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Namibia National Reinsurance Corporation Limited

Namibia Reinsurance Analysis **March 2018**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	A+(NA)	Stable	September 2018
Claims paying ability	International	BB	Negative	September 2018

Financial data:

(USD'm comparative)

	31/03/16	31/03/17
NAD/USD (avg.)	13.51	14.28
NAD/USD (close)	14.83	13.41
Total assets	16.3	20.3
Total capital	11.2	13.7
Cash & equiv.	2.8	7.2
GWP	15.8	21.2
U/w result	0.6	1.1
Net income after	1.3	1.5
Op. cash flow	1.9	1.5
Market cap.		
Market share		

Ratings history:

Initial/ last rating (March 2018)
NSR claims paying ability: A+(NA)
Rating outlook: Stable
ISR claims paying ability: BB
Rating outlook: Negative

Related methodologies/research:

Criteria for Rating Short Term Insurance Companies, updated July 2017

Criteria for Rating Long Term Insurance Companies, updated July 2017

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Summary rating rationale

- National Reinsurance Corporation Limited's ("NamibRe") business profile is healthy, supported by a strong domestic market share and well diversified earnings stream. The reinsurer is the only locally registered player and benefits from regularized mandatory cessions. While strong growth was achieved in FY17 (largely due to increased facultative placements), the reinsurer's premium base was adversely impacted by the temporary retraction of mandatory cessions following legal action in FY18. As such, NamibRe's market share is expected to register below 20% in FY18 (FY17: 33%; FY16: 20%). Going forward, the effective increase of mandatory net line cessions to 20.0% from 7.5%, and implementation of a 12.5% cession on each insurance policy (from 1 July 2018), together with increased diversification into long-term business, are likely to support robust premium growth.
- Risk adjusted capitalization moderated to a strong level at FY17, after historically registering at robust levels. This was largely due to the strong growth achieved in FY17 resulting in increased insurance risk exposure, relative to moderate capital growth. Accordingly, the international solvency margin equated to a lower 76% at FY17 (FY16: 96%), compared to the prior four year average of 103%. Thin profit margins, in tandem with projected strong revenue growth (with additional capital injections viewed as unlikely) may result in further capital adequacy compression over the outlook horizon. In this respect, capital management over the coming 24 months represents a key rating consideration. The highest net retentions per risk and event are limited to levels viewed to be conservative relative to capital, while retrocession arrangements are placed with highly rated counterparties.
- Underwriting profitability trended within an intermediate level over the last five years, with an aggregated margin of 4%. Cognisance is taken of the atypically higher underwriting margin recorded in FY17 (8%), which was largely due to the spike in facultative business characterized by favourable loss metrics. Underwriting profitability is likely to weaken in FY18, largely as a function of the loss of business associated with the temporary revocation of compulsory cessions. Over the medium term, GCR expects underwriting profitability to register within an intermediate level, underpinned by upscaling of operations to support the expected increase in business volumes.
- Liquidity registered at a strong level in FY17, supporting the reinsurer's rating. Following the redirection of funds into cash investments, cash coverage of technical liabilities rose sharply to a high 1.9x (FY16: 0.9x; FY15: 0.5x), while cash covered 8 months' worth of average monthly claims (FY16: 5 months'; FY15: 3 months), largely underpinned by disposal of financial assets. Going forward, liquidity may fluctuate given that the investment strategy is dictated by prevailing returns within the market, which could see notable shifts in asset allocation.
- The rating derives upliftment from implicit shareholder support, given that the reinsurer is 100% owned by the Namibian government. In this regard, the reinsurer is viewed to be of moderate strategic importance to the national government.
- The international scale rating remains adversely impacted by Namibia's sovereign rating, given the fact that the reinsurer's assets are entirely domiciled locally, while the majority of revenues are sourced domestically.

Factors that could trigger a rating action may include

Positive change: Positive rating movement could develop over the medium term if the reinsurer's earnings capacity sustainably improves and/or material strengthening in capitalisation.

Negative change: Downward rating pressure may follow low earnings relative to expectations, failure to sustain capital adequacy metrics and/or reduction in the strategic importance of the reinsurer.

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Economic and industry overview

Economic overview

Economic growth registered at weak levels in 2017, with real GDP growth forecast at 0.8% by the IMF. Despite positive developments in the mining (diamond, metal ores), tourism and agriculture sector, output in the construction, wholesale and retail trade, and transport sectors has declined.

Table 1: Macroeconomic indicators (%)

	2015	2016	2017f	2018f
Real GDP growth	6.0	1.1	0.8	2.5
Inflation (annual avg. % change)	3.4	6.7	6.0	5.8
Government gross debt % GDP	39.5	40.7	37.7	43.6
Current account % GDP	(12.6)	(14.0)	(7.3)	(6.6)

f – forecast.
Source: IMF World Economic Outlook, October 2017.

