

Rating Action: Moody's changes outlook on NamibRe to positive from stable; affirms B1 IFSR

9 April 2024

London, April 9, 2024 – Moody's Ratings (Moody's) has today changed the outlook on Namibia National Reinsurance Corporation Limited (NamibRe) to positive from stable. Concurrently, Moody's has affirmed NamibRe's B1 insurance financial strength rating (IFSR), as well as its b1 Baseline Credit Assessment (BCA).

NamibRe is a state-owned corporation that was established by an Act of Parliament, the NamibRe Act (Act 22 of 1998), and commenced operations in 2001. NamibRe's mandate is to reduce capital outflows in the form of reinsurance premiums and to retain, in Namibia, more capital generated by the insurance industry in the country. To assist in fulfilling its mandate, the NamibRe Act stipulates a mandatory cession of a portion of all insurance and reinsurance premiums written in Namibia to NamibRe.

RATINGS RATIONALE

The rating action follows Moody's change of the outlook on the Government of Namibia (Namibia) to positive from stable and the affirmation of Namibia's B1 long-term issuer and senior unsecured ratings. Namibia's positive outlook reflects its improved growth prospects supported not only by cyclical factors like higher commodity prices in a post-pandemic environment and renewed investments in the traditional mining industries, but by the prospect of significant new hydrocarbon and renewable energy resource developments over the remainder of this decade that could prove transformational for the economy.

Follow this link to the related Moody's press release detailing the sovereign rating action <https://ratings.moodys.com/ratings-news/418306>.

The change in outlook to positive reflects NamibRe's ownership and key business and financial credit fundamentals correlation, and thus link, to the economic and market conditions in Namibia where it is domiciled and has its operations.

NamibRe is 100% owned by the Namibian government and writes the vast majority of its business in Namibia via mandatory cessions of business by Namibian insurers. Furthermore, its invested assets are concentrated in Namibian exposures particularly in the banking sector. Therefore, Moody's considers NamibRe's stand-alone credit profile to be constrained by the credit quality of the Namibian sovereign. As such the positive outlook on NamibRe mirrors the positive outlook on Namibia's government debt rating.

In accordance with Moody's Government-Related Issuers (GRIs) methodology, the B1 IFSR of NamibRe reflects no uplift from its b1 BCA.

NamibRe's B1 IFSR as well the b1 BCA reflect the standalone credit assessment of the corporation which includes (i) its secure market position in the Namibian insurance market - a result of legislated mandatory cessions and its position as a vehicle for government policy, (ii) the relatively short-tailed nature of the majority of its insurance exposures, and (iii) a combined ratio historically below 100%. Offsetting these strengths are NamibRe's (i) very small size relative to its global reinsurance peers,

(ii) its geographic concentration in Namibia both in terms of operations and assets, and (iii) less robust risk management capabilities relative to its global peers.

In March 2023, the Namibia High Court ordered NamibRe to make a public offering of at least 26% of its shares. The order also states that the current 12.5% mandatory cessions on all insurance policies written in Namibia that NamibRe is currently due to receive will cease by the end of March 2028. As an offset, the High Court is increasing the proportion of reinsurance treaties mandatorily ceded to NamibRe from at least 20% to at least 30% with NamibRe's right of refusal on further share within 24 months of the order. Moody's considers that these changes will not weaken NamibRe's credit profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The following factors could lead to an upgrade of NamibRe's rating: (i) an upgrade of Namibia's government debt rating, or (ii) a material increase in the level of business written or assets held outside of Namibia leading to greater diversification, or (iii) a material increase in capitalization leading to greater resilience to sovereign stress.

Given the positive outlook, a downgrade of NamibRe's rating is considered unlikely, but the outlook could revert to stable in case of: (i) a revision of the outlook of Namibia's government debt rating to stable or a weakening in the credit profile of the Namibian banking sector, or (ii) elimination or meaningful reduction of NamibRe's position as a national reinsurer, such as the removal of mandatory cessions, or (iii) material deterioration in standalone credit metrics such as profitability or capitalization.

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Reinsurers published in April 2024 and available at <https://ratings.moodys.com/rmc-documents/418355>, and Government-Related Issuers methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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