GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

Namibia National Reinsurance Corporation Limited

Namibia Reinsurance Analysis **October 2007**

Security class	Rating scale	Currency	Rating	Rating watch	Expiry date
Claims paying ability	National	N$	AA-		
Claims paying ability	Regional	Rand	A-	No	10/2008
Claims paying ability	International	US$	BB		

Financial data:
(US$'m Comparative)

	31/03/06	31/03/07
N$/US$ (avg)	6.42	7.06
N$/US$ (close)	6.26	7.28
Total assets	9.4	9.9
Total capital	6.0	7.1
GPI	6.4	7.3
U/w result	0.1	1.2
NPAT	0.9	2.2
Market capitalisation		n.a.
Market share*		100%

*Based on local reinsurance GPI as at 31 March 2007.

Fundamentals:

Namibia National Reinsurance Corporation Limited ("NamibRe") began underwriting in July 2001, following the promulgation of the Namibia National Reinsurance Corporation Act (of 1998). The company was established to minimise the outflow of reinsurance business from the local economy (more than 80% of reinsurance is currently placed in external markets).

GCR contacts:

Marc Joffe
+27 11 784 -1771
joffe@globalratings.net

Jovan Stojakovic
+2711 784 -1771
joey@globalratings.net

Website: www.globalratings.net

Rating rationale

The rating is based on the following key factors:

- The rating was supported by the fact that NamibRe is 100% owned by the Namibian Government, and the acquisition rights to reinsurance cessions from the primary market.
- The reinsurer has underwritten profitably in each of the last 4 years, which has been supportive of the increasing level of reserves and high solvency margin.
- The reinsurer increased retention from 71% in F06 to 77% in F07, as the primary market loss ratios softened perceptibly in calendar year 2006.
- The international scale rating is constrained by Namibia's sovereign rating.
- The reinsurer exhibits a high level of concentration to its three largest clients, despite their high credit quality. From a business perspective, this presents a risk in the longer term if the acquisition rights are not renewed.
- NamibRe intends expanding its business beyond Namibia's borders, implying an elevated level of risk given the highly competitive nature of these markets and the company's relatively small size and small retrocession lines.

Solvency & liquidity

Following a significant 38% increase in shareholders' interest to N$52m, coupled with a lower increase in NPI, the international solvency margin increased slightly, from 127% in F06 to 130% in F07. In addition, the balance sheet is adequately protected by retrocession cover, with net retention bought down to N$250,000, or 0.5% of shareholders interest. The company continues to be cash generative with cash available from operating activities amounting to N$7.8m in F07. Cash on hand increased to N$51m in F07 (F06: N$20m), due to the rotation out of government bonds. Claims cash coverage was reported at 36 months in F07 (F06: 12 months). The company is currently restricted from investing in equities and property.

GLOBAL CREDIT RATING CO.

Background

NamibRe commenced operations in 2001 following the enactment of the Namibia National Reinsurance Corporation Act (of 1998). The main purpose of the Act was to stem the outflow of funds through offshore reinsurance placements. The Act made it mandatory that all insurers reinsure a part of their risk with NamibRe. Although this compulsory status was initially intended to be abolished in July 2006, insurers have pledged to continue supporting the reinsurer for a further five years.

The reinsurer, which is 100% owned by the Namibian Government, has been operating for over five years and is the only locally registered player in the market. The bulk of the company's business is generated locally, although the company intends increasing its footprint in other African countries in the medium term.

The objects of the reinsurer are:

1. To carry on reinsurance business and to conduct all affairs relating thereto in accordance with sound insurance practices and methods;
2. To promote the development of, and the participation of the people of Namibia in the insurance and reinsurance industry in Namibia;
3. To provide reinsurance cover of international standards to insurance markets, whether within or outside Namibia; and
4. To create, develop and sustain local retention capacity in insurance and reinsurance business and to minimise the placement of insurance and reinsurance business outside Namibia.

Operating environment

Namibia's nominal GDP was N$38.6bn in 2005, or US$6.1bn. Gross national income per capita amounted to US$2,990 in 2005. The economy has historically been dependent on diamond mining, manufacturing, trade, agriculture and fishing.