Annual inflation averaged 6.5% for the nine months to 30 September 2017 (the same over the corresponding period in 2016). On a monthly basis, however, inflation slowed down from its peak of 8.2% in January 2017 to reach 5.6% in September 2017, with a large portion attributable to lower food inflation. The Monetary Policy Committee ("MPC") increased the repo rate by 25 basis points to 7.0% in April 2016. In August 2017, the MPC reduced the repo rate by 25 basis points to 6.75% to support economic domestic activity. The MPC maintained the repo rate at 6.75% in October 2017.

Risks to domestic growth include meagre recoveries in the country's trading partners, slow recovery in international commodity prices, undue appreciation of the Namibia Dollar and uncertainty about weather conditions. The sluggish economic growth in South Africa (Namibia's main trading partner), Angola and other emerging markets coupled with the slow recovery in prices for commodities of export interest to Namibia poses main risks to projected growth for 2017 and 2018. The economic contraction in Angola since 2016 has continued to reverberate in sectors such as wholesale and retail trade, education and real estate and business services; thus, a delay of the actual growth recovery in Angola increases the possibility of contractions in these sectors. In addition, a slowdown in the demand for minerals from China will also pose a challenge to projected growth rates for the primary industries. Similarly, political uncertainty in advanced economies (e.g. the European Union), has the potential to reduce Namibia's exports.

Corporate profile

Corporate history

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

Recent developments

In January 2017, the Minister of Finance proposed to increase the mandatory cessions from 7.5% to 18% per policy as intended in Section 39(1) of the Namibia National Reinsurance Corporation Act and for every claim made by clients against insurance companies to be first approved by NamibRe before any payout is made. A number of insurance companies launched legal proceedings highlighting that the correct procedure had not been followed. Subsequently, the Minister withdrew the proposed legislation resulting in a notable fallout in cessions to NamibRe in 2018. Accordingly, the reinsurer is likely to record lower premiums in FY18 (NAD233m) compared to historical levels (FY17: NAD307m).

This notwithstanding, the matter was resolved in December 2017, and the amended rules applicable to the Act will be effective from the 1st of July 2018. In this regard, 12.5% of every insurance contract issued in Namibia is to be ceded with NamibRe and 20% of the value of each reinsurance contract placed with another insurer or reinsurer is to be ceded with NamibRe. NamibRe is expected to experience robust growth in premiums due to the higher mandatory cession from FY19 onwards. The rise in premium volumes, increase in scope of operations and entry into the Life market, present the reinsurer with opportunities and challenges. While NamibRe's national footprint will widen, enhance its scale and business profile, rising operational expenses are likely to soften profit potential, while risk adjusted capital and liquidity are expected to moderate on the back of increased underwriting risk and limited cash flow generation expected respectively.

Strategic overview

Namib Re's medium strategy is anchored on achieving sustainable growth through increasing geographic diversification, whilst applying cost efficiencies thereby enhancing profitability. The reinsurer has established entrenched relationships in the industry which they expect to facilitate the achievement of the strategy. Namib Re expects to benefit from the reinforcement of the per policy legislation whereby the reinsurer will receive 12.5% in GWP for every policy, coupled with the compulsory 20% on reinsurance cessions where the reinsurer has first right of refusal. Namib Re has expanded into the life business focusing on group life whereby they expect to benefit from the pronounced and significant growth inherent in the domestic life market.

Competitive position

Competitiveness analysis

Table 2 compares the reinsurer's key performance and credit protection metrics with those of three regional reinsurers that use similar business models.

Competitive analysis: growth

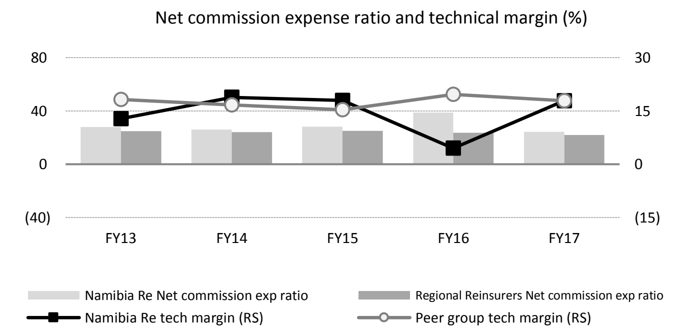
NamibRe's business profile is healthy, supported by a strong domestic market share and well diversified earnings stream. The reinsurer is the only locally registered player and benefits from regularized mandatory cessions. While strong growth was achieved in FY17 (largely due to increased facultative placements), the reinsurer's premium base was adversely impacted by the temporary retraction of mandatory cessions following legal action in FY18. As such, NamibRe's market share is expected to register below 20% in FY18 (FY17: 33%; FY16: 20%). Going forward, the effective increase of mandatory net line cessions to 20.0% from 7.5%, and implementation of a 12.5% cession on each insurance policy (from 1 July 2018), together with increased diversification into long-term business, are likely to support robust premium growth.

