



Credit Rating Announcement

GCR affirms NamibRe's international and national scale financial strength ratings of B+ and AA-(NA); Outlooks Stable

Rating action

Johannesburg, 16 November 2020 - GCR Ratings ("GCR") has affirmed Namibia National Reinsurance Corporation Limited's ("NamibRe") national scale financial strength rating of AA-(NA). At the same time, the international scale financial strength rating has been affirmed at B+. Both ratings have been maintained on Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Namibia National Reinsurance Corporation Limited	Financial strength	International	B+	Stable Outlook
		National	AA-(NA)	Stable Outlook

Rating rationale

NamibRe's ratings balance its strengthened business profile against weaker, although still sound earnings and capitalisation levels, as a result of the on-take of per policy mandatory cessions in FY20.

The implementation of mandatory cessions of 12.5% on all life and non-life insurance policies written and renewed in Namibia as per Pillar I of the Namibia National Reinsurance Corporation Act has been met with contention by local cedants, with a court case ongoing since 2018. However, as the majority of cedants complied with the regulation, the reinsurer's premium base grew substantially in FY20. As such, GCR considers NamibRe to have a stronger local market position, reflected by a higher share of 45% (FY19: 21%) of domestic market cessions. While GCR notes potential for the ongoing court case to vary the reinsurer's share of cessions, the reinsurer's competitive position is likely to remain within an intermediate range. Although the business mix is diversified across at least three material lines of business, note is taken of the reinsurer's limited participation in other jurisdictions, restraining diversification of risks across markets relative to select peers.

Liquidity metrics remained within a strong range, albeit continued dividend extraction inhibited investment portfolio growth, with a 4% contraction recorded during the review year. This notwithstanding, coverage of net technical liabilities by cash and stressed financial assets registered at a lower 2.1x (FY19: 2.9x), while operational cash coverage equated to 5 months (FY19: 14 months). In GCR's view, liquidity could come under pressure due to the distribution of dividends and growth in mandatory cession premiums, resulting in increased net technical liabilities.

Risk adjusted capitalisation weakened due to robust growth in the premium base, leading to an increase in insurance risk exposures. As such, the GCR capital adequacy ratio reduced from historically strong levels above 2x to 1.4x (FY19: 2.3x; FY18: 2.2x), albeit remaining sound. Going forward, we expect appropriate capital management measures to sustain the ratio within rating adequate parameters.

Earnings moderated following an increase in claims, aligning underwriting performance with the industry (due to enhanced coverage of local cessions). While the operating expense ratio equated to a lower 13% (FY19: 25%; review period average: 18%), partially benefiting from increased scale efficiencies, the net incurred loss ratio registered at a high 53% (FY19: 27%; review period average: 45%). As such, the underwriting margin lowered markedly to 2% (FY19: 18%; FY18: 17%; review period average: 10%), with underwriting performance likely to remain pressured by a high loss ratio going

forward. Bottom-line earnings were supported by sound investment income, with the investment yield measuring at around stable 7% throughout the review period, translating into a return on revenue of 6% (FY19: 19%; review period average: 13%).

Outlook statement

The Stable Outlook is premised on expectations that the reinsurer will maintain a sound financial profile, with the GCR CAR and liquidity ratios expected to remain within the current ranges, supported by measures aimed at containing asset risk and generating sufficient earnings.

Rating triggers

Upward rating movement may follow a sustained strengthening in risk adjusted capitalisation, whilst maintaining strong liquidity. Downward rating movement could result from a sustained deterioration in earnings and risk adjusted capitalisation. In this respect, negative rating action may follow should the GCR CAR register below 1.3x and/or if liquidity moderates below 2.0x.

Analytical contacts

Primary analyst Johannesburg, ZA	Linda Matavire LindaM@GCRratings.com	Analyst: Insurance Ratings +27 11 784 1771
Secondary analyst Johannesburg, ZA	Godfrey Chingono GodfreyC@GCRratings.com	Deputy Sector Head: Insurance Ratings +27 11 784 1771
Committee chair Johannesburg, ZA	Sheri Morgan Morgan@GCRratings.com	Senior Analyst: Corporate Ratings +27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
 Criteria for Rating Insurance Companies, May 2019
 GCR Ratings Scales, Symbols & Definitions, May 2019
 GCR Country Risk Scores, May 2020
 GCR Insurance Sector Risk Scores, July 2020

Ratings history

Namibia National Reinsurance Corporation Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	A+ _(NA)	Stable Outlook	October 2018
		International	BB	Negative Outlook	October 2018
Financial strength	Last	National	AA- _(NA)	Stable Outlook	December 2019
		International	B+	Stable Outlook	December 2019

Risk score summary

Rating components and factors	Risk score
Operating environment	11.00
Country risk score	5.50
Sector risk score	5.50
Business profile	(0.50)
Competitive position	0.25
Premium diversification	(0.75)
Management and governance	0.00
Financial profile	2.25
Earnings	0.25
Capitalisation	0.50
Liquidity	1.50
Comparative profile	0.00
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total score	12.75

Glossary

Premium	The price of insurance protection for a specified risk for a specified period of time.
Primary Market	The part of the capital markets that deals with the issuance of new securities.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Technical Liabilities	The sum of Net UPR and Net OCR IBNR.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.
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.

SALIENT POINTS OF ACCORDED RATINGS

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

Subsequent to an appeal by the rated entity, the ratings and outlooks were revised as reflected in the announcement. The credit ratings above were disclosed to the rated entity. The ratings were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings. The rated entity participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 March 2020;
- Four years of comparative audited financial statements to 31 March
- Full year budgeted financial statements for 2020;
- Unaudited interim results to 31 October 2020;
- Reinsurance cover notes for 2020; and
- Other relevant documents.

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GCRRATINGS.COM](http://GCRRATINGS.COM). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GCRRATINGS.COM/RATING_INFORMATION. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2019 GCR INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.