Namibia's monetary policy is effectively determined by the South African Reserve Bank's policy stance. In addition, some 85% of Namibia's imports are sourced from South Africa. These two factors account for the fact that Namibia's inflation rate closely follows inflation trends in South Africa. Accordingly, interest rates generally follow trends in South Africa. Namibia's policy (repo) rate has been the same as South Africa's since August 2004, although the prime lending rate is higher than South Africa, being 1.25% higher. The Namibian Dollar is pegged to the South African Rand, and accordingly, movements are dependent on the underlying factors affecting the Rand's performance against other currencies.

Table 1: Performance 2006 (N$m)	M&F	Santam	Hollard
Capital base	82.0	135.2	24.6
GPI	331.0	284.8	126.0
Underwriting result	9.1	8.3	8.2
Key ratios (%)			
Solvency	30.1	64.6	25.3
GPI growth	11.4	1.1	23.6
NPI / GPI	82.3	73.5	77.1
Earned loss	59.9	65.8	56.7
Commission	20.8	14.8	13.4
Mgmnt expense	16.1	15.5	21.2
U/w margin	3.2	3.9	8.7

The Namibian insurance industry is currently made up of 6 insurance companies (post 2005, Inscon was placed under provisional curatorship, while Prosperity Insurance began operations). As at year end 2005 this market was valued at around N$800m (US$114m). The last few years have evidenced little growth in the Namibian insurance industry, with growth reported by industry participants primarily attributable to premium adjustments and churn.

The insurance industry is focused on the higher end of the market, with little interest in the lower income price bracket. Competitiveness has historically remained centered on price. The market remains highly concentrated, with Santam, Mutual & Federal ("M&F") and Hollard underwriting in excess of 80% of the industry's premiums. Hollard set up operations in Namibia in August 2003 and in a short space of time the company's GPI has exceeded that of the largest domestically owned insurer. The introduction by Hollard of specialised higher margin products to the market in 2006 saw the insurer exhibit a high level of profitability of 8.7% (forsaking 2% on the underwriting margin in 2005 for 23% growth in GPI). Overall, however, the Namibian insurance industry evidenced a rapid decrease in overall profitability in 2006, driven by noticeably lower underwriting margins of M&F and Santam (from 11.2% and 12.2% in 2005 respectively). This is explained by perceptibly weaker earned loss ratios, together with higher operating costs. Santam remains the largest capitalised insurer. The multinationals retained a higher proportion of business on balance sheet in 2006 compared with 2005.

It is noted that the South African insurer OUTsurance purchased Swabou during F07. Initially, homeowners' cover for all domestic properties, financed through FNB Namibia will be offered. This will be followed with OUTsurance's personal lines products, expected in 2008.

Competitive positioning

Table 2: Peer analysis 2006 (US$m)	NamibRe	East Africa Re	Zep Re	Kenya Re
GPI*	7.0	15.5	32.5	42.7
Capital	7.1	11.1	17.6	88.0
Solvency (%)	130.4	119.2	70.1	230.1
Reinsurance/GPI (%)	22.9	36.0	22.5	10.4
Loss ratio (%)	44.1	59.2	61.3	54.4
Commission ratio (%)	23.5	30.3	25.5	28.8
Expense ratio (%)	10.7	10.2	8.8	16.2
U/W margin (%)	21.8	0.3	4.4	0.4

Note: Figures are to 31 December 2006, except NamibRe, which is to 31 March 2007.
* Life and non-life.

African reinsurers are competing aggressively for profitable markets, and defending profitable cessionaries in unprofitable markets, both avenues requiring expensive lobbying. As some insurers are demonstrating profitability in tough markets (testimony to their underwriting success), so larger established reinsurers will target whole accounts or significant lead positions through underpricing.

From the supply side, the retrocession market is becoming highly competitive, as years of undersupply is rapidly being eased. Notwithstanding this, the severity of Katrina and the rapidly changing intensity of weather systems remains supportive of retrocession premium growth. In Africa, increased borrowing capacity will spur infrastructure projects, which must be foreshadowed by risk protection, indirectly covered by the reinsurance market. Accordingly, the propensity for purchasing low correlating risks out of non-industrialised countries remains attractive to European reinsurers, particularly considering that such economies are growing (on the back of oil revenues and government debt write-offs). This is made more relevant by Munich Re of Africa and Swiss Re's intention to expand their geographical presence.

In addition, the emergence of Korea Re, China Re and GIC (India), which could well prefer emerging markets, would be a threat, particularly as African markets are increasingly receptive to Asian funded projects.