Table 2: Peers FY17 (USD'm)	Namibia Re	Cica Re	Kenya Re	Zep Re
GWP	23.0	64.2	125.1	128.7
NWP	18.1	57.4	119.1	105.1
U/w result	1.5	5.9	0.0	3.9
Net income after tax	1.9	6.4	33.3	19.2
Capital	13.6	61.1	234.3	199.3
Assets	20.0	131.9	373.8	294.3
Operating ratios (%)				
GWP growth	45.8	15.2	(1.5)	(7.2)
Premium retention rate	78.8	89.4	95.7	81.7
Net loss ratio	57.8	47.3	54.6	52.9
Commission ratio	24.4	27.4	28.0	28.9
Operating expense ratio	9.9	15.3	18.2	14.9
Total expense ratio	34.3	42.6	46.2	43.8
U/w margin	8.0	10.1	(0.8)	3.3
Credit protection				
Int. solvency (%)	76.1	106.4	196.7	190.2
Cash / tech liabilities (x)	1.9	0.6	1.6	2.7
Cash cover (months)	8.1	14.5	29.4	37.4

*Consolidated to include both short term and long term business.

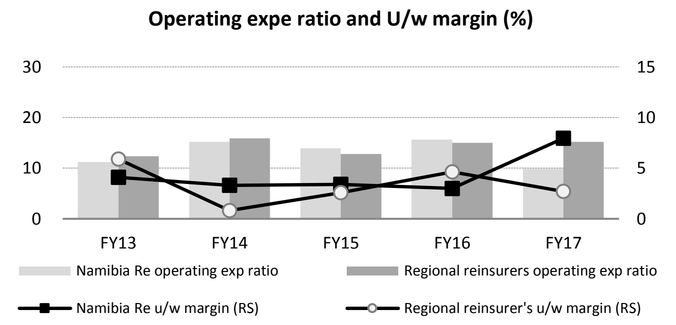
Namib Re's compounded annual growth rate ("CAGR") equated to 20% over the review period, which measured above the regional players' average of 14%. Notably, the reinsurer has evidenced an acceleration in premium growth over the past two years (FY17: 46%; FY16: 24%). This robust growth has facilitated a substantial rise in premiums, which grew to USD23m in FY17. Nevertheless, Namib Re remains significantly smaller than regional peers. Furthermore, the tapering off of growth budgeted for FY18 will unwind some of the relative volume gains realised over the past two years.

Competitive analysis: technical performance



Namib Re's technical profitability is below that of the regional players, with the five year average technical margin measuring at 14% (regional reinsurer's 18%). This was largely due to the reinsurer registering higher net commission expense ratio. In this respect, the five year aggregated commission expense ratio equated to 29%, which measures above the regional reinsurer's commission expense ratio of 24% over the same period. Furthermore, the reinsurer has registered a fairly stable net incurred loss ratio, with the three year aggregated net incurred loss ratio equating to 56% in line with the industry loss ratio of 56% over the corresponding period.

Competitive analysis: underwriting profitability



The reinsurer's underwriting profitability has generally trended above the regional reinsurers' average. In this regard, the five year aggregate underwriting margin equated to 6%, measuring above the regional reinsurers' average of 3%, with the difference attributable to the insurer's lower operating expense ratio despite the reinsurer's limited scale. Going forward, the reinsurer is expected to evidence some cost pressure due to the growth envisaged by the reinsurer, which may see some margin compression over the medium term.

Earnings profile

Geographic diversification

The reinsurer's premium base is weighted toward the domestic market, which accounted for a higher 96% of gross premiums in FY17 (FY16: 94%). There was a reduction on business generated from Southern Africa to 2% in FY17 (FY16: 4%), owing to management's strategy to cut down on unprofitable business. On the other hand there has been stability in the business generated from Kenya and Ghana. Going forward, the reinsurer is expecting an increase in premiums from the Sub- Saharan region.

Treaty business accounted for a lower 66% of total gross premiums in FY17 (FY16: 89%). The contraction in the treaty business was attributed to a legal anomaly in FY17 whereby the reinsurer did not receive mandatory cession from the local insurers who took legal action against the implementation of the mandatory cessions.

Table 3: Geographic diversification	FY16		FY17	
	NAD'm	%	NAD'm	%
Namibia	197.7	94.0	296.2	96.5
Kenya	3.7	1.8	5.0	1.6
Zambia	4.7	2.2	2.9	1.0
Zimbabwe	3.0	1.4	2.1	0.7
Ghana	0.5	0.3	0.7	0.2
Malawi	0.7	0.3	0.08	0.02
Total	**210.3**	**100.0**	**307.1**	**100.0**

Product diversification and cedant diversification

Brokers accounted for a lower 75% of gross premiums in FY17 (FY16: 89%), attributed to management's strategy to build direct relationships with cedants and cut down on brokers in order to achieve cost efficiencies. Furthermore, direct sales accounted for a higher 25% of gross premiums in FY17 (FY16: 11%).

The five largest cedants collectively accounted for 89% of revenue in FY17 (FY16: 82%), with the largest representing 35% in FY17 (FY16: 33%), reflecting the participation on larger domestic insurance companies' reinsurance programmes.

