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Namibia National Reinsurance Corporation Limited

Namibia Reinsurance Analysis **November 2013**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	AA-$_{(NA)}$	Stable	11/2014
Claims paying ability	International	BB	Stable	

Financial data:

(US$'m Comparative)

	31/03/12	31/03/13
N$/US$ (avg.)	7.54	8.40
N$/US$ (close)	7.75	9.23
Total assets	20.4	18.7
Total capital	15.4	13.4
Cash & equiv.	14.9	12.8
GWP	18.3	17.6
U/w result	1.4	0.0
NPAT	2.6	1.1
Op. cash flow	2.5	2.5
Market cap.	not listed	
Market share	12%	

Rating history:

Initial rating (September 2006)
National scale: AA-$_{(NA)}$
Rating outlook: Stable
International scale: BB
Rating outlook: Stable

Last rating (December 2013)
National scale: AA-$_{(NA)}$
Rating watch: Yes
International scale: BB
Rating watch: Yes

Related methodologies/research:

GCR's criteria for rating short term insurance and reinsurance companies

Namibia National Reinsurance Corporation Limited ("Namib Re") rating reports 2006-2012.

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Summary rating rationale

The ratings are based on the following key factors:

- Significant rating support is derived from the fact that the reinsurer is 100% owned by the Namibian government. Cognisance is taken of historic financial reporting challenges (evidenced with a disclaimer of opinion issued with respect to F12 financial statements). Remedial action taken in F13 has seen the disclaimer waived, with F13 audited financial statements reflecting an emphasis of matter pertaining to F12 financial results. This notwithstanding financial reporting systems and the operational risk management framework are deemed underdeveloped and in GCR's view require further refinements going forward.
- Supported by sound capital accumulation and a high degree of profit retention, the international solvency margin has trended persistently above the 100% mark over the review period (F13: 108%). Over the medium term, management remains committed to maintaining international solvency above 100%. Nonetheless, in absolute terms the reinsurer's capital base remains notably constrained, which limits underwriting capacity.
- The sustained conservative investment stance adopted is supportive of a low risk balance sheet and sound liquidity metrics.
- Whilst the historic sound underwriting track record is favourably viewed, F13 underwriting profitably was significantly impacted by an unfavourable claims experience. In anticipation of increased operating costs and claims pressure, the underwriting margin is projected to remain subdued in F14, with YTD results affirming these expectations.
- The open ended mandatory cession mandate is supportive of captive premium generation. However, in the absence of meaningful cross border market representation, business diversification is notably constrained, whilst the reinsurer remains exposed to the vagaries of the underlying domestic insurance market.
- The majority of retrocession placements pertain to secure rated entities, limiting retrocession counterparty risk. The international scale rating is, however, constrained by the sovereign rating of Namibia (BBB-), as the bulk of Namib Re's assets are domestically domiciled.

Factors that could trigger a rating action may include:

Positive change: An upward movement on the rating may develop upon the attainment of enhanced scale and revenue diversification, whilst maintaining key credit protection metrics at strong levels.

Negative change: Downwards rating pressure may emanate from a revision of the prevailing mandatory cession. In addition, a protracted weakening in underwriting profitability and/or a sustained deterioration in key credit protection metrics would be viewed negatively.

Operating environment

Economic overview

Having declined by 4 percentage points in 2011, Namibia's GDP recovered notably, to register growth of 4.4% in 2012, with impetus derived from an improved mining output, and increased construction activities and government spending. The latter was aimed mainly at cushioning the domestic economy from the lagged impact of the global economic downturn and addressing persistently high rates of unemployment and poverty. The country's growth prospect for the medium term remain favourable, with GDP growth projected at 4% for both 2013 and 2014. Downside risks to the positive medium-term outlook include lower SACU revenues (due to the crisis and weather-related shocks), as well as contagion risk on the back of persistent operational challenges in the South African mining industry.

Table 1: Economic indicators	2010	2011	2012	2013*
Real GDP growth (%)	6.6	3.8	4.4	4.0
Real per capita GDP growth (%)	4.8	2.0	2.6	2.4
CPI inflation (%)	4.5	4.8	6.6	4.3

*Estimates.

