilst cash coverage of net technical liabilities equated to 2.6x (F13: 3.3x), with the moderate softening in the latter metric resulting from a notably more conservative reserving stance. Nevertheless, key liquidity metrics remained robust in F14, and continue to support a low risk credit profile.

Non-cash investments

The investment portfolio is complemented by corporate bonds in Telecom Namibia, which supported by net additions were carried at a higher value of N$40.7m at FYE14 (F13: N$35.8m).

Investment strategy

Management has indicated that effective 4Q F15 a new investment strategy has been adopted, primarily aimed at optimising investment returns against the backdrop of a moderately more risky asset allocation. More specifically, this would see the gradual liquidation of its low yielding government bond portfolio and the subsequent investment of correspondingly freed-up funds in various unit-linked instruments. Given the cash-near nature of these instruments (which subject to a certain haircut can be liquidated with relative ease in a stress scenario), the adoption of this revised investment stance does not materially weaken the asset quality of the reinsurer's balance sheet.

Premium debtors

Premium debtors amounted to N$12.9m at FYE14 (FYE13: N$8.4m), to comprise a higher 10% (FYE13: 7%) of total capital. However, against a slight reduction in aggregate premium receivables, average debtor aging remained well contained in F14 (at 25 days vs. 28 days in F13). Attesting to this profile, debtors over 180 days in arrears totalled a low N$0.8m at FYE14 (FYE13: N$1.2m).

Asset and conversion risk
Namib Re's assets are domiciled exclusively in Namibia, which recently has seen its sovereign credit rating re-affirmed at BBB- in 4Q 2014. This implies some degree of country risk and serves to cap the insurer's international claims paying ability.

Solvency

Capital generation
Namib Re has exhibited sound capital accumulation over the past five years, with cumulative retained earnings amounting to N$59.4m. Dividends have been contained at a very low level over this period period (totalling a collective N$4m), translating to shareholders' funds compound annual growth of 11%. This tracked above the prevailing average CPI inflation over the same period, thus enhancing capital strength in real terms.

Capital adequacy
Year-on-year shareholders interest increased by 4% to N$129m at FYE14. Of this amount, 47% pertained to non-distributable reserves (constituting share capital and statutory reserves), with the balance made up of retained earnings. In view of this and with net premiums written advancing by a comparatively greater 10%, the international solvency margin softened slightly to 102% in F14 (F13: 108%, 5-year average: 108%). Adjusting solvency for debtors over 180 days in arrears and stressing capital for a conservative 30% haircut on non-cash investments, the international solvency margin reduces to 92% in F14 (F13: 98%), albeit remaining sound in the context of the reinsurer's overall risk profile. For F15 and F16, Namib Re is forecasting an international solvency margin of 120% and 121% respectively, however, note is taken of the fact that operating budgets for F16 do not factor in the recently approved increase in the mandatory cession rate. Assuming a similar industry growth trajectory and stable retention rate of 80%, this is could see net written premiums increase to around N$180m in F16. Premised on an estimated capital base of N$142m (based on capital growth of 10%- as per the historic CAGR), this would translate to an international solvency margin of 79% for F16. However, management has indicated that it remains committed to maintain the international solvency margin around the 100% mark over the medium term, with the rise in the mandatory cession rate likely to result in near term capital support by the Namibian government. This supports GCR's favourable view of the reinsurer's credit strength over the 18-24 months rating horizon.

From a statutory perspective, Namib Re remained well capitalised in F14, with the net asset surplus comfortably exceeding the minimum regulatory requirement (calculated as 15% of prior year's net written premiums).

On a risk adjusted basis, capital adequacy has been measured at strong levels, with Namib Re reflecting very low underwriting and market risk over the review period. Whilst the pending increase in the compulsory cession rate to 10% and the adoption of a revised investment strategy are expected to require a higher level of risk adjusted capitalisation, CAR coverage is projected to remain strong over the medium term, supporting GCR's view of relative capital strength over the rating horizon.