Premium scale- short term business

Table 4: Earnings profile (NAD'm)	FY17		FY18	
	Actual	Budget	8MFY18	Budget
GWP	307.1	209.6	94.3	233.2
NWP	242.2	162.6	53.7	186.6
Key ratios (%)				
GWP growth**	45.8	(0.5)	(38.6)	(24.1)
Retention	78.8	77.6	56.9	80.0

Gross premiums registered a robust growth rate equating to NAD307m in FY17, measuring well above expectations (BGT17: NAD210m), attributed to an increase in facultative placements. Going forward, the effective increase in mandatory cessions, together with increased diversification into the long-term business, are likely to support robust premium growth.

Short term earnings diversification by lines of business

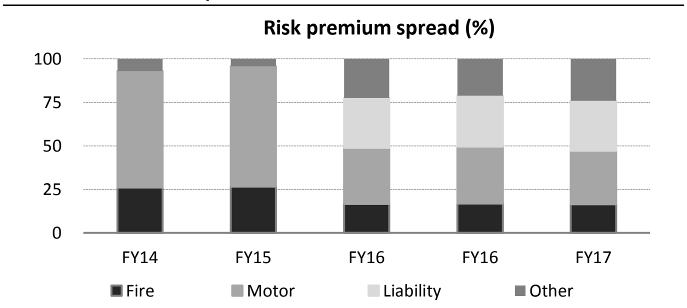
Table 5: Earnings diversification (%)	GWP		NWP		Retention	
	FY16	FY17	FY16	FY17	FY16	FY17
Fire	16.8	16.6	16.8	16.5	82.5	78.5
Transport	2.2	2.1	2.2	2.1	85.5	78.5
Motor	32.6	30.8	32.7	30.7	82.5	78.5
Guarantee	4.1	4.0	4.1	4.0	82.5	78.5
Liability	29.2	28.8	29.3	28.6	82.5	78.5
Engineering	2.3	2.2	2.3	2.2	82.5	78.5
Miscellaneous	12.9	14.1	12.6	14.1	80.5	78.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**82.2**	**78.9**

The reinsurer's earnings stream is viewed to be well diversified, with four lines contributing in excess of 10% to gross premiums. In this respect, motor continues to dominate the business mix, with premiums equating to NAD95m in FY17 (FY16: NAD68m). Accordingly, fire premiums grew by a higher 46% to NAD51m, representing a stable 17% of GWP in FY17 (FY16: 33%). Liability premiums grew by NAD28m equating to NAD88m in FY17 (FY16: NAD61m). The increase in premiums was attributed to growth in the market.

Long term earnings diversification by line of business

The reinsurer introduced the life business in FY17 with premiums equating to NAD4.6m. Premiums are expected to grow robustly, are underpinned by the mandatory cession ruling.

Risk base diversification



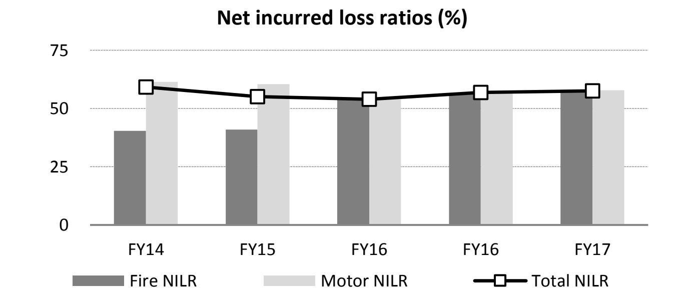
The reinsurer's risk base evidences a sound spread with four lines of business cumulatively accounting for 90% in FY17. The largest contributor is motor, which accounted for 31% of net premiums in FY17 (FY16: 33%). The second largest contributor is the liability book, which represented 29% of net premiums in FY17 (FY16: 29%). The overall net retention ratio was relatively stable registering at 79% in FY17 (FY16: 82%). Going forward, management expects retention to be maintained at similar levels.

Short term earnings capacity

Financial reporting

The reinsurer's 2017 financial statements were audited by PriceWaterhouseCoopers, with an unqualified opinion issued.

Claims experience



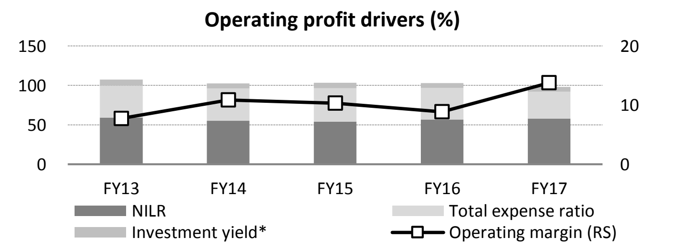
The reinsurer's claims experience is viewed to be supportive of earnings capacity. The net incurred loss ratio has been maintained at 58% in FY17 (FY16: 57%; review period average: 57%).