After years of fiscal surpluses (arising from prudent macroeconomic policies), the global economic crisis and expansionary policies to support growth have negated this favourable position. Nevertheless, Namibia's fiscal deficit is projected to decrease from 9% of GDP in 2012 to 4.7% in 2013, even despite the prevailing expansionary fiscal stance maintained by the government.

The monetary stance remains supportive of the peg to the Rand, with the Namibian Dollar weakening notably against the US$ of late (to close at N$10.1/US$ at the end of November 2013 from N$8.2/US$ at year-end 2011). Inflation remains moderate and is expected to remain within single digits (forecast at 5.5% in 2014 from the level of 4.9% reported as at October 2013). The Bank of Namibia repo rate remained unchanged in 2013, at 5.5%.

Industry overview

Namib Re is the only locally registered reinsurer in Namibia, from which it derives the bulk of its business. Brief commentary on the Namibian insurance industry follows.

The Namibian insurance industry is governed by the Financial Institutions Supervisory Authority Act, 2001 and regulated by the Namibia Financial Institutions Supervisory Authority ("NAMFISA"). NAMFISA, in turn, operates under the auspices of the Ministry of Finance. A total of 28 companies are licensed to transact insurance business in Namibia, of which 12 focus on non-life business. In 2012 the industry evidenced 14% growth in gross premium income, mainly attributed to the increase in new business undertakings (mainly health insurance business). The short term insurance industry is highly fragmented, with the 3 largest participants (all South African subsidiaries) collectively accounting for more than 80% of gross premiums. In this regard, the risk management frameworks applied across this top tier are deemed relatively sophisticated, in particular given that these South African subsidiaries benefit from sound practices adopted at group level. Similar to other African territories, the market remains geared towards commercial/corporate risks, whilst individual lines remain constrained by low disposable income levels of the broader population. Resultantly, brokers dominate premium generation (in particular a handful of multinationals).

Table 2: Key industry data	
Regulatory authority:	**NAMFISA**
Min. capital req. (non-life insurance):	**N$4m**
Min. capital req. (reinsurer):	**N$10m**
# of registered non-life insurers in 2012:	**12**
# of registered life assurers in 2012:	**16**
Insurance penetration (% of GDP):	**±2%**
Non-life industry GWP 2012 :	**N$2,444.4m**
GWP growth 2012 (2011) (non-life) :	**14.3% (5.4%)**
International solvency 2012 (2011) (non-life):	**45.2% (69.2%)**
Retention ratio 2012 (2011) (non-life):	**69.4 %(54.5%)**
Earned loss ratio 2012 (2011) (non-life):	**60.3% (61.9%)**
Delivery cost ratio 2012 (non-life):	**29.2% (26.7%)**
U/w margin 2012 (2011) (non-life):	**10.4% (11.5%)**

The minimum capital requirement has remained unchanged for several years, at N$4m for non-life insurers, and N$10m for reinsurance companies (US$1.2m), which is considered low. Consistent with developments internationally, the introduction of a risk based capital model is being deliberated by the regulatory authorities. Other pertinent regulatory aspects of late include i) the harmonisation of internal processes; ii) the regulation and supervision of cell captives or alternative risk transfer carriers; iii) the adoption of a revised quarterly return to the regulator and iv) a more stringent enforcement of the local content rule (thus curbing the externalisation of risks without domestic participation).

Table 3: Peer analysis 2012 (US$'m)	Namib Re	Kenya Re	Tan Re	Ghana Re	CICA Re
Domicile	Namibia	Kenya	Tanzania	Ghana	Togo
GWP	17.6	80.2	43.1	33.8	42.9
NPAT	1.1	12.8	2.3	7.6	2.8
Capital	13.4	114.8	19.4	60.2	56.0
Solvency (%)	107.9	183.4	74.2	193.8	150.1
Retention (%)	77.5	96.6	90.2	91.7	85.6
Earned loss (%)	59.3	61.9	57.7	19.8	51.1
Delivery cost (%)	40.6	46.9	35.0	78.5	46.6
U/w margin (%)	0.0	(8.8)	7.3	1.7	2.3
Cash cov. (month)	20.8	20.5	12.3	106.4	24.4

Note: Namib Re has a March year-end.

