



GCR affirms HFGA Re's national scale financial strength rating of A_(MU) on strong financial profile; Outlook Stable

Rating action

Johannesburg, 23 December 2020 - GCR Ratings ("GCR") has affirmed Home Finance Guarantors Africa (Reinsurance) Limited's ("HFGA Re") national scale financial strength rating of A_(MU), Outlook Stable.

Rated entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Home Finance Guarantors Africa (Reinsurance) Limited	Financial strength	National	A _(MU)	Stable Outlook

Rating rationale

HFGA Re's rating balances very strong capitalisation and liquidity with limited premium scale and diversification. Furthermore, the globally focused investment strategy is viewed to partly offset concentration of operations towards higher risk countries.

HFGA Re's risk adjusted capitalisation is very strong, with the GCR capital adequacy ratio ("CAR") registering at a high and stable 4x at FY19, and estimated to have increased at 9M F20, supported by a conservative asset allocation strategy. Similarly, liquidity has been maintained at very high levels, with stressed financial assets being significantly above net technical reserves and operational liquidity requirements at FY19 and 9M F20. Going forward, the very high levels of surplus capital and investments are expected to support continued balance sheet strength.

Earnings are viewed to be slightly negative to the rating. The Tier-II funding arrangement assists in offsetting operational expense requirements, although fair value movements have resulted in volatility in net earnings over the review period.

HFGA Re's business profile is a function of its specific developmental role in promoting access to affordable housing in Africa. This has been achieved by introducing and promoting acceptance and use of the Collateral Replacement Indemnity ("CRI") in a number of markets, which makes it possible for lower income and first-time buyers to obtain mortgage loans without paying a deposit. Therefore, although the assessment of competitive position considers the reinsurer's very small scale, this is viewed to be partly offset by the strategic execution in terms of delivery on its social development mandate.

Given the niche business model, premiums are solely derived from the CRI product, which may be susceptible to higher levels of cyclicity. However, the premium diversification assessment is positively impacted by some diversification across geographies, as well as management of product

risk through embedded processes and systems.

Outlook statement

GCR expects cross cycle earnings to remain exposed to a level of volatility. However, we expect risk adjusted capitalisation and liquidity to remain very strong, supported by limited investment market and underwriting risk. The business profile is expected to continue to be limited over the outlook horizon, given the low premium scale and specialist strategy.

Rating triggers

GCR views the reinsurer's low premium scale and product concentration to limit potential for upward rating movement. Negative rating action may be taken if there is a material reduction in capitalisation or liquidity.

Analytical contacts

Primary analyst	Susan Hawthorne	Senior Analyst: Insurance Ratings
Johannesburg, ZA	SusanH@GCRratings.com	+27 11 784 1771
Committee chair	Matthew Pirnie	Group Head of Ratings
Johannesburg, ZA	MatthewP@GCRratings.com	+27 11 784 1771

Related criteria and research

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

Ratings history

Home Finance Guarantors Africa (Reinsurance) Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	A+ _(MU)	Stable Outlook	July 2014

Financial strength	Last	National	A _(Mu)	Stable Outlook	March 2020
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Risk score summary

Rating components and factors	Risk score
Operating environment	12.25
Country risk score	8.25
Sector risk score	4.00
Business profile	(2.50)
Competitive position	(1.25)
Premium diversification	(1.25)
Management and governance	0.00
Financial profile	5.75
Earnings	(0.25)
Capitalisation	4.00
Liquidity	2.00
Comparative profile	0.00
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total score	15.50

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
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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 was based solely on the merits of 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.

The credit rating has been disclosed to the rated entity. 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. 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 rated entity and other reliable third parties to accord the credit rating included:

- Audited financial results as at 31 December 2019;
- Four years of comparative audited financial statements to 31 December;
- Unaudited management accounts to 30 September 2020;
- Other relevant documents.