Table 6: Underwriting profitability (%)	NILR		Total expense ratio	
	FY16	FY17	FY16	FY17
Fire	56.7	57.7	39.7	34.9
Transport	57.7	56.7	39.9	34.6
Motor	56.9	57.8	39.5	35.0
Guarantee	57.4	57.9	39.4	35.2
Liability	56.7	57.9	39.5	35.0
Engineering	56.9	57.9	39.3	34.2
Miscellaneous	57.0	57.9	45.1	34.9
Total	**56.8**	**57.8**	**40.2**	**34.3**

Net commission analysis

The net commission expense ratio registered at 24% in FY17 (FY16: 27%), measuring in line with the aggregated three year net commission of 26%. Management expects the net commission to be maintained at 25% in FY18.

Operating expenses analysis

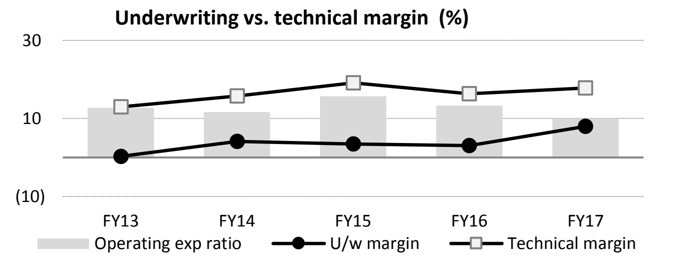


*Investment income as a proportion of NPE, excludes unrealised movements

Operating expenses increased to NAD24m in FY17 (FY16: NAD23m), albeit with the operating expense ratio reducing to 10% in FY17 (FY16: 13%). The reduction has been attributed to operational cost efficiencies Management expects the operating ratio to register at 21% in FY18, underpinned by costs related to the expansion strategy.

Net underwriting result

Underwriting profitability trended within an intermediate level over the last five years, with an aggregated margin of 4%. Cognisance is taken of the atypically higher underwriting margin recorded in FY17 (8%), which was largely due to the spike in facultative business characterized by favourable loss metrics. Underwriting profitability is likely to weaken in FY18, largely as a function of the loss of business associated with the temporary revocation of compulsory cessions. Over the medium term, GCR expects underwriting profitability to register within an intermediate level, underpinned by upscaling of operations to support the expected increase in business volumes.



Net profitability
Investment income (inclusive of unrealised movements) increased to NAD14m in FY17 (FY16: NAD10m), with the majority being derived from interest from investments and fair value gain equating to NAD8.1m and NAD4.5m in FY17 (FY16: NAD4.4m NAD2.3m) respectively. As such, the operating margin equated to a higher 14% in FY17 (FY16: 9%; review period average: 10%). Management expects the operating margin to equate to a lower 3% in FY18, underpinned by the lower underwriting results envisaged.

Table 7: Financial performance (NAD'm)	FY17		FY18	
	Actual	Budget	8MFY18	Budget
NPE	**245.9**	**162.6**	**53.7**	**186.6**
Claims	(142.1)	(85.0)	(35.5)	(107.2)
Commission	(60.0)	(44.5)	1.0	(46.6)
Operating expenses	(24.3)	(28.5)	(16.7)	(39.0)
U/w result	**19.5**	**4.5**	**2.9**	**(6.2)**
Realised investment income	9.7	10.3	8.2	10.9
Unrealised investment income	0.0	0.0	0.0	0.0
Other income/(expenses)	4.5	0.0	0.0	0.0
Tax	(8.5)	0.0	0.0	0.0
NPAT	**25.3**	**14.9**	**4.6**	**4.6**
Other comprehensive income	0.0	0.0	0.0	0.0
Total comprehensive income	**25.3**	**14.9**	**4.6**	**4.6**
Dividend	(3.5)	0.0	0.0	0.0
Retained earnings	**21.8**	**14.9**	**4.6**	**4.6**
Key ratios (%)				
Net incurred loss ratio	57.8	52.3	66.1	80.0
Commission ratio	24.4	27.4	(2.0)	25.0
Operating expense ratio	9.9	17.6	31.0	20.9
U/w margin	8.0	2.8	4.8	(3.3)
Op. margin	11.9	9.1	20.0	2.5

Long term business earnings capacity

Total income
The reinsurer commenced writing the life business after the introduction of compulsory cessions (minimum of 20%) to the state owned reinsurer (Namib Re) by all long-term and reinsurance companies in Namibia. The reinsurer registered gross premium of NAD4.6m in FY17. Total investment income registered at NAD0.8m and the total income equated to NAD2.3m in FY17.

Total outgo
Claims paid and outstanding registered at NAD0.6m in FY17, while total expenses equated to NAD1m in FY17. As such, total outgo, inclusive of reserve transfers, amounted to NAD1.7m in FY17. Going forward, management expects total outgo to register at 20%.

Net operating result
The operating result equated to NAD0.3m in FY17. Management expects an increase in the life business attributed to the compulsory cession expected to come into effect in the last quarter of FY18.

Retrocession

Retrocession counterparties
Namib Re's treaty participants reflect a sound aggregate level of credit quality. In this respect, reinsurance arrangements are made with highly rated counterparties including Munich Re of Africa, Arab Insurance group, Africa Re, Berkley Re, among others.

Retrocession structure
Maximum event capacity offered by the program is NAD230m on fire, engineering and miscellaneous treaty. The maximum net retention per risk and event equated to NAD5m, translating to 3% of FY17 capital.