Background and recent developments

Note is taken of the fact that audited financial statements for F12 were issued with a disclaimer of opinion by the company's auditors Ernst & Young relating to insufficient audit evidence with regards to foreign currency transactions and accrual principles applied. Remedial action has been undertaken in the F13 audit process, which saw key issues adequately addressed and the disclaimer of opinion removed. Annual financial statements for 2013 have been issued with an emphasis of matter detailing the restatements applicable for 2012.[1]

Fundamentals

Namib Re commenced operations in 2001, following the enactment of the Namibia National Reinsurance Corporation Act (of 1998), the main purpose of which was to contain the outflow of funds by means of offshore reinsurance placement. Although historically the reinsurer focused exclusively on non-life insurance risks, plans to expand into the life arena are at an advanced stage, with the roll-out thereof expected for 2014. Based on the findings of an internal feasibility study, the company will focus primarily on group life risks, with N$20m in gross premium income expected to be generated for the first year of operations. In terms of company ownership, the business remains 100% owned by the Namibia government, which serves to significantly underpin the reinsurer's ratings.

Competitive position and risk diversification

Since inception, Namib Re has benefited from compulsory cessions on all domestic business, which continue to be derived from the following two sources (these are currently open ended):

- Local reinsurance treaties - Namib Re benefits from a 20% mandatory cession rate on all domestic reinsurance premiums ceded. In this regard, it retains the pre-emptive right towards all treaty and facultative business placed.
- Group reinsurance treaties- 7.5% of their net account (strictly Namibian business written), subject to pre-emptive rights on all treaty and facultative transactions.

Note is taken of considerable limitations with regards to the financial data provided by Namib Re to GCR for analytical purposes. This notably impedes a detailed per line of business assessment of operational performance for F12 and F13, with the following comparative year-on-year review largely limited to gross results. In view of this and in light of the previously mentioned reporting shortfalls, Namib Re's financial reporting and operational risk management framework is deemed weak, whilst risk management disciplines are rudimentary in the absence of a comprehensive ERM framework. In an effort to address these challenges, remedial measures have been implemented including a) the hiring of additional finance staff; b) the recruitment of a CA/CTA to oversee the technical underwriting function and c) the procurement of a new underwriting system. The full integration of the latter, however, has been delayed by a revision of operational structures. As such, the collective benefit of all these initiatives is likely to only feed through in the F14 financial year.

Despite concerted efforts in recent years to increase cross border market representation, the foreign premium component remained subdued in F12, at around 10% of total GWP. This stems from both unique risk characteristics in the underlying markets and limited market acceptance (given its status as a foreign counterparty). In addition, the reinsurer exited a number of poorly performing foreign risks, further constraining cross border participation. In view of this, the company recently revised its internal process flow, with key operational functions (such as business procurement and claims management) now reorganised into domestic and foreign segments. Over the medium term, this is likely to bode well for operational efficiencies and possibly lead to a greater level of business diversification. However, pending the bedding-down of the associated organisational structures, the business mix remains geared towards domestic business (90% of GWP), the bulk of which is derived in the form of mandatory cessions. Voluntary cessions remain constrained by the reinsurer's perceived limited underwriting capacity. In context of the prevailing characteristics of the underlying insurance market, cedant concentration remains considerable, with the 3 largest clients combined representing a high 64% of GWP in F13 (single largest: 30%). Intermediary representation is equally concentrated, with the single largest and 5 largest brokers combined representing 61% and 94% of total GWP respectively in F13. The balance (6%) is garnered via direct sales efforts.

Table 4: Premium composition (%)	F11	F12	F13
Proportional	89.3	88.6	87.8
Non-proportional	2.3	2.6	2.5
Facultative	8.4	8.6	9.7
Total	**100.0**	**100.0**	**100.0**

