MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms NamibRe's IFS rating at Ba1, changes outlook to negative

Global Credit Research - 08 Dec 2016

London, 08 December 2016 -- Moody's Investors Service, ("Moody's") has affirmed the Ba1 insurance financial strength (IFS) rating of Namibia National Reinsurance Corporation Limited (NamibRe) and changed the outlook to negative from stable.

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 more capital generated by the Namibian 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

This rating action follows Moody's change in the outlook for the sovereign, the Government of Namibia (Namibia, Baa3, negative) to negative from stable. Follow this link to the related Moody's press release detailing the sovereign rating action (Moody's changes outlook on Namibia's Baa3 rating to negative, affirms rating; https://www.moodys.com/research/--PR_357255). NamibRe's Ba1 IFS rating reflects the corporation's ba2 standalone credit assessment and one notch of uplift due to implicit support from its sole shareholder, the Government of Namibia. Because its IFS rating incorporates support from the sovereign, and due to the fact that NamibRe's market position and franchise is dependent on continued government support for the mandatory cession legislation, we consider NamibRe's IFS rating to have moderate linkage to the sovereign rating.

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, and our rating is in part based on the expectation that the NamibRe Act and mandatory cession will remain in effect for the foreseeable future.

While not the driver of NamibRe's negative outlook, Moody's notes that the corporation expects a significant increase in premiums from 2017 onwards -- the result of changes in its implementation of the mandatory cession regulations. On 1 November 2016, the Namibian Ministry of Finance announced changes to the implementation of the mandatory cession rules that would both increase the number of policies included in the scope of the mandatory cession and over time, increase the cession amount, up from the current 10% of premiums to 20% of premiums by 2020.

Effective in January 2017 NamibRe will implement the more extensive application of the mandatory cession legislation, in order to capture a greater share of insurance premiums written in Namibia. The changes are expected to cause a significant increase in NamibRe's gross and net premiums written from 2017 onwards, which will increase the corporation's underwriting leverage and increase its susceptibility to adverse development in claims frequency or severity. NamibRe will also start capturing life insurance premiums under the mandatory cession, an area in which the corporation has had no meaningful exposure in the past. These risks are moderated by the corporation's reinsurance programs, which include meaningful excess of loss cover to limit NamibRe's loss in the event of single, large events, and significant quota-share of the life reinsurance business.

More positively, the significant increase in premiums, if well executed, is likely to improve the corporation's expense ratio, given its high level of fixed costs relative to current premium levels. In addition, in the event that this new business performs in line with historical patterns, Moody's expects it to be profitable and contribute to higher net income for NamibRe. Furthermore, moderating the risk related to the significant increase in premium flow from both property and casualty and life business, is the fact that the bulk of this business relates to established life and P&C books in the Namibian market, with meaningful amounts of historical claims data. Therefore, our baseline expectation is that NamibRe's enlarged portfolio would generally perform in line with the Namibian market, which has historically been profitable over time.

In addition to the factors related uncertainty about to changes to NamibRe's premium volume, profitability and capitalisation in the near term, NamibRe's 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 currently insured exposures, (iii) its moderate asset risk, 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, and (iv) less robust underwriting and risk management capabilities relative to its global peers.

WHAT COULD CHANGE THE RATING UP OR DOWN

Given the negative outlook for the Government of Namibia and NamibRe, an upgrade of NamibRe's Ba1 IFS rating is unlikely in the near term. However, a return to a stable outlook could result from either: (i) the outlook for the Government of Namibia reverting to stable, or (ii) increased certainty about the future capital adequacy and profitability of the corporation following the increased mandatory cession. Specific factors that would be indicative of increased certainty about the corporation's capital adequacy and profitability include: (i) loss ratios (life and P&C) remaining generally in line with industry and NamibRe's historical performance, (ii) reinsurance programmes that appropriately mitigate the risks related the expected significant increase in new premium volume, and (iii) increased net income and growth in the corporation's capital base.

The following factors could lead to a downgrade of the company's ratings: (i) a downgrade of Namibia's government debt rating and/or a weakening credit profile of the Namibian banking sector, (ii) evidence of a decrease in the level of implicit support from the government, including elimination or meaningful reduction of the mandatory cession, (iii) deterioration in the combined ratio or the inability to maintain a sub-100 combined ratio, (iv) meaningful increase in net retention, relative to shareholder's equity (i.e. meaningful weakening of capital adequacy), absent appropriate reinsurance structures to mitigate the risk of adverse claims experience, (v) meaningful weakening in the credit profile of the key reinsurers participating on the corporation's reinsurance panel, and (vi) a 10% decline in shareholders' equity over a 12-month period (from underwriting losses and/or capital management activity).

LIST OF AFFECTED RATINGS:

The following rating was affirmed:

Namibia National Reinsurance Corporation Limited: IFS rating at Ba1

Outlook changed to negative from stable

The methodologies used in this rating were Global Reinsurers published in April 2016, and Government-Related Issuers published in October 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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