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Credit Guarantee Insurance Corporation of Africa Limited

South Africa Insurance Analysis **June 2017**

Rating class	Rating scale	Rating	Rating outlook	Review date
Claims paying ability	National	AA+(ZA)	Stable	June 2018

Financial data:

(USD'm comparative)

	31/12/15	31/12/16
R/USD (avg.)	12.77	14.71
R/USD (close)	15.54	13.74
Total assets	109.9	125.2
Total capital	51.7	59.7
Cash & equiv.	38.1	36.9
GWP	80.3	70.5
U/w result	13.0	(2.9)
Net income after tax	14.5	1.3
Op. cash flow	7.2	(7.0)
Market cap.		n.a.
Market share*		72.0%

*Based on GCR's estimate for the sample group in 2016 and calculated in terms of total GWP.

Rating history:

Initial Rating (November 2000)

Claims paying ability: A+(ZA)
Rating outlook: Stable

Last Rating (June 2016)

Claims paying ability: AA+(ZA)
Rating outlook: Stable

Related methodologies/research:

Criteria for Rating Short Term Insurance Companies, updated July 2016

CGIC rating reports, 2000 – 2016

RSA Short Term Insurance Bulletins 2001-2016

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Summary rating rationale

- Credit Guarantee Insurance Corporation of Africa Limited's ("CGIC") risk adjusted capitalisation under interim statutory solvency remained at a strong level, with capital adequacy requirement coverage equating to 1.6x at FY16 (FY15: 1.8x; FY14: 1.7x). 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 incoming Solvency Assessment and Management ("SAM") parameters, supported by the capital management strategy (facilitated in part by the potential flexibility offered by the shareholder) and a projected minimum solvency capital requirement ("SCR") coverage target of 1.3x.
- Key liquidity measures remained at strong levels. In this respect, cash coverage of net technical liabilities registered at 1.0x at April 2017 (FY16: 0.8x; FY15: 1.1x), while the annualised claims cash cover ratio equated to 17 months (FY16: 8 months; FY15: 16 months). Additional liquidity support is available from money market investments, which are highly liquid. As such, GCR expects liquidity metrics to remain within strong ranges over the outlook horizon, supported by management's balanced asset allocation and sound operating cash flow generation.
- The insurer's through the cycle earnings capacity is viewed to be strong, supported by active portfolio management and conservative underwriting disciplines. In this respect, the five year underwriting margin equated to 16%. As such, 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. In this regard, the insurer's gross incurred loss ratio equated to a higher 76% in FY16 (FY15: 54%; five year gross incurred loss ratio: 61%).
- The business profile is strong, underpinned by CGIC's dominant position in the trade credit space (with a market share ranging between 70% and 75% over the review period), as well as a high level of diversification across industries and buyer risks. Competitive dynamics are likely to continue to increase, on the back of increased participation by an additional player within the trade credit and guarantee space. Nevertheless, management expects to continue to defend its market share, while sustainably growing the business. This view is premised on the insurer's strong brand, balance sheet strength, strong shareholding and well entrenched client relationships.
- 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.
- CGIC's shareholding structure changed in April 2017, with Atradius Participations Holdings B.V. acquiring a 25% equity stake. The balance of the shares are held by Old Mutual Insure Limited ("Old Mutual Insure"), formerly Mutual & Federal Insurance Company Limited ("M&F"). GCR views the insurer's stand-alone credit profile as deriving upliftment from implied shareholder support, underpinned by CGIC's success in achieveing group objectives and increased integration in terms of capital and risk management frameworks and reinsurance arrangements.

Factors that could trigger a rating action may include

Positive change: Upward movement of the stand-alone credit profile is deemed unlikely, in light of prevailing operating and economic environment pressures, which may have a significant bearing on the mono-line credit insurer's loss experience (given the sensitivities to the credit cycle). Nonetheless, the rating may be upgraded if CGIC's strategic status within the group strengthens.

Negative change: A prolonged deterioration in earnings capacity resulting in significant capital erosion (in the absence of additional cash and solvency support from the group) may result in negative rating action. Furthermore, negative rating action may result on the back of a change in the strategic importance of the insurer within the group.