Rating Action: Moody's assigns Ba1 IFS rating to NamibRe; outlook stable

Global Credit Research - 29 Nov 2015

New York, November 29, 2015 -- Moody's Investors Service ("Moody's") has assigned a Ba1 insurance financial strength (IFS) rating to Namibia National Reinsurance Corporation Limited (NamibRe), with a stable outlook.

NamibRe is a state-owned corporation that was established by an Act of Parliament, the NamibRe Act (Act 22 of 1998), and commenced operations in 2001. NamibRe's mandate is to reduce capital outflows in the form of reinsurance premiums and to retain, in Namibia, more capital generated by the insurance industry in the country. To assist in fulfilling its mandate, the NamibRe Act stipulates a mandatory cession of a portion of all insurance and reinsurance premiums written in Namibia to NamibRe.

RATINGS RATIONALE

The Ba1 IFS rating reflects NamibRe's Ba2 standalone credit assessment and one notch of uplift due to implicit support from its sole shareholder, the Government of Namibia (Baa3, stable), hereinafter referred to as the government.

The Ba2 standalone credit assessment reflects (i) NamibRe's secure position in the Namibian insurance market - a result of the legislated mandatory cession, (ii) its good capitalization relative to its insured exposures, (iii) its moderate asset risk due to its primary investment exposures being to the government and the local banking sector, and (iv) the relatively short-tailed nature of the majority of its insurance exposures, which lowers reserving risk. Partially offsetting these strengths are (i) NamibRe's very small size relative to its global reinsurance peers, (ii) its geographic concentration in Namibia, (iii) moderate profitability, which has been deteriorating in recent years due to higher operating expenses and adverse claims experience, and (iv) less robust underwriting and risk management capabilities relative to its global peers.

In terms of market presence, NamibRe is smaller than would ordinarily be required for a reinsurer with a similar standalone credit profile, however the company benefits from the legislated mandatory cession, which secures its market position and relevance. The mandatory cession rate under the NamibRe Act has been recently amended to increase from the current 7.5% to 20% over the next five years. Absent the mandatory cession, we would expect NamibRe's credit profile to be closer to the single-B range.

NamibRe retains a high level of capital relative to its insured exposures, as evidenced in its low gross underwriting leverage of 1.5x. However we expect capitalization to reduce, as premiums written increase under the increasing mandatory cession rate, and NamibRe starts assuming life insurance premiums, also allowed under the mandatory cession.

Profitability is moderate and has deteriorated over recent years, as the company has faced worse than expected underwriting experience. In addition, NamibRe has increased its expense base to strengthen its operational capabilities, which has contributed to the combined ratio increasing to approximately 102% for the year ended 31 March 2015. The company expects the combined ratio to improve as premiums increase under the higher mandatory cession, and actions are taken to improve underwriting profitability.

Moody's stated that, while the government does not provide explicit support to NamibRe, there is sufficient evidence of implicit support to provide one-notch of uplift above the standalone credit assessment. Implicit support for NamibRe is evidenced in the government's 100% ownership of NamibRe, its track record of supporting state-owned corporations, NamibRe's track record of profitability and progress in fulfilling the government's policy objective and the government's active involvement in the oversight of NamibRe, including a requirement that it appoint all the directors on NamibRe's board.

In addition, the mandatory cession under the NamibRe Act is a strong indicator of the importance of NamibRe's mandate.

RATING OUTLOOK

Moody's stated that the stable outlook for NamibRe's rating reflects the stable outlook for the Government of

Namibia's Baa3 government debt rating, our expectation that the NamibRe Act and mandatory cession will remain in effect for the foreseeable future, NamibRe's good capitalization relative to insured exposures, and actions management are implementing to improve operating profitability.

WHAT COULD CHANGE THE RATING UP OR DOWN

The following factors could lead to an upgrade of the group's ratings: (1) an upgrade of Namibia's sovereign rating, (2) explicit support, most likely in the form of an irrevocable and unconditional guarantee, from the government, (3) a significant increase in premiums written that would support a larger scale, more robust operating infrastructure, and (4) improved profitability in the form of consistently lower combined ratios and average return on capital in excess of 15%.

Conversely, the following factors could lead to a downgrade of the company's ratings: (1) a downgrade of Namibia's government debt rating and/or a weakening credit profile of the Namibian banking sector, (2) evidence of a decrease in the level of implicit support from the government, including elimination or meaningful reduction of the mandatory cession, (3) continued deterioration in the combined ratio or the inability to maintain a sub-100 combined ratio, (4) gross underwriting leverage consistently in excess of 2.5x, and (5) a 10% decline in shareholders' equity over a 12-month period (from underwriting losses and/or capital management activity).

LIST OF NEW RATINGS

The following rating was assigned with stable outlook:

Namibia National Reinsurance Corporation Limited: IFS rating at Ba1

PRINCIPAL METHODOLOGIES

The methodologies used in this rating were Global Reinsurers published in October 2014, and Government-Related Issuers published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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