Namibia National Reinsurance Corporation Limited

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

Strengths

- Intermediate market position, supported by mandatory cessions;
- Moderately strong capitalisation, underpinned by sound internal capital generation;
- Strong liquidity, anchored by conservative asset allocation;
- Intermediate earnings.

Weaknesses

- Limited geographic diversification.

Rating rationale

Namibia National Reinsurance Corporation Limited's ("NamibRe") ratings reflect a strong financial profile and intermediate market position, partially offset by limited premium diversification. This is complemented by 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, supporting the reinsurer's business profile.

NamibRe's earnings were maintained within an intermediate level, supported by a favourable claims experience balancing off an increase in net commission expenses. The favourable claims experience was driven by reserve normalisation following a build-up in reserves in anticipation of COVID-19 related risks, while elevation in acquisition costs reflects aggregation of commissions relating to the enforcement of policy cessions dating back to 2018. In this respect, the loss and commission expense ratios registered at 37% and 46% in FY21 (FY20: 65% and 26%) respectively, with the underwriting margin stabilising at 1%. Overall, earnings were supported by investment income amounting to NAD20.5m (FY20: NAD16.1m) translating to a return on revenue of 6% (FY20: 4%). Earnings are expected to be sustained within the current assessment band, with sound investment income supporting thin underwriting margins.

Risk adjusted capitalisation was maintained within a moderately strong range over the past two years, underpinned by a large capital base catering for the well contained exposure to insurance and market risks. As such, the GCR Capital Adequacy Ratio ("GCR CAR") improved to 1.8x at FY21 (FY20: 1.5x). Looking ahead, we expect the GCR CAR for NamibRe to register within the same range over the medium term, given reduced risk to premium growth pressures and well contained dividend distributions.

Liquidity is viewed as strong, underpinned by a conservative investment portfolio. Accordingly, cash and stressed financial assets covered net technical liabilities by around 2.0x over the past two years, while coverage of operational cash requirements was maintained at 3 months. Liquidity strength is expected to be sustained over the medium term.

The reinsurer's business profile is intermediate, largely supported by mandatory cessions as well as increased compliance to policy cessions by industry players. Revenue is fairly spread among products, with three lines of business contributing materially to revenue. Conversely, the reinsurer's premium base evidence limited geographic diversification, with premiums derived from the primary market increasing to 98% in FY21 (FY20: 94%). In this respect, the reinsurer's participation in other markets in the region has reduced in line with management's strategy of selective and prudent underwriting. Going forward, the business profile is expected to remain unchanged.

Outlook statement

The Stable Outlook reflects expected stabilisation in earnings, while risk adjusted capitalisation and liquidity metrics may be maintained within a strong range. The business profile is likely to remain unchanged over the outlook horizon.

Rating triggers

The ratings may be upgraded on sustained improvement in earnings, while maintaining strong risk adjusted capitalisation and liquidity. Conversely, we could lower the ratings if earnings persistently register below expectations, negatively impacting risk adjusted capitalisation and liquidity.

Analytical contacts

Primary analyst Linda Matavire, Analyst: Insurance Ratings
Johannesburg, ZA LindaM@GCRratings.com +27 11 784 1771

Committee chair Tichaona Nyakudya, Senior Analyst: Insurance Ratings
Johannesburg, ZA TichaonaN@GCRratings.com +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, December 2021
GCR Insurance Sector Risk Scores, December 2021

Ratings history

Namibia National Reinsurance Corporation Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	International	BBA+	Negative Outlook	October 2018
	Initial	National	A+(NA)	Stable Outlook	October 2018
Financial strength	Last	International	B+	Stable Outlook	November 2020
	Last	National	AA-(NA)	Evolving Outlook	November 2020

Analytical entity: Namibia National Reinsurance Corporation Limited

NamibRe 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 support the reinsurer's rating through access to mandatory cessions. The analysis was done on a stand-alone basis.

Operating environment

The operating environment assessment reflects the insurer's predominant exposure to Namibia.

