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CREDIT RATING ANNOUNCEMENT

GCR accords Namibia National Reinsurance Corporation Limited an initial rating of A+$_{(NA)}$; Outlook Stable.

Johannesburg, 16 March 2018 -- Global Credit Ratings has today accorded an initial national scale claims paying ability rating to Namibia National Reinsurance Corporation Limited of A+$_{(NA)}$, with the outlook accorded as Stable. Furthermore, Global Credit Ratings has accorded an initial international scale claims paying ability rating to Namibia National Reinsurance Corporation Limited of BB, with the outlook accorded as Negative. The ratings are valid until September 2018.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Namibia National Reinsurance Corporation Limited ("NamibRe ") based on the following key criteria:

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.

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. 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 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.

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.

Positive rating movement could develop over the medium term if the reinsurer's earnings capacity sustainably improves and/or following material strengthening in capital adequacy. Conversely, downward rating pressure may follow low earnings relative to expectations, failure to sustain capitalisation metrics and/or a reduction in the strategic importance of the reinsurer.

NATIONAL SCALE RATINGS HISTORY
Initial/ last rating (March 2018)
Claims paying ability: A+$_{(NA)}$
Outlook: Stable

INTERNATIONAL SCALE RATINGS HISTORY
Initial/ last rating (March 2018)
Claims paying ability: BB
Outlook: Negative

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ANALYTICAL CONTACTS

Primary analyst
Marc Chadwick
Sector Head: Insurance Ratings
(011)784-1771
chadwick@globalratings.net

Secondary analyst
Linda Matavire
Junior Credit Analyst
(011) 784-1771
lindam@globalratings.net

Committee Chairperson
Yvonne Mujuru
Sector Head: Insurance Ratings
(011) 784-1771
ymujuru@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated July 2017
Criteria for Rating Long Term Insurance Companies, updated July 2017

SALIENT FEATURES 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.

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

Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
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.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Cash	Funds that can be readily spent or used to meet current obligations.
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.
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.
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.
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.
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.
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.
Net Retention	The amount of insurance that a ceding company keeps for its own account and does not reinsure.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Premium	The price of insurance protection for a specified risk for a specified period of time.
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.
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.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
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.
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.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
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.

For a detailed glossary of terms please click here

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