Risk diversification

NamibRe is not a lead reinsurer, but operates in the follow market. It sources its business from two distinct groups, namely companies with stand alone Namibian reinsurance treaties (Swabou/OUTsurance, Nasria and Prosperity), and companies with group reinsurance treaties, these being M&F, Santam and Hollard:

- Local reinsurance treaties - NamibRe receives 20% of the treaties. It retains the pre-emptive right towards all facultative business.
- Group reinsurance treaties – 7.5% (previously 5%) of their *net* account (strictly Namibian business written) and pre-emptive rights toward all facultative business.

Proportional business continued to form the basis of the reinsurer's operations, representing 88% of GPI in F07 (F06: 91%). Non-proportional business accounts for a further 11%, with facultative treaties accounting for the remainder.

A relatively unchanged 61% of the gross book comprises motor and fire business, although fire is now the largest asset class, following a decrease in the motor book (from 31% to 26%). In light of a deterioration in claims incidents in the motor class across the entire industry since 2006, motor class premiums would have been expected to increase well above this level to correct the losses. Personal lines and the miscellaneous class are also relatively large contributors to the gross book, cumulatively totaling an unchanged 32% of premium income in F07 (F06: 31%). The company retains the bulk of motor risks for its own account. The high net retention on fire results from the low participation on facultative risks (mostly associated with large industrial risks).

Table 3: Class	GPI		NPI		Retention	
(% of total)	F06	F07	F06	F07	F06	F07
Fire	30.7	34.9	28.9	33.7	69.2	73.7
Motor	31.1	26.0	33.9	29.0	80.0	84.9
Marine	4.1	3.9	2.8	2.8	50.4	54.3
Personal lines*	17.2	15.4	17.4	15.9	74.2	78.6
Guarantee	3.5	2.9	2.4	2.7	50.4	71.6
Miscellaneous	13.4	16.9	14.6	15.9	80.1	71.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**71.3**	**77.1**

* Includes medical and life.

Overall claims equated to a lower 44% of earned premiums from 64% in F06. It is noted that the claims experience in F06 was impacted by widespread flooding, in addition to the aforementioned motor losses. In F07, the net loss ratio for motor improved from 76.8% to 50.3%. Overall, the technical profit increased by N$9.1m to N$13m in F07. Accordingly, the underwriting result improved from 2.7% to 21.8%.

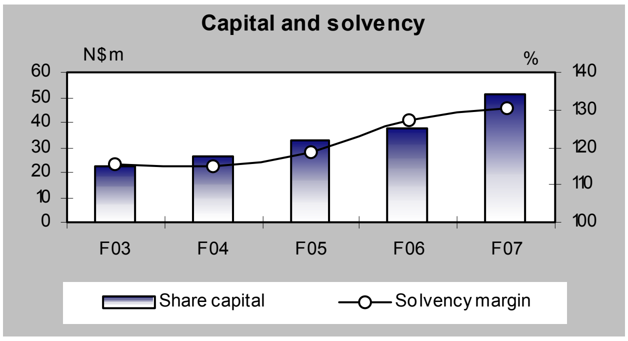
Table 4: Performance by class (N$m)	Claims incurred F06	Claims incurred F07	Technical result** F06	Technical result** F07
Fire	4.7	5.7	1.2	4.6
Motor	7.4	5.7	0.6	3.2
Marine	0.5	0.2	0.2	0.6
Personal lines*	4.0	2.4	0.8	2.3
Guarantee	0.3	0.1	0.2	0.6
Miscellaneous	2.6	3.2	0.5	1.3
Total	**19.5**	**17.2**	**3.6**	**12.7**

* Includes medical and life.
** NamibRe does not allocate management expenses per class.

NamibRe's growth (from non-binding cessions) relies heavily on the support of the larger broker groups operating in the Namibian market, with around 50% of business sourced through two brokers. Further concentration risk is evident in terms of client concentration, with the three international insurers contributing over 80% of the company's premium income. From a business perspective, this presents a risk in the longer term if the binding cessions (being defined as acquisition rights to reinsurance participation) are not reaffirmed.

Capital adequacy

The solid operating performance, with a N$15.2m net profit posted for the year, drove a significant 38% increase in shareholders interest to N$51m in F07. Coupled with a lower increase in NPI, the international solvency margin increased, from 127% in F06 to 130% in F07. This is well above the minimum regulatory requirement of 15% and is considered to be very high, in view of the budgeted capital accumulation relative to growth. Forecasts expect solvency to increase further in F08, to 132%.