Country risk

The Namibian country risk score reflects the sizeable GDP contraction in 2020 (estimated at around 7.3% by the Bank of Namibia) that is expected to weigh on debt to GDP levels in the coming years as the economy tries to claw back lost ground. The pandemic is also likely to see unemployment levels track higher (with an unemployment rate of close to 40%) and a sustained recovery in economic growth will be reliant on an improved outlook for key trading partners such as South Africa. The regional impact of the COVID-19 pandemic further exacerbated existing weaknesses in the economy. For a detailed risk assessment of Namibia and peer countries, visit: https://gcrratings.com/wp-content/uploads/2021/12/20211210-Country-Risk-publication_FINAL.pdf

Sector risk

The sector risk score applicable to NamibRe mirrors the reinsurer's near total exposure to the Namibian insurance market, reflecting comparatively high levels of insurance penetration and density, coupled with an intermediate regulatory environment. Sector risks are managed by a strong legislative framework and intermediate levels of transparency and policy enforcement, while the planned implementation of risk-based solvency management holds potential for enhanced industry discipline. This is largely due to the presence of strong insurance franchises, translating into well managed earnings risk, albeit with market concentration viewed to be high. Real industry growth is likely to be maintained at an annual average of c. 2%. Additional information on sector assessments for covered markets can be accessed on: https://gcrratings.com/wp-content/uploads/2021/12/Sector-Risk-publication-14-December-2021.pdf

Business profile

Intermediate market position balancing off very low participation in secondary markets.

Competitive position

Table 1: Premium scale and market share	2019	2020	2021
GWP (USD'm)	22.6	50.7	46.1
GWP (NAD'm)	305.3	744.8	691.1
Short industry cessions (NAD'm)	1 038.5	1 098.7	1 155.9
Long term industry cession (NAD'm)	300,724	396,318	392,519
Key metrics			
Namibia short term share of domestic cessions (%)	26.8	61.0	53.8
Namibia long term share of domestic cessions (%)	10.2	18.8	17.6
Blended market share (%)	22.8	49.8	44.6
Blended relative market share (x)	6.8	14.9	13.4

NamibRe has maintained its market position, benefitting from compulsory cessions, with compliance to the regulation increasing across the industry. Conversely, the reinsurer registered a contraction in premiums in FY21 given that in the previous year, the growth was mainly due to compliance of insurers with premiums back dated to 2018. As such, gross premiums lowered to USD46.1m in FY21 (FY20: USD50.7m), resulting to a market share of 45% (FY19: 50%). GCR expects the market position to remain unchanged over the rating horizon.

Premium diversification

Table 2: Line of business diversification (%)	GWP		NWP		Retention	
	FY20	FY21	FY20	FY21	FY20	FY21
Transport	0.0	2.2	0.0	2.2	0.0	70.0
Motor	1.2	43.4	1.2	44.6	77.0	70.0
Guarantee	8.0	0.8	7.8	0.8	77.0	70.0
Liability	4.2	3.1	4.1	3.2	77.0	70.0
Engineering	2.8	7.3	2.7	7.5	77.0	70.0
Individual life	6.1	9.9	1.6	0.0	20.5	0.0
Miscellaneous	77.7	33.3	82.7	41.7	84.2	85.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**79.2**	**68.2**

The business mix is considered to be intermediate, with three lines of business contributing materially to gross premiums. This is however partially offset by limited geographic diversification, with the majority of premiums derived from the primary market (98%) and the remaining business spread across different jurisdictions within the continent. Premium retention rate reduced to 68% in FY20 (FY19: 79%) and is expected to be maintained at a similar level over the rating horizon.

Management and governance

Management and governance factors are viewed to be neutral to the rating.

The board of directors comprises one executive director and seven non-executive members. Supporting committees include the Audit and Risk, Finance and Investment and Human Resources and Remuneration. The chairperson of the Audit Committee is independent. Financial statements were audited by PricewaterhouseCoopers and received an unqualified opinion.