Retrocession result

Table 8: Retrocession result (NADm)	FY13	FY14	FY15	FY16	FY17
Premium ceded	(233.3)	(31.4)	(28.8)	(37.0)	(65.0)
Claims recovered	18.7	14.2	12.1	12.3	31.4
Commission recovered	9.0	9.8	8.2	10.1	16.9
Net result	**(205.6)**	**(7.4)**	**(8.5)**	**(14.6)**	**(16.7)**
Key ratios (%)					
Retro. loss ratio	67.8	143.0	94.5	77.7	77.7
Retro. commission ratio	0.5	0.0	0.1	1.4	1.4
Retro. technical margin	31.7	(43.0)	5.4	20.9	20.9

Namib Re cumulatively transferred NAD253m to retrocessions' over the last five years. As such, the loss ratio has been maintained at 78% in FY17 (FY16; 78%: review period average: 92%). The retrocession technical margin has increased to 21%, in comparison to NamibRe's technical margin of 18%.

Asset management

Consolidated investment strategy
NamibRe's investment portfolio is viewed to be well balanced with 47% of the investment portfolio in cash and equivalents. Going forward, no material changes to the investment portfolio are envisaged.

Consolidated liquidity metrics
Cash and equivalents amounted to a higher NAD97m in FY17 (FY16: NAD42m), following the redirection of funds into cash investments. In this respect, cash and equivalents accounted for a higher 47% of total investments at FY17 (FY16: 23%). As such, exposure to government bonds increased to NAD52m at FY17 (FY16:

NAD30m), equating to a higher 25% in FY17 (FY16: 16%) of the investment portfolio.

Table 9: Consolidated Investments	FY16		FY17	
	NAD'm	%	NAD'm	%
Cash on hand	0.0	0.0	0.0	0.0
Short term deposits	11.5	6.3	45.0	21.8
Government bonds	30.3	16.3	51.5	25.0
Cash and equivalents	***41.5***	***22.5***	***96.5***	***46.8***
Collective investments and funds	142.6	77.5	109.7	53.2
Non-cash investments	***142.6***	***77.5***	***109.7***	***53.2***
Total investments	**184.1**	**100.0**	**206.2**	**100.0**

Banking counterparty and currency exposure

Banking counterparty strength is viewed to be strong with the majority of the funds being placed in institutions with sound credit ratings.

Premium receivables

Premium receivables amounted to NAD31m at FY17 (FY16: NAD21m), translating into an average collection period of 31 days (FY16: 30days). Of this amount, NAD1m was outstanding for more than 180 days equating to 1% of capital.

Liquidity

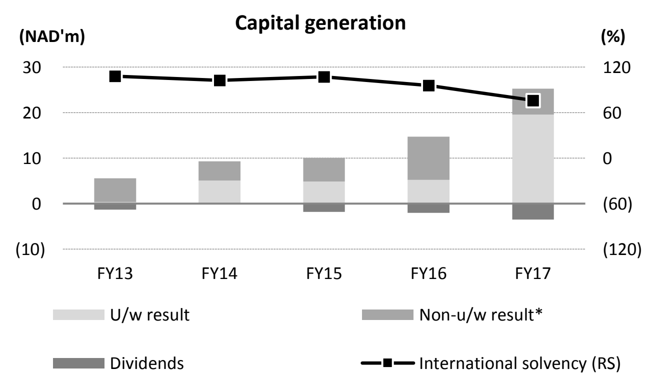
Liquidity registered at a strong level in FY17, supporting the reinsurer's rating. Following the redirection of funds into cash investments, cash coverage of net technical liabilities rose sharply to a high 1.9x (FY16: 0.9x; FY15: 0.5x), while cash covered 8 months' worth of average monthly claims (FY16: 5 months'; FY15: 3 months). Going forward, liquidity metrics may fluctuate given that the investment strategy is dictated by prevailing returns within the market, which could see notable shifts in asset allocation.

Collective investments and funds

Collective investments and funds equated to a lower NAD109m at FY17 (FY16: NAD: 142m). Proceeds on disposal of unlisted equated to NAD33m were used to purchase investments held to maturity.

Capitalisation

Capital generation



*Includes invest and other income/(expenses)

Cumulative income after tax amounted to NAD65m over the review period with a further NAD9m distributed as dividends. As a result, total capital equated to NAD184m at FY17, with the compounded annual capital growth rate registering at 11% over the review period.

A conservative dividend policy complemented capital building momentum, with dividend payments having been well controlled, equating to an average dividend yield of 8% (FY17: 7%) over the review period.