The ratio of insurance funds to NPI decreased to a review period low of 11% in F07 (F06: 13%). Notwithstanding a decline in the outstanding claims reserve as a percentage of NPI, provisioning was considered to be adequate.

Retrocession

The company's lead is Munich Re (32.25%) on the surplus and FAC quota share treaties, and Africa Re on the remaining treaties (90% on Healthcare and 65% on FAC obligatory), and also includes Everest Re, Africa Re, East Africa Re, GIC of India, Zep Re and Labuan Re of Malaysia.

Table 5: Reinsurance (NS$)	Retention	Limits
Healthcare		
Quota Share	50/50	
Aggregate Stop loss	In excess of 130% of NWP; subject to a minimum of 900,900	
Surplus		
Fire	2m	18m
Misc. Accident	750,000	4.5m
Motor own damage	375,000	2.25m
Motor third party	750,000	4.5m
Marine, Hull & Cargo	750,000	2.25m
FAC quota share		
Fire	750,000	
Misc. Accident & Motor	150,000	
Marine, Hull & Cargo	150,000	
FAC obligatory	> 250,000	

The reinsurer's net retention has been bought down to N$500,000 (1% of shareholders' interest), with the programme structured into four layers, as follows:

- N$500,000 over N$500,000 with 3 reinstatements.
- N$1m over N$1m, with 2 reinstatements.
- N$3m over N$2m, with 1 reinstatement.
- N$5m over N$5m, with 1 reinstatement.

The table below outlines the net result on the company's retrocession treaties over the last 3 years. Following consecutive years of net transfers, NamibRe posted a N$1.8m receipt for F07, supported by significantly higher claims recoveries.

Table 6: Reinsurance result (N$m)	F05	F06	F07
Premium ceded	12.3	11.8	11.7
Claims recovered	(5.2)	(5.1)	(10.2)
Commission received	(3.9)	(3.8)	(3.3)
Underwriting loss / (profit)	**3.2**	**2.9**	**(1.8)**

Asset management

NamibRe's investment policy is aimed at achieving the maximum return for conservative levels of risk, in order to preserve capital. The reinsurer's mandate restricts the company from investing offshore, or in equities and property in Namibia (in December 2006, there were 29 listed companies and 23 unit trusts listed in Namibia).

Table 7: Investment portfolio	F06		F07	
	N$m	%	NSm	%
Cash & cash equivalents	20.0	37.1	51.2	84.6
Gov. bonds	33.9	62.9	9.3	15.4
Total investments	**53.9**	**100.0**	**60.5**	**100.0**

The value of total investments has increased consistently over the review period, from N$29m in F03 to N$61m at the end of F07. The investment mix changed somewhat during F07, with cash holdings increasing to N$51m (F06: N$20m) and comprising a significantly higher 85% of total investments, due to the rotation out of government bonds. This supported a noticeable increase in claims cash coverage, which was reported at 36 months cover from 12 months in F06.

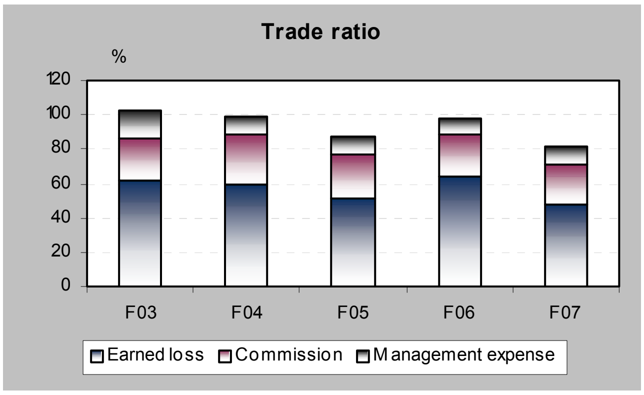
The investment yield was posted at 11.7% in F07 (F06: 10.1%), reflective of the higher interest rate environment.

Financial performance

A 5-year financial synopsis of the company's performance is reflected at the end of this report, and brief comment follows. Growth in gross premium income is largely reliant on the size of the net book of foreign controlled insurers, and rate increases. NamibRe reflected a fairly strong increase in gross premiums (of 24%) to N$51m in 2006. Net premiums increased by a higher 34%, following a further increase in retention levels to 77% (F06: 71%).