Given the continued reliance on compulsory cessions, premiums are predominantly of a proportional nature (88% of GWP in F13), whilst facultative acceptances (originating mainly from foreign clients) constituted 10% of the gross book. The negligible remainder (2%) pertained to non-proportional participations. Having registered compound annual top line growth of 19% over the prior four years, GWP advanced by a notably subdued 7% (F12: 15%) to N$148m in F13. Besides the aforementioned shedding of unprofitable foreign portfolios, this was also ascribed to an increase in risk retention for the underlying insurance market (to 69% from 55% previously). The combined impact thereof was most pronounced in motor, which saw its gross premiums contract by 27% to N$33m, to comprise a lower 23% (F12: 33%) of the total gross book. Similarly, due to increased competition from regional peers, fire's gross portfolio weighting reduced by 6 percentage points to 27% in F13, receding to the 2nd largest class (from being joint largest with motor). In contrast, miscellaneous gross premiums nearly doubled year-on-year, to comprise a greater 33% of the gross book (F12: 18%). Management ascribed this to both greater demand for specialised risks (such as aviation), as well as increased participation on various high value, niche fac placements. Contributions of the remaining lines

[1] For further details readers are referred to GCR's 2012 rating report.

remained relatively subdued (at a combined 17% of total F13 GWP). With respect to domestic risks Namib Re retains the bulk thereof for its net accounts, while business written outside of the country is heavily reinsured, given the complexity and unique risk characteristics associated therewith. Overall, the reinsurer's risk appetite was largely unchanged in F13, at 77% (F12: 78%).

Table 5: Premium by class (%)	**GWP**	
	F12	**F13**
Fire	33.4	27.2
Marine	1.3	1.7
Motor	33.3	22.9
Guarantee	4.5	6.1
Miscellaneous*	18.3	32.7
Personal lines	2.6	2.4
Medical	6.6	6.9
Total	**100.0**	**100.0**

*Includes liability, 3rd party liability and special riot.

Gross claims paid were relatively well contained in F13, increasing by a comparatively lower 7% (F12: 10% growth) to N$79m. With GWP advancing at a similar rate, the gross claims ratio was largely unchanged in F13, at 55% (F12: 54%). From a class perspective, this corresponded with an improved claims experience for most major lines of business (including fire, motor and miscellaneous), albeit this was countered by a marked increase in the medical gross claims ratio (to 131% from 48% previously). The deterioration for the latter was largely driven by rising medical inflation, and increased loss severity and frequency on a key account, driving a more than threefold increase in medical gross claims to N$13m. Subsequent corrective action has been undertaken (including risk re-pricing), with management remaining confident of containing future losses at a lower level. In contrast, the fire gross claims ratio reduced to 38% in F13 (F12: 55%), in the absence of any major losses during the year.

Table 6: Performance by class	**Gross claims paid (N$'m)**		**Gross loss ratio (%)**		**Gross technical result (N$'m)**	
	F12	**F13**	**F12**	**F13**	**F12**	**F13**
Fire	23.1	14.8	55.1	37.8	5.8	10.9
Marine	0.5	0.9	33.8	35.4	0.7	0.9
Motor	26.5	21.4	67.5	64.9	6.1	4.2
Guarantee	2.8	1.7	50.3	19.2	0.8	3.9
Miscellaneous*	15.1	25.2	67.3	53.4	1.5	10.0
Personal lines	1.7	1.6	51.8	48.0	0.5	0.5
Medical	3.9	13.0	47.9	130.8	4.0	(4.4)
Total	**73.6**	**78.6**	**53.9**	**54.5**	**19.4**	**26.0**

*Includes liability, 3rd party liability and special riot.

Further, the motor gross claims experience stabilised in F13 (albeit at a moderately elevated level), owing to greater pricing discipline in the underlying insurance market. Guarantee losses normalised in F13, with prior year claims notably undermined by a large business interruption loss (originating mainly from CAR risks). Positively, the added premium scale for miscellaneous resulted in an improved degree of loss absorption, with the corresponding gross claims ratio reducing to 53% (F12: 67%). Overall, barring medical all lines were profitable on a gross technical basis, with fire and miscellaneous driving profitability in absolute terms. This translated to an improved gross technical profit of N$26m in F13 (F12: N$20m)

On a net incurred basis, however, net claims increased to N$68m (F12: N$52m), with the earned loss ratio reverting from an atypically low 51% in F12 to 59% in F13 (4-year average prior to F12: 58%). This was mainly driven by a normalisation in provisions, with F11 reserve releases impacted by the repudiation of a large mining claim. With relative net commissions largely unchanged (28% vs. 29% in F12), this saw the reinsurer's net technical margin decrease sharply to 13% in F13 (F12: 20%). Furthermore, the underwriting result reduced to nil in F13 from a N$11m profit previously.