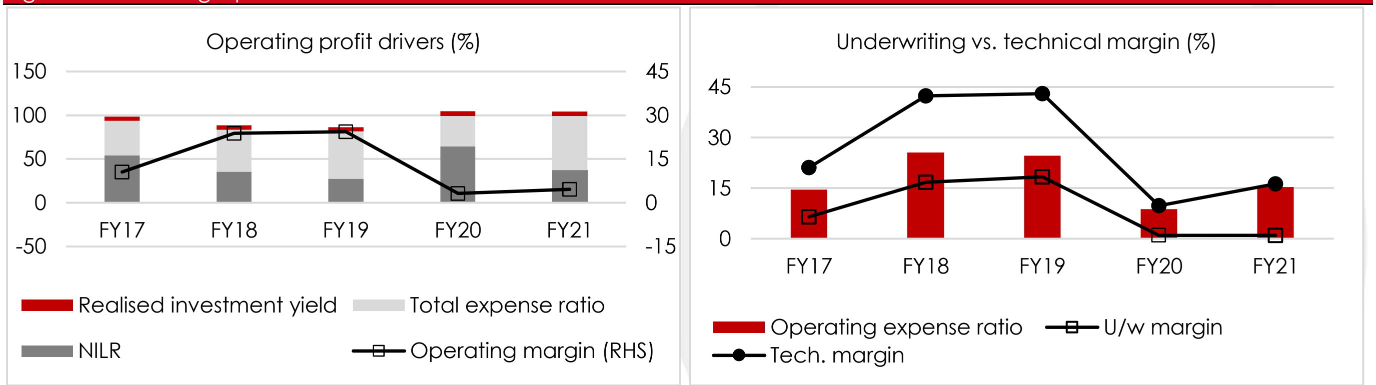
NamibRe's medium term strategy is anchored on achieving sustainable growth through increased geographic diversification, and cancelling loss making accounts, whilst applying cost efficiencies to enhance profitability. The reinsurer has established entrenched relationships in the industry which they expect to facilitate the achievement of the strategy. NamibRe expects to benefit from the reinforcement of the per policy legislation whereby the reinsurer receives 12.5% in GWP for every policy written in the industry, coupled with the compulsory 20% on reinsurance cessions where the reinsurer has first right of refusal.

Earnings capacity

NamibRe's earnings were maintained within an intermediate range, supported by a favourable claims experience balancing off an increase in commission and operating expense ratios. As such, the underwriting margin was maintained at 1% while the net incurred loss ratio and operating expense ratio registered at 37% and 15% respectively in FY21 (FY20: 65% and 9%).

Table 3: Earnings analysis (NAD'm)	FY17	FY18	FY19	FY20	FY21
NEP	242.2	162.5	178.8	594.2	426.0
Claims	(131.0)	(57.8)	(49.0)	(383.4)	(159.3)
Total expenses	(95.3)	(77.5)	(96.9)	(204.7)	(262.5)
Underwriting result	15.8	27.2	32.8	6.0	4.2
Net investment income	14,2	16,0	15,4	16,2	20,6
Net profit after tax	21.6	30.8	33.4	22.3	25.0
Key ratios (%)					
Net incurred loss ratio	54.1	35.6	27.4	64.5	37.4
Operating expense ratio	14.6	25.6	24.7	8.8	15.3
Underwriting margin	6.5	16.8	18.4	1.0	1.0
Operating margin	10.5	23.8	24.4	3.2	4.6
Realised investment yield	7.3	7.3	6.6	7.0	7.3
Return on revenue	8.9	18.9	18.7	3.7	5.9

Figure 1: Profit margin performance



Underwriting profitability was supported by investment income amounting to NAD20.5m (FY20: NAD16.1m) translating to a return on revenue of 6% (FY20: 4%). Earnings are expected to register within a similar range going forward.

Capitalisation

Risk adjusted capitalisation strengthened supported by sound internal capital generation.