Table 8: Income statement F07 (N$m)	Budget	Actual	% of budget
Gross premium income	**46.3**	**51.3**	**110.8**
Reinsurance	(14.1)	(11.7)	83.0
Net premium income	**32.2**	**39.5**	**122.7**
Transfer (to)/from UPR	(0.6)	(0.5)	83.3
Earned premium	**31.6**	**39.1**	**123.7**
Net claims	(18.3)	(17.2)	94.0
Net commission	(8.9)	(9.2)	103.4
Management expenses	(4.0)	(4.2)	105.0
Underwriting result	**0.4**	**8.5**	**n.a.**

While earned premiums increased by 29% to N$39m in F07, net claims actually decreased by N$2.3m, to a more normalised level. This resulted in a significant improvement in the loss ratio to a review period low of 44% (budget: 56%), from a high of 64% in F06. The commission ratio was largely unchanged in F07, at 23.5%. Having remained fairly constant from F03 to F06, management expenses increased by N$1.4m to N$4.2m in F07, which drove an increase in the management expense ratio to 11% (F06: 9%). More than half of the increase can be attributed to bad debt provisions (fully provided) relating to Inscon.



Net income after tax more than doubled to N$15m in F07. The company is not required to pay tax until the general reserve fund (currently N$17m) is equal to or exceeds twice the amount of the authorised share capital of the company (N$20m). The board, in consultation with the Minister of Finance, determines the payment of dividends. While the dividend paid in F07 was unchanged from F06, the dividend cover increased to 13.2x (F06: 5x) as a result of the higher profit achieved.

Future prospects

NamibRe is budgeting for growth in GPI of 22% in F08. This includes the increased cessions. This also includes contributions from outside Namibia, which are expected to account for less than 3% of gross premiums after F08. External premiums are not expected to be significant in the medium term. The claims, commission and expense ratios are all expected to increase slightly during F08, driving an overall increase in the trade ratio to 84% (F07: 78%), although profitability remains healthy. The increase in management expenses includes costs associated with the reinsurers drive into Africa. A solid underwriting result is expected again in F08, supporting a marginal increase in solvency to around 132%.

Table 9: Income statement (N$m)	Actual F07	Budget F08	% increase
Gross premium income	**51.3**	**62.6**	**22.0**
Reinsurance premiums	(11.7)	(19.4)	65.8
Net premium income	**39.5**	**43.2**	**9.4**
UPR	(0.5)	(0.8)	60.0
Net premium earned	**39.1**	**42.4**	**8.4**
Claims paid	(17.2)	(20.1)	16.9
Net commission	(9.2)	(10.4)	13.0
Management expenses	(4.2)	(5.2)	23.8
Underwriting result	**8.5**	**6.7**	**(21.2)**
Ratio analysis (%)			
Premiums reinsured / GPI	22.9	31.0	
Earned loss ratio	44.1	47.5	
Commission ratio	23.5	24.5	
Mgnt expense ratio	10.7	12.3	
Trade ratio	78.2	84.3	
Underwriting margin	21.8	15.7	
International solvency*	130.4	132.2	

* Assumes constant dividend payment of N$1.2m.

As part of NamibRe's expansion plans into Africa, the reinsurer has successfully integrated its IT systems, trained staff, undertaken an evaluation of its risk assessment and control structures, and conformed to the necessary governance requirements. Although the expansion into other African countries would be positive overall, it is noted that achieving initial market penetration in these countries, in which the reinsurer lacks experience, introduces an elevated level of risk. In view of this, underwriting discipline, combined with cost control will be pivotal success factors.

International foreign currency rating factors

The following main factors were considered in according the international foreign currency rating.

Sovereign risk

In according the international rating, cognisance was taken of Namibia's sovereign rating of BBB- (triple B minus).

Other risks

Premiums and claims are currently matched in terms of currency, as NamibRe generates all of its income in Namibia, while all claims are paid in Namibian dollars. Accordingly, no foreign currency denominated assets are held at present. This is, however, expected to change going forward as the company starts focusing on markets outside of Namibia, which will require a revision of the investment mandate.

Some support is afforded by the fact that the lead reinsurers are investment grade rated internationally.