Solvency and reserving

In view of the constrained underwriting result, and despite stable investment income of N$9m, F13 net profits amounted to a subdued N$10m (F12: N$20m). Net of a N$1.4m dividend, this hindered capital accumulation, with shareholders interest rising by 4% (prior 4-year CAGR: 10% growth) to N$124m at FYE13. With NWP increasing at a marginally higher rate, the international solvency margin decreased slightly to 108% in F13 (F13 budget: 121%; F12: 111%). Underpinned by concerted premium collection efforts, insurance debtors amounted to a lower N$8.4m in F13 (F12: N$14.1m), translating to a slightly improved average debtors aging of 28 days (F12: 33 days). According to management, the debtors book remains qualitatively sound, with no premiums outstanding for longer than 180 days.

From a statutory perspective, Namib Re continued to comfortably exceed the minimum solvency requirement (calculated as 15% of the prior year's NWP). Management have confirmed that capital will continue to be managed in accordance with a minimum solvency target of at least 100% going forward.

In terms of reserving, outstanding claims provisions are raised on a case-by-case basis (in conjunction with losses reported by the underlying insurers), whilst reserves for unearned premiums are established using the 1/8th method. As a percentage of NWP, unearned premium reserves equated to 9% in F13 (F12: 10%), while the outstanding claims to NWP ratio totalled a higher 19% (F12: 18%). The adequacy of claims reserving is assessed annually by the company's auditors, in consultation with an external actuary.

Retrocession

Structurally the treaty programme for 2013 is identical to that of the prior year, the details of which are tabulated below. As such, the treaty structure provides capacity to a maximum value of N$18m for domestic and US$1.8m for foreign risks respectively. This is further bought down by a dedicated CAT XoL treaty (excluded from table 6), which comprehensively covers all major lines of business (irrespective of the origination of the risk). In detail, this facility reflects capacity of up to N$25m, subject to a maximum net retention per risk and event of N$1m. This corresponds with a moderate 0.7% of FYE13 capital.

Table 7: Retrocession 2013	Namibian business (N$)		Other territories (US$)	
	Retention	Limits	Retention	Limits
Healthcare				
Quota share	60/40	5.7m	n.a.	n.a.
Surplus (lines)				
Fire (6)	3m	18m	300,000	1.8m
Excess of loss (layers)				
Motor (6)	500,000	3m	25,000	150,000
Misc. acc.(6)	1m	6m	50,000	300,000
Marine, hull & cargo (3)	1m	3m	50,000	150,000
FAC obligatory	250,000	5m	10,000	200,000

* Includes liability, 3rd party liability and special riot.

Given the reinsurer's limited underwriting capacity, facultative placements remain prominent, accounting for around 50% of retrocessions in F13. According to management, these are used solely for capacity building, with no risk in excess of treaty limits retained.

Table 8: Retrocession result (N$'m)	F09	F10	F11	F12	F13
Premium retroceded	17.7	20.1	27.2	30.3	33.3
Claims recovered	(7.5)	(9.6)	(16.9)	(18.7)	(13.5)
Commission received	(5.2)	(6.2)	(8.0)	(8.1)	(9.0)
Net transfer cash- basis	**5.0**	**4.3**	**2.3**	**3.5**	**10.8**

Following relative stability in the reinsurance result over the review period, the net cost of reinsurance increased sharply to N$10.8m in F13 (F12: N$3.5m). This was mainly driven by a reduction in relative claims recoveries (41% of premiums ceded vs. 62% in F12), whilst commission receipts were largely flat in relative terms. This translated to a review period average reinsurance technical margin of 20%, compared to that of Namib Re of 16%.

Counterparty risk

In line with prior years, secure rated Munich Re continues to dominate the reinsurer's treaty framework in 2013, accounting for a minimum programme share of 40% across most facilities. Other counterparties include Everest Re, Zep Re and Africa Re. The latter is the lead on the FAC obligatory (65% participation) and healthcare quota share treaty (90%), followed by ZEP Re (10%). Overall, the quality of Namib Re's retrocession counterparties is considered adequate, with around 70% of retrocession placements in 2013 pertaining to secure rated entities.