Risk adjusted capitalisation

Table 10: Capital (NAD'm)	FY17		FY18	
	Actual	Budget	8MFY18	Budget
NWP	242.2	162.6	53.7	186.6
Total capital	*184.2*	179.3	*184.2*	*188.8*
Solvency (%)	76.1	121.6	171.5	101.2

Risk adjusted capitalisation moderated to a strong level at FY17, after historically registering at robust levels. This was largely due to the strong growth achieved in FY17 resulting in increased insurance risk exposure, relative to moderate capital growth. Accordingly, the international solvency margin equated to a lower 76% at FY17 (FY16: 96%), compared to the prior four year average of 103%. Thin profit margins, in tandem with projected strong revenue growth (with additional capital injections viewed as unlikely) may result in further capital adequacy compression over the outlook horizon. In this respect, capital management over the coming 24 months represents a key rating consideration.

Reserving

An independent actuarial evaluation of the short term reserves is undertaken annually, with the FY17 report conducted by QED Actuaries and Consultants (Pty) Ltd (QED) Limited certifying the level of reserving to be adequate. The net outstanding claims ("OCR") and incurred but not reported ("IBNR") reserves decreased relative to net written premiums, equating to 16% at FY17 (FY16: 18%), while unearned premium reserves relative to net premiums reduced to 5% (FY16: 9%).

Table 11: Short term business reserving (%)	FY13	FY14	FY15	FY16	FY17
UPR/NWP	8.5	9.6	8.5	8.6	5.0
(OCR + IBNR) / NWP	18.6	21.7	18.1	18.1	16.0

Life fund actuarial valuation

An independent actuarial evaluation of the life fund was undertaken, with the FY17 report conducted by QED Actuaries and Consultants (Pty) Limited (QED).

Risk Management

Corporate governance

Namib Re's board of directors comprises of seven executive directors (of which six are independent) and one executive. The board meets three times a year. There is one committee which assists in attending to specific matters, including risk management and audit functions. This committee meets three times a year and/or when necessary. Risk management disciplines applied are considered sound in GCR's view

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Namibia National Reinsurance Corporation Limited

(NAD in millions except as noted)

Year ended : 31 March		2013	2014	2015	2016	2017
Short Term Insurance						
Income Statement						
Gross written premium (GWP)		147.8	157.8	170.2	210.6	307.1
Reinsurance cession		(33.3)	(31.4)	(28.8)	(37.0)	(65.0)
Net written premium (NWP)		**114.5**	**126.4**	**141.4**	**173.6**	**242.2**
Net UPR movement		0.4	(2.3)	0.0	(3.2)	3.7
Net earned premiums (NEP)		**114.9**	**124.1**	**141.4**	**170.4**	**245.9**
Net claims incurred		(68.0)	(68.4)	(76.3)	(96.8)	(142.1)
Net commission expenses		(32.0)	(36.2)	(38.1)	(45.8)	(60.0)
Operating expenses		(14.6)	(14.5)	(22.2)	(22.7)	24.3)
Underwriting result		**0.3**	**5.1**	**4.8**	**5.2**	**19.5**
Realised investment income		8.6	8.4	8.0	7.7	9.7
Unrealised investment income		0.5	1.4	0.0	0.0	0.0
Other income / (expenses)		0.4	0.2	1.9	5.3	4.5
Taxation		(4.2)	(5.7)	(4.7)	(3.4)	(8.5)
Net income after tax		**5.6**	**9.3**	**10.0**	**14.7**	**25.3**
Other comprehensive income		0.0	0.0	3.6	0.0	0.0
Total comprehensive income		**5.6**	**9.3**	**13.6**	**14.7**	**25.3**
Dividends		(1.4)	0.0	(1.8)	(2.0)	(3.5)
Balance Sheet						
Total capital		**123.6**	**129.5**	**151.3**	**166.4**	**184.2**
Net UPR		9.8	12.1	12.1	15.3	12.0
Net OCR		21.3	27.4	25.6	31.8	38.2
Other liabilities		17.4	25.2	12.8	27.6	36.6
Total capital & liabilities		**172.0**	**194.2**	**201.8**	**241.2**	**271.6**
Fixed assets		21.4	20.6	24.5	25.7	28.9
Investments		35.8	40.7	143.1	142.6	109.7
Cash and equivalents		102.8	114.0	17.2	41.5	96.5
Other assets		12.2	18.9	17.0	31.3	36.6
Total assets		**172.2**	**194.2**	**201.8**	**241.2**	**271.6**
Key Ratios						
Solvency & Liquidity						
International solvency margin	%	107.9	102.4	107.0	95.9	76.1
Claims cash coverage	months	18.1	20.0	2.7	5.1	8.1
Cash / Technical liabilities	x	3.3	2.9	0.5	0.9	1.9
Cash / Technical liabilities (incl. interest securities)	x	4.5	3.9	0.5	0.9	1.9
Underwriting profitability						
GWP growth rate	%	7.4	6.8	7.8	23.8	45.8
Premium retention rate	%	77.5	80.1	83.1	82.4	78.8
Net incurred loss ratio	%	59.2	55.1	53.9	56.8	57.8
Net commission expense ratio	%	27.9	29.1	27.0	26.9	24.4
Operating expense ratio	%	12.7	11.7	15.7	13.3	9.9
Total expense ratio	%	40.5	40.8	42.6	40.2	34.3
Underwriting margin	%	0.3	4.1	3.4	3.0	8.0
Combined ratio	%	99.7	95.9	96.6	97.0	92.0
Net profitability						
Operating margin	%	7.7	10.8	9.1	7.5	11.9
Investment yield (excluding unrealised gains / losses)	%	6.6	5.7	5.1	4.4	5.0
Investment yield (including unrealised gains / losses)	%	7.0	6.6	7.4	4.4	5.0
ROaE (excluding unrealised gains / losses)	%	4.2	6.3	7.1	9.3	14.4
ROaE (including unrealised gains / losses)	%	4.6	7.3	9.7	9.3	14.4
Dividend cover	x	4.1	n.a	5.6	7.4	7.2
Reserving						
Net UPR/NWP	%	8.5	9.6	8.5	8.8	4.9
(Net OCR &IBNR)/NWP	%	18.6	21.7	18.1	18.3	15.8