Namibia National Reinsurance Corporation Limited

(Namibian $ in millions except as noted)

Year ended : 31 March		2003	2004	2005	2006	2007
Income Statement						
Gross premium income (GPI)		28.7	34.8	40.2	41.3	51.3
Retrocession premiums		(9.5)	(12.2)	(12.3)	(11.8)	(11.7)
Net Premium income (NPI)		19.2	22.6	27.9	29.4	39.5
(Increase) / Decrease in insurance funds		(2.2)	(0.1)	(1.6)	0.9	(0.5)
Net premiums earned		**17.1**	**22.5**	**26.3**	**30.3**	**39.1**
Claims incurred		(10.5)	(13.5)	(13.6)	(19.5)	(17.2)
Commission		(4.2)	(6.4)	(6.7)	(7.2)	(9.2)
Management expenses		(2.8)	(2.5)	(2.7)	(2.8)	(4.2)
Underwriting profit / (loss)		**(0.5)**	**0.2**	**3.4**	**0.8**	**8.5**
Investment income		2.7	3.7	4.3	4.9	6.7
Other income / (expenses)		0.0	0.0	0.0	0.0	0.0
Taxation		0.0	0.0	0.0	0.0	0.0
Net income after tax		**2.2**	**3.9**	**7.7**	**5.7**	**15.2**
Unrealised gains / (losses)		n.a	n.a	n.a	n.a	n.a
Cash Flow Statement						
Cash generated by operations		(0.4)	0.3	3.4	0.8	8.6
Cash flow from investment income		2.7	3.7	4.3	4.9	6.7
Working capital decrease / (increase)		7.7	5.4	(2.0)	5.5	(7.5)
Cash available from operating activities		10.1	9.4	5.7	11.3	7.8
Tax paid		0.0	0.0	0.0	0.0	0.0
Dividends paid		0.0	0.0	(0.6)	(1.2)	(1.2)
Cash flow from operating activities		**10.1**	**9.4**	**5.1**	**10.1**	**6.7**
Purchases of investments		(8.5)	(7.7)	(7.5)	(2.7)	(6.4)
Proceeds on disposal of investments		0.0	0.1	0.0	0.0	0.0
Other investing activities		0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities		**(8.5)**	**(7.6)**	**(7.5)**	**(2.7)**	**(6.4)**
Cash flow from financing activities		**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**
Net cash inflow / (outflow)		**1.6**	**1.8**	**(2.4)**	**7.4**	**0.3**
Balance Sheet						
Shareholders interest		**22.2**	**26.1**	**33.0**	**37.5**	**51.6**
Insurance funds		3.0	3.1	4.7	3.8	4.2
Other liabilities		8.5	13.3	13.0	17.3	16.0
Total capital & liabilities		**33.7**	**42.5**	**50.7**	**58.6**	**71.8**
Fixed assets		0.3	0.1	0.1	0.1	0.1
Investments		23.4	31.1	38.5	33.9	9.3
Cash and short term deposits		5.7	7.5	5.1	20.0	51.2
Other current assets		4.4	3.9	7.0	4.6	11.3
Total assets		**33.7**	**42.5**	**50.7**	**58.6**	**71.8**
Key Ratios						
Solvency / Liquidity						
Shareholders funds / NPI	%	115.4	115.1	118.5	127.4	130.4
Cash claims cover	months	6.5	6.6	4.5	12.3	35.6
Average debtors turnover	days	57.0	43.2	49.2	42.9	45.4
Outstanding claims / NPI	%	19.4	26.7	23.3	27.2	15.1
Insurance funds / NPI	%	15.5	13.7	16.8	12.7	10.7
Profitability						
ROaE (after unrealised gains / losses)	%	10.4	16.3	26.0	16.2	34.2
Investment yield (including unrealised gains / losses)	%	11.3	11.1	10.5	10.1	11.7
Efficiency / Growth						
GPI Growth	%	414.3	21.2	15.4	2.7	24.3
Premiums reinsured / GPI	%	33.0	35.0	30.6	28.7	22.9
Earned loss ratio	%	61.7	60.0	51.7	64.4	44.1
Commissions / Earned premiums	%	24.8	28.2	25.3	23.7	23.5
Management expenses / Earned premiums	%	16.6	10.9	10.2	9.2	10.7
Underwriting result / Earned premium	%	(3.1)	0.8	12.8	2.7	21.8
Trade ratio	%	103.1	99.2	87.2	97.3	78.2
Operating						
Effective tax rate	%	0.0	0.0	0.0	0.0	0.0
Dividend cover	X	n.a.	n.a.	12.8	5.0	13.2