



## GCR affirms Activa International Insurance Company Limited's rating of A-(GH); Outlook Stable.

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Johannesburg, 11 November 2015 — Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Activa International Insurance Company Limited at A-(GH), with the outlook accorded as Stable. The rating is valid until August 2016.

### SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating to Activa International Insurance Company Limited ("Activa Ghana") based on the following key criteria:

Activa Ghana evidences a moderately strong level of capitalisation, which supports the insurer's rating. The international solvency margin increased to a high 112% in FY14, following a GHS1.9m capital injection. A further capital injection of GHS4.5m (needed to comply with regulatory requirements) is expected to be received prior to FYE15, which will see the solvency margin sustained at a high 118% (supporting the insurer's increased net premium retention strategy).

The insurer's liquidity has been measured at sound levels. Activa Ghana has recorded operational cash flow generation of GHS9.9m over the past three years, albeit that pronounced working capital movements display the insurer's exposure to volatility in cash balances. Liquidity metrics have evidenced similar fluctuations due to a volatile technical provisions trend. Going forward, cash coverage of technical provisions is expected to be adequate, albeit containing scope for volatility.

Activa Ghana's competitive position is viewed to be intermediate. The insurer registered a market share of 4% in FY14, with a premium base registering at the industry average. Positively, the strong premium growth evidenced over the past three years indicates resilience to maintain market share in the face of increased competitive pressures. This is supported by volumes derived through international partners, as well as sales in specialised commercial products.

Profitability is viewed to be intermediate, with strong technical margins (review period average: 77%) being offset by high levels of underwriting volatility evidenced throughout the review period. The latter has been negatively impacted by the insurer's relative lack of scale, resulting in a higher operating cost ratio. The insurer aims to enhance net premium scale through an SME-focused growth strategy (facilitating higher premium retention levels), albeit that GCR views a level of inherent execution risk to exist within this.

The reinsurance structure introduces a degree of counterparty credit risk, with reinsurance cover largely provided by a single reinsurer; Globus Re. Cognisance was, however, taken of the high credit quality of the underlying retrocessionaires in the Globus Re retrocession programme and the fact that Globus Re retains no risk for its own account.



Upward movement on the rating could develop on the back of a demonstrated track record of consistent underwriting profitability and stability, increased market share, with the sustenance in risk-adjusted capitalisation over the medium term. A downgrade may arise if a sustained deterioration in the operating performance is evidenced; if the solvency margin falls below risk-adjusted metrics supporting the rating; and/or if liquidity were to weaken materially.

<b>NATIONAL SCALE RATINGS HISTORY</b>	
Initial rating (August 2014)	
Claims paying ability: A <sub>-(GH)</sub>	
Outlook: Stable	
Last rating (August 2014)	
Claims paying ability: A <sub>-(GH)</sub>	
Outlook: Stable	

## **ANALYTICAL CONTACTS**

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## **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Short Term Insurance Companies, updated July 2015

Activa International Insurance Company Limited rating report (2014)

## **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; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Activa International Insurance Company 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 International Insurance Company Limited with no contestation of the rating.

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

- The audited annual financial statements to December 2014
- 4 years of comparative audited numbers
- Unaudited year to date results to 30 June 2015
- Budgeted financial statements to December 2015
- 2015 reinsurance cover notes
- Other related documents.

The rating above was solicited by, or on behalf of, the rated client, 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**

Assets	The items on the balance sheet of the insurer which show the book value of property owned. Under regulations, not all property or other resources may be admitted in the statement of the insurer. This gives rise to the term 'non-admitted assets.'
Balance Sheet	An accounting term which refers to a listing of the assets, liabilities, and surplus of a company or individual as of a specific date.
Capacity	The largest amount of insurance or reinsurance available from a company. In a broader sense, it can refer to the largest amount of insurance or reinsurance available in the marketplace.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer to agents and brokers.
Insurer	The party to the insurance contract whom promises to pay losses or benefits. Also, any corporation engaged primarily in the business of furnishing insurance to the public.
Interest	Money paid for the use of money.
Liquidity	The ability of an insurer to convert its assets into cash to pay claims if necessary.
Loss Ratio	The ratio of claims to premiums. It may be calculated in several different ways, using paid premiums or earned premiums, and using paid claims with or without changes in claim reserves and with or without changes in active life reserves.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance also called the policy contract or the contract.
Premium	The price of insurance protection for a specified risk for a specified period of time.
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.
Reserve	An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders.
Retention	The net amount of risk the ceding company keeps for its own account
Risk	Uncertainty as to the outcome of an event when two or more possibilities exist.
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.
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.

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

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