



## GCR affirms Activa Assurances Limited's rating at A+(CM); Outlook Negative.

Johannesburg, 17 August 2018 — Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Activa Assurances Limited of A+<sub>(CM)</sub>, with the outlook accorded as Negative. The rating is valid until July 2019.

### **SUMMARY RATING RATIONALE**

Global Credit Ratings ("GCR") has accorded the above credit rating to Activa Assurances Limited ("Activa Cameroon") based on the following key criteria:

The Negative Outlook reflects the potential for Activa Cameroon's liquidity profile to remain lower than anticipated levels, due to working capital absorption by related party receivables and significant dividend extractions (five year average: 86%). In this respect, cash coverage of net technical liabilities equated to a lower 0.5x at FY17 (FY16: 0.6x; FY14: 1.0x), which contrasted GCR's expectations of an improvement in the liquidity profile stemming from improved reinsurance recoveries. Similarly, claims cash coverage registered at 13 months (FY16: 13 months), compared to 22 months at FY14. While GCR is cognisant of the insurer's strategic decision to settle claims in advance on behalf of reinsurers (as a competitive advantage), sufficient cash buffers should be in place to support the strategy. As such, liquidity management represents a key rating consideration.

Consequently, the insurer's capital declined by 6% to XAF14.2bn at FY17, albeit with the sizeable capital base safeguarding risk adjusted capitalisation within a very strong range. Thus, the high quantum of asset and credit risk was adequately catered for over the review period. Furthermore, the international solvency margin was maintained within a high range, measuring at 161% at FY17 (FY16: 152%), on the backdrop of contained underwriting risk. In this respect, risk adjusted capitalisation is expected to remain within a very strong range over the rating horizon, given risk absorption headroom within the capital base and a relatively stable risk profile.

Activa Cameroon's rating continues to receive significant support from very strong earnings capacity. Robust earnings have been well supported by a very competitive 3-year average loss ratio at both gross (45%) and net (28%) level. This anchored a high 3-year underwriting margin of 24%, which is likely to be sustained over the rating horizon. Going forward, earnings capacity is expected to persist within a very strong range, further supported by a conservative maximum deductible per risk and event (equivalent to 0.7% of FY17 net earned premiums) on the reinsurance program.

The insurer exhibits strong and consistent competitiveness, which is supported by long standing relationships with clients, proactive engagements with multi-national corporations and strong brand equity. This underpinned a market share of 12.5% in FY17 (FY16: 13.5%) in the domestic short term insurance industry, despite the loss of a major account, which trimmed the combined market share of top industry players. Going forward, the insurer expects to defend its market share through increased penetration of retail segments, supported by reputable development-focused shareholders.



Earnings are well-diversified, with four lines of business contributing more than 10% to gross premiums, while three similarly significant lines spread over the risk base. Note is taken of the reduction in the fire & engineering weight to 5% (FY16: 19%), improving aggregate product risk. In this regard, earnings diversification is likely to remain sound over the medium term, albeit with concentration of revenue sources representing an ongoing concern.

The rating could be downgraded on the back of liquidity metrics continuing to measure below expectations. On the other hand, a rating upgrade is unlikely over the medium term, although a strengthening in liquidity management could result in the outlook reverting to stable.

<b>NATIONAL SCALE RATINGS HISTORY</b>
Initial rating (September 2009)
Claims paying ability: A <sub>(CM)</sub>
Outlook: Stable
Last rating (August 2017)
Claims paying ability: A+ <sub>(CM)</sub>
Outlook: Stable

## **ANALYTICAL CONTACTS**

<b>Primary Analyst</b>	<b>Committee Chairperson</b>
Godfrey Chingono	Yvonne Mujuru
Senior Credit Analyst	Sector Head: Insurance Ratings
(011) 784 - 1771	(011) 784 - 1771
godfreyc@globalratings.net	ymujuru@globalratings.net

## **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Short Term Insurance Companies, updated May 2018

Activa Assurances Limited's rating reports, 2009-2017

## **RATING LIMITATIONS AND DISCLAIMERS**

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### **SALIENT FEATURES OF ACCORDED RATINGS**

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Activa Assurances Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating has been disclosed to Activa Assurances Limited with no contestation of the rating.

The information received from Activa Assurances Limited and other reliable third parties to accord the credit rating included:

- The 2017 audited annual financial statements 4 years of comparative audited numbers
- Unaudited interim results to 30 June 2018
- Budgeted financial statements for 2018
- Statutory Annual Returns for 2017
- 2018 reinsurance summary
- Other related documents.

The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

### **GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY**

Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
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.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.

Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Enterprise Risk Management	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For an insurer, its exposure may also relate to the risk related to policies issued.
International Scale Rating ("ISR")	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Intermediary	A third party in the sale and administration of insurance products.
Interest	Money paid for the use of money.
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. The ability of an insurer to convert its assets into cash to pay claims if necessary. 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.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
National Scale Rating ("NSR")	National Scale credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss.
Policyholder	The person in actual possession of an insurance policy.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Short Term	Current; ordinarily less than one year.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Statutory	Required by or having to do with law or statute.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.



*For a more detailed glossary of terms, please click [here](#)*

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