GCR affirms Cell Insurance Company Limited's national scale financial strength rating of BBB+$_{(ZW)}$; Outlook Positive

Rating Action

Johannesburg, 23 December 2020 – GCR Ratings ("GCR") has affirmed Cell Insurance Company Limited's ("Cell") national scale financial strength rating of BBB+$_{(ZW)}$, with a Positive Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Cell Insurance Company Limited	Financial strength	National	BBB+$_{(ZW)}$	Positive Outlook

Rating Rationale

Cell's national scale financial strength rating reflects the insurer's improved competitive position, intermediate earnings, strong liquidity and adequate capitalisation, which are partially diluted by limited premium diversification.

The Insurer's competitive positioning has improved, with market share increasing to 10% in FY19 from 7.9% in FY18. The growth in market share was supported by the insurer's resilient business model with predominantly foreign currency denominated products which are not susceptible to inflationary pressures. Furthermore, the specialised nature of its business model and captive revenue from shareholders with critical mass in the power industry provide revenue stability, which underpins market share resilience. However, the insurer's business profile is moderated by limited premium diversification with three lines of business contributing material proportions of net premiums, and low retention limiting the contribution of most classes in absolute terms. The insurer also exhibits significant policyholder concentration with the single largest and top five policyholders accounting for 36% and 86% of gross premiums respectively in FY19.

Earnings have improved with the insurer recording positive underwriting margins in FY19 and continuing into FY20. This was driven by improved performance in the fire and motor lines with the growth in fire USD policies supporting the improved performance. At net profit level, the insurer was profitable with a three-year average of 26%, which registered at a higher 37% in FY19. The review year increase was supported by a favourable net incurred loss ratio of 24%, compared to the prior five-year average of 51% which is expected to settle around 43% (10M F20: 41%). Going forward the entity is expected to remain profitable both at underwriting and net level as indicated by an underwriting margin of 45% at 10M FY20. Management's ability to achieve and sustain underwriting profitability within a positive range represents a key rating consideration over the outlook horizon.

Risk adjusted capitalisation remained strong, with the GCR capital adequacy ratio ("CAR") remaining fairly constant at around 2x over the past two years. The insurer's solvency is supported by internal capital generation in local currency, coupled with very low underwriting risk assumption. Credit and market risk exposures are also well contained. However, the capital base reduced to USD3.8m at FY19 (FY18: USD6.8m) due to the impact of the hyperinflationary environment. As such, the insurer's ability to generate capital in real terms, while maintaining discipline in managing concomitant risks, could be rating positive over the outlook horizon.

Liquidity remains strong, underpinned by a relatively sizeable investment portfolio and conservative asset allocation. This is reflected by strong liquidity metrics with the coverage of net technical liabilities and operational requirements equating to 8x and 31 months respectively at FY19 (FY18: 3.2x and 16 months). GCR expects liquidity strength to be preserved within a strong range, given inherently low net technical reserves, as well as emphasis on liquid value preserving investments.

Outlook Statement

The Positive Outlook reflects expectations that the financial profile will continue to improve, supported by enhanced and sustained earnings performance at underwriting level, strong capitalisation and liquidity levels as well as sustainability of current market share.

Rating Triggers

Positive rating movement could develop from a sustained cross cycle improvement in earnings and market share, while maintaining risk adjusted capitalisation and liquidity at current levels. Conversely, downward rating action could follow a material or sustained weakening in earnings that negatively impacts risk adjusted capitalisation.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Insurance Companies, May 2019
Jurisdictional supplement for Criteria July 2020
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, November 2020
GCR Insurance Sector Risk Scores, July 2019

Ratings History

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Financial strength	Initial*	National	BBB+$_{(ZW)}$	Stable Outlook	February 2019
	Last	National	BBB+$_{(ZW)}$	Stable Outlook	December 2019

*Formerly claims paying ability.

Risk Score Summary

Rating Components & factors	Risk scores
Operating environment	**2.75**
Country risk score	0.00
Sector risk score	2.75
Business profile	**(0.50)**
Competitive position	0.50
Premium diversification	(1.00)
Management and governance	0.00
Financial profile	**1.50**
Earnings	(0.50)

Capitalisation	0.50
Liquidity	1.50
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	**3.75**

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
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.
Collateral	Asset provided to a creditor as security for a loan or performance.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Indemnity	A security or protection against a loss or other financial burden.

Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. 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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Mortgage Loan	A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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.
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.

SALIENT POINTS OF ACCORDED RATINGS

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

The credit rating has been disclosed to the rated entity. The rating was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating. The rated entity participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

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

- Audited financial results as at 31 December 2019;
- Full year budgeted financial statements to December 2020;
- Unaudited interim results to 30 October 2020;
- Reinsurance cover notes for 2020; and
- Other relevant documents.

Due to severe foreign currency shortages, hyperinflation and significant monetary and exchange control policy changes over the last 12-18 months, in our opinion, the national scale credit ratings on Zimbabwean entities are not directly comparable to credit ratings and risk scores within other markets. Furthermore, outlook statements may fail to capture forward looking trends due to the extreme volatility in the operating environment and audited opinions. See the latest Jurisdictional Supplement for Criteria, published July 2020.

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