

CREDIT RATING ANNOUNCEMENT

GCR affirms Namibia National Reinsurance Corporation Limited's international and Namibian national scale financial strength ratings of B+ and AA_{-(NA)} respectively.

Rating action

Ebene, 19 December 2023 – GCR Ratings (GCR) has affirmed Namibia National Reinsurance Corporation Limited's (NamibRe) 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	International	B+	Stable Outlook
		National	AA _{-(NA)}	Stable Outlook

Rating rationale

The ratings of NamibRe balance a strong competitive position supported by mandatory cessions and adequate liquidity, while capitalisation remains weak and limits the reinsurer's ability to uptake further growth. Concurrently, earnings are expected to increase to historical levels, although earnings risks are currently elevated.

The business profile remains rating positive, supported by mandatory legal cessions to NamibRe imposed on Namibian insurers. NamibRe is the only locally domiciled reinsurer and benefits from per policy cessions of 12.5%, among other arrangements approved by the court after their contestation by the local insurers. The reinsurer registered a 9.2% growth in gross written premiums (GWP) in 2023 - normalising from a 27.7% increase in 2022 as the economy recovered from COVID – while maintaining a very high market share on the short-term business, at over 50% of short-term industry GWP. With more insurers complying with the legal cession arrangements, its market share in the life sector has also increased to 23% from 4% in the prior year. However, the lack of regional diversification remains a weakness relative to its regional peers. While a similar business profile is likely to be maintained in the next 12 to 18 months, it could materially change over longer term as the terms of the legal cession arrangement and regional expansion strategy are revised.

Earnings are intermediate but remain pressurised by increased claims. As COVID-related claims remain, the reinsurer experienced an increase in the net claims ratio from 44.3% in 2021 to 58.7% in 2022 and 59.4% in 2023, although this is expected to normalise from 2024. Regulation compliance has led to an increase in external professional fees since 2021, resulting in higher operating expenses which should also reduce from 2024 onwards. In 2023, the reinsurer earned a PAT of N\$10.9m with a 2.1% return on revenue, albeit lower than their 5-year cross-cycle return of 3.3%. Rating considerations will continue to revolve around the performance of the net loss ratio and combined ratio in 2024. The reinsurer declared a N\$5m dividend, equating to around 50% of PAT.

Capitalisation remains a rating weakness, as the current capitalisation level appears limited to cater for planned growth, given that the reinsurer's ability to generate capital internally is constrained by high dividend payout ratios. NamibRe's GCR Capital Adequacy Ratio (CAR) decreased to 0.9x in 2023 from 1.0x in 2022, primarily due to premium growth. Following the court's mandate, NamibRe is planning to open its shareholding to reinforce its capital structure. However, if capital does not materially increase over the next 12-18 months, capitalisation metrics are likely to be pressured, representing an area of rating sensitivity.

Liquidity remained strong, as the reinsurer mainly invests in fairly liquid assets, such as government securities and money market assets. Therefore, the GCR liquidity coverage ratio was maintained at 1.8x for 2022 and 2023, after adjusting for temporary legal cession receivables, which are paid within 45 days of each quarter end. While fully provided for, the reinsurer is expected to reverse a corporate guarantee overpayment of c. N\$160m by a local insurer, which may reduce liquidity coverage to around 1.3x.

Outlook statement

The Stable Outlook reflects our expectation that the business profile will be maintained while earnings will improve given the subsiding effect of COVID-19 and other factors weighing down claims and operating expenses. In this respect, capitalisation and liquidity could be maintained at rating sufficient levels over the outlook horizon. This further considers the projected recapitalisation which may improve the financial profile and allow the reinsurer to grow its business more rapidly.

Rating triggers

Upward ratings movement is unlikely over the medium term, although improvements in capitalisation could be positively viewed. The ratings may move downward if 1) capitalisation is maintained below or around 1x, or 2) earnings remain constrained by a combined ratio above 100% or 3) liquidity coverage ratio moderates to around 1.5x.

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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 2023

GCR Country Risk Scores, November 2023

GCR Insurance Sector Risk Scores, February 2023

Ratings history

Namibia National Reinsurance Corporation Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	International National	BB A+(NA)	Negative Outlook Stable Outlook	October 2018 October 2018
Financial Strength	Last	International National	B+ AA-(NA)	Stable Outlook Stable Outlook	December 2022 December 2022

Risk score summary

Rating Components & Factors

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

Advance	A lending term, to transfer funds from the creditor to the debtor.
Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
Agent	An agreement where one party (agent) concludes a juristic act on behalf of the other (principal). The agent undertakes to perform a task or mandate on behalf of the principal.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Audited Financial Statements	Financial statements that bear the report of independent auditors (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
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).
Combined Ratio	Measures the ability to conserve profits through the expense line.
Commercial Paper	Commercial paper is a negotiable instrument with a maturity of less than one year.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Assessment	See GCR Rating Scales, Symbols and Definitions.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Debenture	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Debentures	Debenture is also referred to as a Bond or Note. A bond is a legal contract in which a borrower such as a government, company or institution issues a certificate by which it promises to pay a lender a specific rate of interest for a fixed duration and then redeem the contract at face value on maturity.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
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.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.

Downgrade	The rating has been lowered on its specific scale.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Exchange Rate	The value of one country's currency expressed in terms of another.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Insurance	Provides protection against a possible eventuality.
Issuer	The party indebted or the person making repayments for its borrowings.
Liability	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
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).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Net Loss	The amount of loss sustained by an insurer after giving effect to all applicable reinsurance, salvage, and subrogation recoveries.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Horizon	The rating outlook period
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.
Repack	Rearrangement of securities with the intent to be more attractive for investment. Junior tranches (that have a higher degree of default risk) of a securitisation transactions that have been repackaged into separate debt securities (according to their degree of risk) that utilise credit-enhancement techniques to mitigate the risk. A CDO is created to distribute the prepayment risk amongst different classes of Notes.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.

Securities	Various instruments used in the capital market to raise funds.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Short Term	Current; ordinarily less than one year.
Total Risk	Both systematic and unsystematic risks.

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 process were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings process was 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 above 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 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 2023;
- Four years of comparative audited financial statements to 31 March;
- Management Accounts as at 31 October 2023; and
- Other relevant documents.

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