

Credit Guarantee Insurance Corporation of Africa Limited

South Africa Insurance Analysis

June 2009

Security class	Rating scale	Currency	Rating	Rating watch	Expiry date
Claims paying ability	National	Rand	AA	No	06/2010

Financial data:

(US\$'m Comparative)

	31/12/07	31/12/08
R/US\$ (avg.)	7.07	8.28
R/US\$ (close)	6.85	9.46
Total assets	107.1	90.5
Total capital	40.6	28.0
Cash & equiv.	20.6	36.7
GPI	69.5	67.9
U/w result	15.4	6.8
NPAT	39.0	18.0
Op. cash flow	18.2	24.0

Market cap n.a

Market share* 74%

*Estimated share of credit insurance market based on 2008 GPI.

Fundamentals:

Credit Guarantee Insurance Corporation of Africa Limited ("CGIC") can trace its roots back to 1956, when it was established as a niche insurer, underwriting domestic and export credit risk. The insurer remains firmly entrenched as the niche market leader, leveraging off its size and ability to source extensive credit information for the benefit of its clients. CGIC's major shareholders include Mutual & Federal (53%) and Santam (33%), with the remaining stake held between Munich Re and the Industrial Development Corporation.

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Rating rationale

The rating is based on the following key factors:

- CGIC's continued market dominance, premised on the insurer's modernised credit information systems and extensive database, along with strong support from its shareholders. Old Mutual's decision to maintain its stake in Mutual & Federal ensures shareholder stability.
- A strong management team continued to ensure underwriting profitability despite an increasingly adverse claims environment, although this is not expected to continue in F09 (with a R76m underwriting loss forecast).
- Solvency has consistently declined over the last five years, with the international solvency margin reducing from 209% in F04 to 71% in F08. This is expected to remain under pressure in the short term due to the adverse operating environment, with annualised solvency down to 59% by 1H F09.
- Key liquidity measures remain sound, while the insurer has resorted to a more conservative investment stance. This follows the liquidation of a substantial portion of the equities portfolio (resulting in a substantial increase in cash and equivalents as at FYE08) and the hedging of the remainder until October 2009.
- Cognisance was taken of the challenging economic environment and the particularly constrained credit cycle, which is expected to continue to adversely impact underwriting profitability.

Solvency & liquidity

Significant losses on the equity portfolio, together with a R65.5m dividend declaration (R46.5m paid out), resulted in a 5% decline in shareholders funds to R265m in F08. A 14% increase in net premiums to R375m in F08 saw the international solvency margin contract to 71% from 85% in F07. The statutory funding ratio was posted at 58% in F08 (F07: 65%), remaining well above the regulatory requirement. In line with increased reserving, the financial base ratio increased to 174% in F08 (F07: 155%). Cash holdings registered at R347m at FYE08 (FYE07: R141m), largely as a result of the disposal of a sizeable portion of the equities portfolio. Consequently, despite the unprecedented rise in claims, claims cash coverage strengthened to 18 months in F08 (F07: 11 months). CGIC's reinsurance programme is placed with counterparties rated at least A-internationally.