Asset management

Total investments were reported at N$139m in F13, representing a 15% increase over F12. Consistent with prior years, the portfolio remained geared towards low risk liquid investments (85% of total invested assets). Year-on-year, the composition of cash reserves shifted further towards government bonds (60% vs. 45% in F12), reflective of efforts to capitalise on the comparatively higher yields associated with these instruments. Against this backdrop and with net claims incurred rising in F13 (by 30%), claims cash coverage receded, to equate to 21 months in F13 (F12: 27 months) whilst cash coverage of net technical liabilities remained stable at 4x. The investment portfolio is complemented by corporate bonds in Telecom Namibia (at an unchanged N$5m) and newly introduced unit trusts (N$16m). With regards to the latter, management has indicated that a cautious approach will be applied, with Namib Re remaining committed to a very conservative investment stance.

Table 9: Investment portfolio	F12		F13	
	N$'m	%	N$'m	%
Cash on hand	19.5	16.1	10.3	7.4
Fixed deposits	43.7	36.1	36.4	26.3
Government bonds	52.5	43.4	70.9	51.2
Cash & cash equivalents	**115.7**	**95.7**	**117.6**	**84.9**
Corporate bonds	5.2	4.3	5.2	3.8
Unit trusts	-	-	15.7	11.3
Total investments	**120.9**	100.0	**138.5**	**100.0**

Investment income totalled N$9m in F13 (F12: N$8m), which translates to a stable cash yield for the year of 7%. Included in this amount is rental income of N$0.4m, which pertains to one floor of its newly constructed head office, which is let out to two parties under a medium term lease agreement.

Asset conversion & currency/counterparty risk

With all invested assets exclusively domiciled in Namibia, the reinsurer remains exposed to the sovereign risk of Namibia, which is rated BBB- on an international scale. An analysis of cash holdings and fixed deposits at FYE13 reveals that the single largest exposure (30% of the total) pertained to FNB Namibia (a subsidiary of a highly rated South African banking group). The remaining funds are allocated fairly evenly across other domestic institutions, most of which are secure rated. As such, counterparty risk is considered to be moderate. In view of the continued focus on domestic business, the majority of premiums and claims paid in F13 are denominated in Namibian Dollars. In turn, this results in the bulk of cash balances being vested in local currency. Collectively, this limits currency risk and is supportive of adequate asset-liability matching.

Financial performance

Table 10: Income statement (N$'m)	F13		% of budget
	Actual	Budget	
GWP	147.8	139.0	106.3
NWP	114.5	108.4	105.6
NPE	**114.6**	**108.4**	**103.5**
Claims	(68.0)	(65.1)	104.5
Commission	(32.0)	(27.2)	117.6
Management expenses	(14.6)	(8.7)	167.8
U/w result	**0.0**	**7.4**	**n.a.**
Investment income	9.1	8.6	105.8
Ratios (%)			
GWP growth	7.4	15.9	
Retention	77.5	78.0	
Earned loss	59.3	60.1	
Commission	27.9	25.1	
Mgt. expense	12.7	8.0	
U/w margin	0.0	6.8	
Intern. solvency	107.9	121.0	

Gross premiums advanced by 7% (F12: 15%) to N$148m in F13, which was 6% ahead of budget. On a net basis, premiums exceeded forecasts by a similar rate to amount to N$115m (F12: N$107m), as risk retention was largely unchanged at 78% matching initial forecasts. In the absence of any meaningful UPR movements in F13, NPE matched net written premiums for the year (F12: N$103m), thus exceeding budget by 4%.

