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# Credit Guarantee Insurance Corporation of Africa Limited

**South Africa Insurance Analysis** **June 2016**

| Rating class | Rating scale | Rating | Rating outlook | Review date |
|---|---|---|---|---|
| Claims paying ability | National | AA+$_{(ZA)}$ | Stable | June 2017 |

**Financial data:**

(USD'm comparative)

| | 31/12/14 | 31/12/15 |
|---|---|---|
| R/USD (avg.) | 10.84 | 12.77 |
| R/USD (close) | 11.60 | 15.54 |
| Total assets | 144.9 | 109.9 |
| Total capital | 62.4 | 51.7 |
| Cash & equiv. | 53.0 | 38.1 |
| GWP | 89.6 | 80.3 |
| U/w result | 6.1 | 13.0 |
| Net income after tax | 10.9 | 14.5 |
| Op. cash flow | 13.1 | 7.2 |
| Market cap. | n.a. | |
| Market share* | 73.1% | |

*Based on GCR's estimate for the sample group in 2015 and calculated in terms of total GWP.

**Rating history:**

**Initial Rating (November 2000)**

Claims paying ability: A+$_{(ZA)}$
Rating outlook: Stable

**Last Rating (June 2015)**

Claims paying ability: AA$_{(ZA)}$
Rating outlook: Stable

**Related methodologies/research:**

Criteria for Rating Short Term Insurance Companies, updated July 2015

CGIC rating reports, 2000 – 2015

RSA Short Term Insurance Bulletins 2001-2015

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## Summary rating rationale

- Credit Guarantee Insurance Corporation of Africa Limited's ("CGIC") shareholding structure changed in FY16, with Mutual & Federal Insurance Company Limited becoming the sole shareholder (having previously owned 52.5%). As such, GCR views the insurer's stand-alone credit profile as deriving increased upliftment from implied shareholder support. This view is supported by CGIC's increased contribution to group profit and diversification objectives, and increased integration in terms of capital and risk management frameworks and reinsurance arrangements.
- Risk adjusted capitalisation under interim statutory solvency remained at a strong level, with CAR coverage equating to 1.8x at FYE15 (FYE14: 1.7x; FYE13: 2.0x). Strong capitalisation has been underpinned by the insurer's sizeable capital base catering for the quantum of insurance and market exposure risks. As such, GCR expects the insurer to remain sufficiently capitalised relative to expected Solvency Assessment and Management ("SAM") parameters, supported by the capital management strategy (facilitated in part by the flexibility offered by the shareholder) and the insurer's minimum solvency capital requirement ("SCR") coverage target of 1.25x.
- Liquidity metrics remained at strong levels over the review period. Cash covered net technical liabilities by 1.1x at FYE15, while claims cash coverage equated to 16 months (FY14: 14 months). The asset liability matching policy stipulates a minimum technical provision coverage level of 1x, indicating that liquidity will be preserved at strong levels over the rating horizon. Inclusive of collective money market investments, which offer additional support, liquidity metrics strengthen further.
- The insurer's earnings capacity remained very strong, both on a gross and a net basis. Very strong profitability has been supported by active portfolio management and conservative underwriting disciplines. In this regard, GCR views CGIC's through-the-cycle profitability to be indicative of sustained earnings capacity going forward. Cognisance is, however, taken of the elevated margin volatility due to the inherent linkages to high variability in the broader credit cycle.
- The insurer's business profile is strong, underpinned by CGIC's dominant position in the trade credit space (with average market share equating to 70% over the review period), as well as a high level of diversification across industries as well as buyer risks. Competitive dynamics are also expected to continue to increase, on the back of increased participation by an additional player within the trade credit space. Nevertheless, management expects to continue to defend its market share, while sustainably growing the business.
- The reinsurance panel reflects an aggregate strong credit profile, while the maximum net retention per risk is viewed to be limited to a moderately conservative level.

## Factors that could trigger a rating action may include

**Positive change:** The insurer's stand-alone credit rating may be upgraded following a substantial strengthening in risk adjusted capitalisation, while all other credit protection metrics remain within strong ranges.

**Negative change:** A downgraded may arise if risk adjusted capital adequacy deteriorates substantially, and/or liquidity metrics weaken beyond expectations. Furthermore, sustained net underwriting losses, and/or a material weakening in the competitive positioning, could result in negative rating action. Negative rating action may also result on the back of a material negative revision to the rating of the group or a change in the strategic importance of the insurer within the group.

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