Reserving
Provisions for unearned premiums are calculated utilising the 1/8th method, while outstanding claims reserves are provided for on the basis of historic claims experiences. In this regard, the unearned premium reserve equated to 12% of NWP in F14 (F13: 9%), while the ratio of outstanding claims to NWP stood at a higher 23% (F13: 19%). Overall, these levels are considered adequate in light of the reinsurer's business mix and reconciliation timelines prevailing in the underlying domestic insurance market.

Risk management

Corporate governance
- Board composition

The insurer's Board of Directors ("BoD") consists of 7 members, of which the majority (4- including the chairman) are non-executive, non-independent directors. At board level a number of committees are maintained (namely Audit and Risk Committee, Technical & Finance Committee, Investment Committee, and Human Resources and Remuneration Committee). These committees, as well as the BoD meet quarterly (or on an ad hoc basis if required). Overall, the independence of Namib Re's BoD remains affirmed, thereby conforming to generally accepted corporate governance standards.

- Audit quality and policy

Namib Re's annual financial statements for F14 have been audited by PricewaterhouseCoopers, a certified auditing firm. Note is taken of the fact that 2012 Audited Financial Statements (audited by Ernst & Young) were subject to a disclaimer of opinion, relating to insufficient audit evidence on foreign currency transactions and accrual principles applied. Management has indicated that this emanated mainly from inefficient internal reporting structures and systems, which hindered a comprehensive reconciliation of data sets. On the back of this, a number of corrective initiatives have been undertaken over the past 18 months, including the restructuring of internal work flows and reporting lines; the hiring of additional, suitably qualified staff; as well as the procurement and full integration of a new underwriting system (which allows for a real time population and expropriation of audit- compatible data sets). On the back of this, Audited Financial Statements for 2013 have been issued with an emphasis of matter (detailing applicable restatements for the prior year). For 2014, an unqualified audit opinion was issued, with a full external auditors' report compiled for the reinsurer. As per the company's incorporation charter, auditors are rotated every 3 years, with the current auditing firm serving presently serving its 2nd term.

Enterprise risk management
Risk management is undertaken in accordance with prevailing regulations. Whilst note is taken of management's ongoing commitment to improve risk management disciplines (including the development of an ERM framework), the finalisation and subsequent operationalisation thereof is still pending, with the overall status of risk management disciplines considered as evolving.

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Namibia National Reinsurance Corporation Limited

(N$ in Millions except as Noted)