Driven by a normalisation in claims provisions, net claims incurred increased by 30% to N$68m in F13, which translated to a review period high earned loss ratio of 59% (F12: 51%). This deterioration, however, had been largely anticipated, with the overall earned loss ratio closely tracking the domestic insurance industry average of 60%. On the back of the increased utilisation of intermediaries (with one large fac account moving from direct origination to the broker channel), net commission expenses edged upwards to N$32m in F13 (F12: N$29m). However, against the comparatively stronger 12% rise in NPE, the net commission expense ratio reduced marginally to 28% (F12: 29%). In contrast, operating costs increased from N$9.9m to N$14.6m in F13, to account for a higher 13% of NPE (F12: 10%; budget: 8%). This was primarily driven by staff costs & remunerations, and consultancy fees. Overall, due to the unfavourable claims experience, the reinsurer only managed to breakeven on the underwriting line (budget: N$7.4m profit; F12: N$17m profit). Reflective of the growth in total invested assets, investment income increased by 17% to N$9.1m in F13, the bulk of which pertained to cash interest receipts. Nonetheless, due to the constrained underwriting result, NPAT was notably subdued, at N$10m (F12: N$20m), translating to a reduced ROaE of 8% (F12: 18%). Net of a N$1.4m dividend paid with respect to F13 results and in the absence of unrealised movements, retained earnings totalled a lower N$10m in F13 (F12: N$20m)

Future prospects

Table 11: Income statement (N$'m)	Nov 2013 Actual	Nov 2013 Budget	Budget F14
GWP	105.3	39.3	157.1
NWP	82.1	30.6	122.5
NPE	**82.1**	**30.6**	**122.5**
Claims	(46.0)	(18.7)	(74.7)
Commission	(24.6)	(8.8)	(25.5)
Management expenses	(8.2)	(4.8)	(19.4)
U/w result	**(3.3)**	**(1.7)**	**2.9**
Ratios (%)			
GWP growth	6.7*	6.3*	6.3
Retention	78.0	78.0	78.0
Earned loss	56.0	61.0	61.0
Commission	30.0	28.5	20.8
Mgt. expense	10.0	15.5	15.8
U/w margin	4.0	(5.0)	2.4
International solvency	n.a.	n.a.	116.4

*Annualised.

Buoyed by increased facultative volumes, GWP is forecast to increase by 6% to N$157m in F14. With the risk appetite largely unchanged relative to historic norms, this would see NPE rise at a similar rate, to N$123m in F14. Amidst expected sustained claims pressure in the underlying domestic insurance market, the earned loss ratio is expected to remain elevated in F14, at 61% (F13: 59%).

Positively, due to an anticipated increased focus on direct business, net commission charges are forecast to reduce notably relative to NPE (to 21% vs. 28% in F13). Consequently, this would see the technical margin recover somewhat to 18% in F14 (F13: 13%). In contrast, operating costs are projected to increase to N$19m (F13: N$14.6m), to comprise a higher 16% (F13: 13%) of NPE, driven largely by significantly increased marketing spend and the proposed bolstering of staff numbers to enhance the underwriting function. Overall, due to the increased operating cost pressure, the underwriting result for F14 is projected to remain constrained (at a N$2.9m profit). The international solvency margin is forecast to remain sound, at 116% in F14.

Based on unaudited management accounts to November 2013, GWP is in line with the full year target on a pro rata basis. Net claims incurred were fairly well contained relative to NPE (at 56%), with the underwriting margin for the period remaining constrained at 4%.

Namibia National Reinsurance Corporation Limited

(N$ in Millions except as Noted)