Table 4: Capital generation (NAD'm)	FY16	FY17	FY18	FY20	FY21
Capital o/b	166.4	184.2	210.5	236.6	245.4
Net profit for the year	21.6	30.8	33.4	22.3	25.0
Dividends paid	(3.5)	(5.0)	(6.2)	(10.0)	0.0
Capital c/b	184..2	210..5	236..6	245.4	279.6
Key ratios (%)					
International solvency margin	77.1	135.6	118.4	41.6	59.3
Dividend cover (x)	6.2	6.2	5.4	2.2	5.0

Risk adjusted capitalisation improved in FY21 supported sound internal capital generation as well contained risk exposures. In this respect, the GCR CAR, improved to 1.8x at FY21 (FY20: 1.5x). Furthermore, the capital base improved in absolute terms to USD18.9m (FY20: USD13.7m). Going forward, capitalisation assessment is expected to be maintained within the same range given that compliance to the per policy regulation has reached 100%. As such, historical fluctuations in underwriting risk are not expected to recur going forward.

Liquidity

Strong liquidity, supported by conservative asset allocation

Table 5: Liquidity metrics	FY18	FY19	FY20	FY21
Liquidity ratio (x)	4.6	2.9	2.0	2.0
Operational cash coverage (months)	13.9	14.1	3.2	3.7

The insurer's liquidity profile remained sound, supported by conservative asset allocation. As such, cash and stressed assets covered net technical liabilities and operating cash flows by 2.0x and 3.7 months (FY19: 2.0x and 3.2 months). NamibRe's liquidity profile is expected to be sustained within the strong band over the rating outlook.

Table 6: Investments	FY20		FY21	
	NAD'm	%	NAD'm	%
Short term deposits	30.6	13.5	14.8	4.2
Short term government securities (<1 year)	48.0	21.3	56.9	16.3
Cash and equivalents	**78.6**	**34.8**	**71.7**	**20.5**
Unit trusts / Collective investments	147.1	65.2	277.5	79.5
Non-cash investments	**147.1**	**65.2**	**277.5**	**79.5**
Total investments	**225.7**	**100.0**	**349.3**	**100.0**

Asset allocation is skewed toward collective investments that comprise a diversified mix of unit trusts and investment funds through various reputable asset managers. Of these investments, cash equivalents and government securities represent 78% of total invested assets, with the balance split over interest securities, listed shares and unit trusts , implying limited exposure to market risk.

Comparative profile

Peer analysis

The peer analysis is neutral to the rating.

Group support

No group support was applied to the rating.

Rating adjustment factors

Structural adjustments

Structural adjustments were not applicable.

Instrument ratings

No instrument ratings were accorded.

Risk score summary

Rating components & factors	Risk scores
Operating environment	**11.25**
Country risk score	5.50
Sector risk score	5.75
Business profile	**(0.50)**
Competitive position	0.25
Premium diversification	(0.75)
Management and governance	0.00
Financial profile	**1.50**
Earnings	0.25
Capitalisation	1.25
Liquidity	0.00
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total score	**12.25**

Namibia Reinsurance Corporation Limited

(NAD in millions except **as** noted)