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Basis Point	A basis point is 1/100th of a percentage point.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Broker	One who represents an insured in the solicitation, negotiation or procurement of contracts of insurance, and who may render services incidental to those functions. By law the broker may also be an agent of the insurer for certain purposes such as delivery of the policy or collection of the premium.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cede	To transfer all or part of a risk written by an insurer (the cedant or primary company) to a reinsurer.
Cession	Amount of the insurance ceded to a reinsurer by the original insuring company (cedant) in a reinsurance transaction.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Claims Incurred	Claims that have occurred, irrespective of whether or not they have been reported to the insurer.
Combined Ratio	Measures the ability to conserve profits through the expense line.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Dividend Cover	The extent to which a company's dividend is matched or exceeded by the earnings available for distribution to shareholders.
Earned Premium	That part of the premium applicable to the expired part of the policy period, including the short-rate premium on cancellation, the entire premium on the amount of loss paid under some contracts, and the entire premium on the contract on the expiration of the policy. When a premium is paid in advance for a certain time, the company is said to "earn" the premium as the time advances.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For an insurer, its exposure may also relate to the risk related to policies issued.
Facultative	Facultative reinsurance means reinsurance of individual risks by offer and acceptance wherein the reinsurer retains the "faculty" to accept or reject each risk offered.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
Forecast	A calculation or estimate of future financial events.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Incurred Loss	The total amount of paid claims and loss reserves associated with a particular time period, usually a policy year.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
International Solvency Margin	Measures the ability to cover current year's written premiums using shareholder's funds.
Interest	Money paid for the use of money.
Investment Income	The income generated by a company's portfolio of investments.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
Layer	A horizontal segment of the liability insured, e.g., the second R100,000 of a R500,000 liability is the first layer if the cedant retains R100,000 but a higher layer if it retains a lesser amount.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.

Liquidity	The speed at which assets can be converted to cash. The ability of an insurer to convert its assets into cash to pay claims if necessary. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loss	The happening of the event for which insurance pays.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Net Commission Expense Ratio	Measures the proportion of commission expense in net premiums.
Net Incurred Loss	The total amount of paid claims and loss reserves associated with a particular time period, less the reinsurance portion.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Net Retention	The amount of insurance that a ceding company keeps for its own account and does not reinsure.
Net Written Premium	Written premium less deductions for commissions and ceded reinsurance.
Operating Expense Ratio	Measures the proportion of operating expenses in net premiums earned.
Operating Margin	Measures the efficiency of profit generation from investments and underwriting.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Operating Result	The sum of underwriting result and investment income.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Quota Share	The basic form of participating treaty whereby the reinsurer accepts a stated percentage of each and every risk within a defined category of business on a pro rata basis. Participation in each risk is fixed and certain.
Rating Outlook	A rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Reinsurance	The practice whereby one party, called the Reinsurer, in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance, which it has issued. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Retention	The net amount of risk the ceding company keeps for its own account.
Retrocession	The transaction whereby a reinsurer cedes to another reinsurer all or part of the reinsurance it has previously assumed.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Securities	Various instruments used in the capital market to raise funds.
Short Term	Current; ordinarily less than one year.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Technical Margin	Measures the percentage of net earned premiums remaining after accounting for claims and expenses incurred.
Total Capital	The sum of owner's equity and admissible supplementary capital.
Total Expenses	The sum of operating expenses and net commission expenses.
Total Expense Ratio	Measures the ability of the insurer to manage expenses associated with core operating activities.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.
Underwriting Result	The profit or loss that an insurer derives from providing insurance or reinsurance coverage, exclusive of investment income and other income.
Unearned Premium Reserve	The amount shown in the insurance company's balance sheet which represents the approximate total of the premiums which have not yet been earned as of a specific point in time. Also known as insurance funds.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.

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SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were 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 teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Namibia National Reinsurance Corporation with no contestation of the ratings.

The information received from Namibia National Reinsurance Corporation and other reliable third parties to accord the credit ratings included:

- Audited financial statements to March 2017
- Unaudited interim results as at 31 December 2017
- Four years of comparative financial statements to March
- Budgeted financial statements for 2018
- Life and non-life actuarial reports for 2016
- 2018 reinsurance cover notes
- Other related documents.

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.