Year ended : 31 March		2009	2010	2011	2012^	2013
Income Statement						
Gross written premium (GWP)		**81.2**	**97.1**	**119.9**	**137.7**	**147.8**
Retrocession premiums		(17.7)	(20.1)	(27.2)	(30.3)	(33.3)
Net written premium (NWP)		**63.5**	**77.0**	**92.7**	**107.4**	**114.5**
(Increase) / Decrease in insurance funds		0.5	(3.1)	2.4	(4.8)	0.1
Net premiums earned		**64.0**	**73.8**	**95.0**	**102.6**	**114.6**
Claims incurred		(40.1)	(43.2)	(58.0)	(52.4)	(68.0)
Commission		(13.7)	(19.2)	(24.0)	(29.3)	(32.0)
Management expenses		(5.0)	(5.9)	(5.7)	(9.9)	(14.6)
Underwriting profit / (loss)		**5.3**	**5.5**	**7.3**	**10.9**	**0.0**
Investment income		8.6	7.8	7.8	7.8	9.1
Other income / (expenses)		0.0	0.0	0.0	0.8	0.4
Taxation		0.0	0.0	0.0	0.0	0.0
Net income after tax		**13.9**	**13.3**	**15.1**	**19.5**	**9.5**
Unrealised gains / (losses)		0.0	0.0	0.0	0.0	0.0
Retained income		13.9	13.3	15.1	19.5	9.5
Dividends paid in respect of the financial year		(0.7)	(1.3)	(1.3)	0.0	(1.4)
Cash Flow Statement						
Cash generated by operations		5.3	5.5	7.3	16.1	5.4
Cash flow from investment income		8.6	7.8	7.8	7.8	8.5
Working capital decrease / (increase)		(1.9)	6.0	3.3	(5.1)	7.3
Tax paid		0.0	0.0	0.0	0.0	0.0
Cash available from operating activities		**12.0**	**19.4**	**18.3**	**18.8**	**21.2**
Dividends paid		(0.7)	(1.3)	(1.3)	0.0	(1.4)
Cash flow from operating activities		**11.3**	**18.1**	**17.0**	**18.8**	**19.8**
Purchases of investments		(6.6)	(17.1)	(2.9)	(61.6)	(85.9)
Proceeds on disposal of investments		0.0	0.0	0.0	32.3	57.0
Other investing activities		(2.4)	13.6	(6.1)	26.3	11.2
Cash flow from investing activities		**(9.0)**	**(3.5)**	**(9.0)**	**(3.0)**	**(17.8)**
Cash flow from financing activities		**(0.0)**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash inflow / (outflow)		**2.3**	**14.6**	**8.0**	**15.9**	**2.0**
Balance Sheet						
Shareholders interest		**74.0**	**86.0**	**99.9**	**119.3**	**123.6**
Net unearned premium reserves		4.6	7.8	5.4	10.2	9.8
Net o/s claims and IBNR provision		7.6	14.8	23.3	19.2	21.3
Other liabilities		9.2	7.0	3.7	9.5	17.6
Total capital & liabilities		**95.4**	**115.7**	**132.3**	**158.3**	**172.3**
Fixed assets		3.8	7.2	16.2	19.0	21.4
Investments		5.2	5.2	5.2	5.2	20.9
Cash and cash equivalents		77.2	91.8	99.8	115.7	117.7
Other current assets		9.1	11.5	10.9	18.2	12.2
Total assets		**95.4**	**115.7**	**132.3**	**158.3**	**172.3**
Key Ratios						
Solvency / Liquidity						
Shareholders funds / NWP	%	116.6	111.8	107.8	111.1	107.9
Adjusted international solvency margin*	%	n.a.	111.8	107.8	121.5	121.5
Cash claims cover	months	23.1	25.5	20.7	26.5	20.8
Cash & equivalents : Technical liabilities	x	6.3	4.1	3.5	3.9	3.8
Average debtors	days	34.3	38.4	33.5	32.9	27.9
Outstanding claims / NWP	%	11.9	19.3	25.1	17.8	18.6
Insurance funds / NWP	%	7.3	10.1	5.9	9.5	8.5
Profitability						
ROaE (after unrealised gains / losses)	%	20.6	16.6	16.2	17.7	7.8
Investment yield (including unrealised gains / losses)	%	10.9	8.7	7.7	6.9	7.0
Efficiency / Growth						
GWP Growth	%	16.7	19.6	23.4	14.9	7.4
Premiums reinsured / GWP	%	21.8	20.7	22.7	22.0	22.5
Earned loss ratio	%	62.6	58.6	61.0	51.1	59.3
Commissions / Earned premiums	%	21.3	26.0	25.3	28.6	27.9
Management expenses / Earned premiums	%	7.8	8.0	6.0	9.6	12.7
Underwriting result / Earned premium	%	8.3	7.5	7.7	10.6	0.0
Trade ratio	%	91.7	92.5	92.3	89.4	100.0
Operating						
Effective tax rate	%	0.0	0.0	0.0	0.0	0.0
Dividend cover	x	19.2	10.6	12.1	n.a.	7.0

*Exludes debtors over 180 days in arrears.
^Restated figures.

SALIENT POINTS OF ACCORDED RATINGS

Information to be disclosed on the final draft of this report, as detailed in the credit rating process document.