Year ended: 31 December		2017	2018	2019	2020	2021
Income Statement						
Gross written premium (GWP)		303.4	238.5	305.3	744.8	691.1
Reinsurance cession		(64.6)	(83.3)	(105.6)	(155.2)	(219.7)
Net written premium (NWP)		**238.9**	**155.2**	**199.8**	**589.6**	**471.4**
Net UPR movement		3.3	7.3	(21.0)	4.7	(45.4)
Net earned premiums (NEP)		**242.2**	**162.5**	**178.8**	**594.2**	**426.0**
Net claims incurred		(131.0)	(57.8)	(49.0)	(383.4)	(159.3)
Net commission expenses		(60.0)	(35.9)	(52.8)	(152.6)	(197.3)
Operating expenses		(35.3)	(41.6)	(44.1)	(52.2)	(65.2)
Underwriting result		**15.8**	**27.2**	**32.8**	**6.0**	**4.2**
Realised investment income		9.7	11.5	10.7	13.0	15.2
Unrealised gains / (losses)		4.5	4.5	4.7	3.1	5.3
Other income / (expenses)		0.0	0.1	0.1	0.1	0.2
Taxation		(8.5)	(12.6)	(14.9)	0.0	0.0
Net income after tax		**21.6**	**30.8**	**33.4**	**22.3**	**25.0**
Other comprehensive income		0.0	0.0	0.0	0.0	0.5
Total comprehensive income		**21.6**	**30.8**	**33.4**	**22.3**	**25.5**
Dividends		(3.5)	(5.0)	(6.2)	(10.0)	(5.0)
Balance Sheet						
Shareholders' interest		**184.2**	**210.5**	**236.6**	**245.4**	**279.6**
Net UPR		12.0	4.7	25.7	21.0	66.2
Net OCR & IBNR		38.2	29.4	33.2	277.2	275.7
Other liabilities		37.1	37.3	53.7	44.6	60.4
Total capital & liabilities		**271.6**	**281.9**	**349.2**	**588.2**	**682.0**
Fixed assets		28.9	37.4	39.1	41.0	43.0
Investments		109.2	157.2	137.9	147.1	277.5
Cash and equivalents		97.0	72.7	97.5	78.6	71.7
Other current assets		36.6	14.6	74.7	321.6	289.7
Total assets		**271.6**	**282.0**	**349.2**	**588.2**	**682.0**
Key Ratios						
Solvency/ Liquidity						
International solvency margin	%	77.1	135.6	118.4	41.6	59.3
Operational claims coverage	mth	8.2	13.9	14.1	3.2	6.3
Liquidity ratio	x	3.1	4.6	2.9	0.5	0.6
Underwriting profitability						
GWP growth rate	%	42.2	(21.4)	28.0	143.9	(7.2)
Premium retention rate	%	78.7	65.1	65.4	79.2	68.2
Net incurred loss ratio	%	54.1	35.6	27.4	64.5	37.4
Net commission ratio	%	24.8	22.1	29.6	25.7	46.3
Operating expense ratio	%	14.6	25.6	24.7	8.8	15.3
Total expense ratio	%	39.4	47.7	54.2	34.5	61.6
Underwriting margin	%	6.5	16.8	18.4	1.0	1.0
Combined ratio	%	93.5	83.2	81.6	99.0	99.0
Net profitability						
Operating margin	%	10.5	23.8	24.4	3.2	4.6
Investment yield (excluding unrealised movements)	%	5.0	5.3	4.6	5.7	5.3
Investment yield (including unrealised movements)	%	7.3	7.3	6.6	7.0	7.3
ROaE (excluding unrealised gains / losses)	%	9.7	13.3	12.9	8.0	7.5
ROaE (including unrealised gains / losses)	%	12.3	15.6	15.0	9.2	9.5
RoR (excluding unrealised gains / losses)	%	7.1	16.9	14.4	3.3	4.2
RoR (including unrealised gains / losses)	%	8.9	18.9	18.7	3.7	5.9
Dividend cover	%	6.2	6.2	5.4	2.2	5.0
Reserving						
Net UPR / NWP	%	5.0	3.0	12.9	3.6	14.1
Net OCR & IBNR / NWP	%	16.0	19.0	16.6	47.0	58.5

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.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Rating Horizon	The rating outlook period
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.
Retention	The net amount of risk the ceding company keeps for its own account.
Securities	Various instruments used in the capital market to raise funds.
Security	One of various instruments used in the capital market to raise funds.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
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 Liabilities	The sum of Net UPR and Net OCR IBNR.
Total Capital	The sum of owner's equity and admissible supplementary capital.
Total Expense Ratio	Measures the ability of the insurer to manage expenses associated with core operating activities.
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.
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.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

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.

The credit ratings have been 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 face-to-face management meeting, 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 entity and other reliable third parties to accord the credit ratings included:

- Audited financial statements as at 31 March 2021;
- Four years of comparative audited financial statements to 31 March;
- Full year budgeted financial statements to 31 March 2022;
- Unaudited interim results to 30 September 2021;
- Retrocession cover notes for 2022; and
- Other relevant documents.