



GCR affirms NICOZDiamond's national scale financial strength rating of A+_(ZW) with an Evolving Outlook.

Credit Rating Action

Johannesburg, 30 July 2020 - GCR Ratings ("GCR") has affirmed NICOZDiamond Insurance Limited's ("NICOZDiamond") national scale financial strength rating of A+_(ZW), with an Evolving Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
NICOZDiamond Insurance Limited	Financial strength	National	A+ _(ZW)	Evolving Outlook

Rating Rationale

The rating reflects the strengths and weaknesses of NICOZDiamond and its subsidiaries (together "the group"). The group's credit profile is largely driven by the Zimbabwean entity, given its 94% contribution to the group's revenue in FY19. While the group has maintained a healthy business profile and above peer group resilience in safeguarding intermediate earnings and strong risk adjusted capitalisation within a hyperinflationary environment, an elevation in liquidity strength relative to a historically moderately weak range is largely viewed to be stemming from a developing risk reserving position (a function of the unstable operating environment) which could result in changes in the financial profile over the rating horizon, underpinning the Evolving Outlook.

Despite registering a sharp decline in the capital base to USD8.9m at FY19 (FY18: USD22.7m), NICOZDiamond's risk adjusted capitalisation proved resilient (relative to the peer group) having been maintained within the strong range. This was largely due to an elevated exposure to investment property, which constituted 90% of capital at FY19, registering a GCR capital adequacy ratio of 1.7x (FY18: 1.9x). Concurrently, sizeable fair value gains moderated the adverse impact of net monetary losses from the hyperinflationary environment, supporting an intermediate earnings profile. The insurer registered an inflation adjusted net profit after tax of ZWL25m (FY18: ZWL54m) and a positive contribution from the underwriting result, which is viewed to be a comparative strength. In this respect, the group's five-year underwriting margin equated to 15% while return on revenue was 9.3%. GCR's view of liquidity remained moderately weak in spite of a cash and stressed assets coverage of net technical liabilities of 2.4x (FY18: 1.4x) at FY19, reflecting elevation from the outsized investment in property and a reduction in reserving metrics to a historical low. GCR expects the liquidity ratio to revert to the historical range of 1x to 1.5x as the operating environment normalises.

NICOZDiamond's competitive position has remained strong, with the insurer occupying a top tier position in the domestic short-term insurance market. The insurer registered at a stable market

share of 15% in FY19 and 1Q F20, largely supported by long standing market relationships and strong brand equity within the domestic market. In addition to organic growth, the recent addition of a portfolio of risks following the insurer's acquisition by First Mutual Holdings Limited ("FMHL") provided further scale benefits, countering competitive pressures arising from intensifying market dynamics. Nonetheless, the overall business profile assessment is moderated by comparatively limited premium diversification, with two lines of business contributing materially to gross premiums, while geographic diversification is viewed to be constrained, considering the limited scale of subsidiaries in Malawi and Mozambique.

NICOZDiamond's rating also benefits from integration and affiliation with the wider FMHL, given evidence of history of support and operational integration.

Outlook Statement

The Evolving Outlook reflects uncertainty in the operating environment which may result in liquidity stabilising at higher levels of above 2x or reverting to historical levels of below 1.5x when both the investment portfolio and reserving stabilise. While there is relative stability in earnings and capitalisation metrics, the evolving operating environment is viewed to bar risks that could drastically change factor strength, although downside and upside risks are considered to be currently balanced. The business profile is expected to remain unchanged over the rating horizon balancing the insurer's third position in the short-term insurance market at 1Q F20 and comparatively stronger underwriting capacity.

Rating Triggers

Potential for upward rating movement is viewed to be limited over the short term, reflecting a strained operating environment. However, a sustained improvement in liquidity, while maintaining appropriate reserving levels, capitalisation and earnings strength could raise the rating. Conversely, downward rating pressure may arise from a material deterioration in credit protection metrics.

Analytical Contacts

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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, May 2020
GCR Insurance Sector Risk Scores, July 2020
Jurisdictional Supplement for Criteria, July 2020

Ratings History

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Financial Strength*	Initial	National	A _(ZW) ⁻	Stable	May 2009
	Last	National	A _(ZW) ⁺	Stable	November 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	0.25
Competitive position	1.00
Premium diversification	(0.75)
Management and governance	0.00
Financial profile	0.50
Earnings	0.25

Capitalisation	1.00
Liquidity	(0.75)
Comparative profile	0.50
Group support	0.50
Government support	0.00
Peer analysis	0.00
Total Score	4.00

Glossary

Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
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.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Technical Liabilities	The sum of Net UPR and Net OCR IBNR.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.
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 ASSESSMENT

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:

- Draft financial results as at 31 December 2019;
- Four years of comparative audited financial statements to 31 December;
- Unaudited interim results up to 30 June 2020;
- Budgeted financial statements to 31 December 2019;
- Reinsurance cover notes for 2020; and
- Other related documents.

Due to severe foreign currency shortages, hyperinflation and significant monetary and exchange control policy changes over the last 12-18months 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.