

CREDIT RATING ANNOUNCEMENT

GCR affirms NamibRe's respective international and Namibia financial strength ratings of B+ and AA_{-(NA)}

Rating Action

Johannesburg, 8 December 2022 – GCR Ratings ("GCR") has affirmed Namibia National Reinsurance Corporation Limited's international and national scale financial strength ratings of B+ and AA_{-(NA)}, respectively. Both ratings are on Stable Outlook.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Namibia National Reinsurance Corporation Limited	Financial Strength	National	AA _{-(NA)}	Stable Outlook
		International	B+	Stable Outlook

Rating Rationale

The ratings of Namibia National Reinsurance Corporation Limited ("NamibRe") balance a strong competitive position supported by mandatory cessions, strong liquidity, and good earnings with weak capitalisation.

The business profile is positive for the rating. NamibRe is the only locally domiciled reinsurer and benefits from mandatory cessions of 12.5%. The reinsurer registered 27% growth in gross written premiums ("GWP") in FY2022 and has maintained a very high market share on the short-term business, at over 50% of industry GWP. However, the profile is constrained by its limited market share in the life segment, at around 4%, as well as a lack of geographic diversification relative to regional peers. GCR also notes ongoing court cases against compulsory per policy cessions by some industry players, which could impact NamibRe's competitiveness over the medium term.

Earnings are intermediate. The short term business makes up 84% of GWP and had better than industry performance, reflected by a loss ratio of 49% and commission ratio of 26% against industry average of 50% and 34% respectively. Higher claims (N\$263m) and operating expenses resulted in a dip in profitability in FY2022, and once-off taxes placed the business in a loss position resulting in negative return on revenue of 3% and lower 5-year cross cycle return of 4.9%. We expect earnings to improve in FY2023 given the turnaround in the loss ratio to August 2022, although there is likely to be some volatility.

Capitalisation is a rating weakness. NamibRe reported a GCR Capital Adequacy Ratio ("CAR") of 0.9x at FY2022 (FY2021: 1.0x) and we expect this to be maintained in the range of 1x as better compliance with mandatory cessions is likely to increase risk uptake. The corporation plans to increase capitalisation through various initiatives. However, we do not expect capitalisation to improve materially over the next 12-18 months and this is likely to be an area of rating sensitivity.

Liquidity is considered strong. The GCR liquidity coverage ratio improved to 1.7x in FY2022 from 1.4x in FY2021, underpinned by a conservative investment portfolio and good premium collections. We expect liquidity coverage to range between 1.5x to 2x over the next 12 to 18 months.

Outlook Statement

The Stable Outlook reflects our expectation that mandatory cessions will remain in place supporting the business profile. We also expect a rebound in earnings to maintain strong liquidity and adequate capitalisation.

Rating Triggers

There is limited upward ratings potential given the capitalisation constraints and potential for continued earnings volatility. Ongoing legal action against mandatory cessions could also impact the reinsurer's competitiveness over the medium term. The ratings may move downward if 1) capitalisation is maintained below 1x, 2) earnings do not rebound in line with expectations or 3) ongoing systems upgrades result in disruptions in operations and/or reporting.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Insurance Companies, July 2022
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, December 2022
GCR Insurance Sector Risk Scores, September 2022

Ratings History

Namibia National Reinsurance Corporation Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	International	BB	Negative Outlook	October 2018
		National	A+(NA)	Stable Outlook	October 2018
Financial Strength	Last	International	B+	Stable Outlook	November 2021
		National	AA-(NA)	Stable Outlook	November 2021

Risk Score Summary

Rating Components & Factors		From
Operating environment		11.25
Country risk score		5.50
Sector risk score		5.75

Business profile	0.50
Competitive position	0.50
Management and governance	0.00
Financial profile	0.25
Earnings	0.25
Capitalisation	(1.00)
Liquidity	1.00
Comparative profile	0.00
Group support	0.00
Peer comparison	0.00
Total Risk Score	12.00

Glossary

Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Cession	Amount of the insurance ceded to a reinsurer by the original insuring company (cedant) in a reinsurance transaction.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
Coverage	The scope of the protection provided under a contract of insurance.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.

Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
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.
Short Term	Current; ordinarily less than one year.
Upgrade	The rating has been raised on its specific scale.

SALIENT POINTS OF ACCORDED RATING

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 were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were 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 entities.

The ratings above were solicited by, or on behalf of, the rated entities, and therefore, GCR has been compensated for the provision of the ratings.

The rated entities participated in the rating process via teleconference management meetings, as well as 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 statements as at 31 March 2022;
- Full year budgeted financial statements for FY23;
- Unaudited interim results to 31 October 2022; and
- Other relevant documents.

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