Year ended : 31 March		2010	2011	2012^	2013	2014
Income Statement						
Gross written premium (GWP)		**97.1**	**119.9**	**137.7**	**147.8**	**157.8**
Retrocession premiums		(20.1)	(27.2)	(30.3)	(33.3)	(31.4)
Net written premium (NWP)		**77.0**	**92.7**	**107.4**	**114.5**	**126.4**
(Increase) / Decrease in insurance funds		(3.1)	2.4	(4.8)	0.4	(2.3)
Net premiums earned		**73.8**	**95.0**	**102.6**	**114.9**	**124.1**
Claims incurred		(43.2)	(58.0)	(52.4)	(68.0)	(68.4)
Commission		(19.2)	(24.0)	(29.3)	(32.0)	(36.2)
Management expenses		(5.9)	(5.7)	(9.9)	(14.6)	(14.5)
Underwriting profit / (loss)		**5.5**	**7.3**	**10.9**	**0.3**	**5.1**
Investment income		7.8	7.8	7.8	8.6	8.4
Other income / (expenses)		0.0	0.0	0.8	0.4	0.2
Taxation		0.0	0.0	0.0	(4.2)	(7.2)
Net income after tax		**13.3**	**15.1**	**19.5**	**5.1**	**6.5**
Unrealised gains / (losses)		0.0	0.0	0.0	0.0	0.0
Retained income		**13.3**	**15.1**	**19.5**	**5.1**	**6.5**
Dividends paid in respect of the financial year		(1.3)	(1.3)	0.0	(1.4)	0.0
Cash Flow Statement						
Cash generated by operations		5.5	7.3	16.1	12.6	13.6
Cash flow from investment income		7.8	7.8	7.8	8.6	8.4
Working capital decrease / (increase)		6.0	3.3	(5.1)	0.0	0.0
Tax paid		0.0	0.0	0.0	0.0	(4.1)
Cash available from operating activities		**19.4**	**18.3**	**18.8**	**21.2**	**17.9**
Dividends paid		(1.3)	(1.3)	0.0	(1.4)	0.0
Cash flow from operating activities		**18.1**	**17.0**	**18.8**	**19.8**	**17.9**
Purchases of investments		(17.1)	(2.9)	(61.6)	(67.5)	(45.7)
Proceeds on disposal of investments		0.0	0.0	32.3	56.9	43.1
Other investing activities		13.6	(6.1)	26.3	(27.4)	(4.1)
Cash flow from investing activities		**(3.5)**	**(9.0)**	**(3.0)**	**(38.0)**	**(6.7)**
Cash flow from financing activities		**0.0**	**0.0**	**0.0**	**0.0**	**0.1**
Net cash inflow / (outflow)		**14.6**	**8.0**	**15.9**	**(18.2)**	**11.3**
Balance Sheet						
Shareholders interest		**86.0**	**99.9**	**119.3**	**123.6**	**129.1**
Net unearned premium reserves		7.8	5.4	10.2	9.8	15.0
Net o/s claims and IBNR provision		14.8	23.3	19.2	21.3	28.8
Other liabilities		7.0	3.7	9.5	17.5	26.5
Total capital & liabilities		**115.7**	**132.3**	**158.3**	**172.2**	**199.4**
Fixed assets		7.2	16.2	19.0	21.4	20.6
Investments		5.2	5.2	5.2	35.8	40.7
Cash and cash equivalents		91.8	99.8	115.7	102.8	114.0
Other current assets		11.5	10.9	18.2	12.2	24.1
Total assets		**115.7**	**132.3**	**158.3**	**172.2**	**199.4**
Key Ratios						
Solvency / Liquidity						
Shareholders' funds / NWP	%	111.8	107.8	111.1	107.9	102.1
Adjusted international solvency margin*	%	111.8	107.8	121.5	106.9	101.5
Cash claims cover	months	26.9	21.7	27.7	18.1	20.0
Cash & equivalents : Technical liabilities	x	4.3	3.7	4.1	3.3	2.6
Average debtors	days	38.4	33.5	32.9	27.9	24.7
Outstanding claims / NWP	%	19.3	25.1	17.8	18.6	22.8
Insurance funds / NWP	%	10.1	5.9	9.5	8.6	11.9
Profitability						
ROaE (after unrealised gains / losses)	%	16.6	16.2	17.7	4.2	5.1
Investment yield (including unrealised gains / losses)	%	8.7	7.7	6.9	6.6	5.7
Efficiency / Growth						
GWP Growth	%	19.6	23.4	14.9	7.4	6.8
Premiums retroceded / GWP	%	20.7	22.7	22.0	22.5	19.9
Earned loss ratio	%	58.6	61.0	51.1	59.2	55.1
Commissions / Earned premiums	%	26.0	25.3	28.6	27.9	29.1
Management expenses / Earned premiums	%	8.0	6.0	9.6	12.7	11.7
Underwriting result / Earned premiums	%	7.5	7.7	10.6	0.3	4.1
Trade ratio	%	92.5	92.3	89.4	99.7	95.9
Operating						
Effective tax rate	%	0.0	0.0	0.0	47.4	53.5
Dividend cover	x	10.6	12.1	n.a.	3.7	n.a

*Exludes debtors over 180 days in arrears.

^Restated figures.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Namibia National Reinsurance Corporation Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to Namibia National Reinsurance Corporation Limited with no contestation of the rating.

The information received from Namibia National Reinsurance Corporation Limited and other reliable third parties to accord the credit rating included 2014 audited annual financial statements (plus four years of comparative numbers), latest internal and/or external report to management, full year 2015 detailed budgeted financial statements, most recent year to date management accounts to 30 November 2014, 2014 retrocession cover notes, as well as other non-public statistical information.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.