



GCR affirms Oakhurst's national scale financial strength rating of A_(ZA); Outlook Stable

Rating Action

Johannesburg, 31 July 2020 - GCR Ratings ("GCR") has affirmed Oakhurst Insurance Company Limited's ("Oakhurst") national scale financial strength rating of A_(ZA), with a Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Oakhurst Insurance Company Limited	Financial strength	National	A _(ZA)	Stable Outlook

The rating action follows a reduction in the South African country and insurance sector risk assessments.

The South African country risk score was lowered to 7.0 from 7.5 previously, in a market alert released on the 27th May 2020. Click [here](#) to access the link. On 4th June 2020, the South African Insurance sector risk score was also lowered to 8.0 from 8.75 previously. Click [here](#) to access link.

Combined, the above country and sector risk scores comprise the operating environment score, which is a key input into GCR's ratings.

Rating Rationale

Oakhurst's national scale financial strength rating was affirmed with a Stable Outlook, reflecting a moderately strong financial profile, which is counterbalanced by a limited business profile.

Capitalisation continues to support the rating, with the insurer reflecting sound risk adjusted capitalisation. Oakhurst's regulatory Solvency Capital Requirement ("SCR") coverage continued to trend at the upper end of management's internal target. In this regard, SCR coverage registered at 1.8x at FY20 (FY19: 1.6x). Capitalisation strength is somewhat offset by a comparatively higher risk investment portfolio, noting concentration to related party investments which reduces capital quality to an extent. In GCR's view, capitalisation is likely to moderate as a result of earnings compression associated with the challenging economic environment, although remaining within a rating appropriate band.

Oakhurst's liquidity is viewed to be strong, supported by a relatively high stressed financial assets balance, coupled with a sizeable quota share prepayment. As such, stressed financial asset coverage of net technical liabilities registered at 4.2x (FY19: 4.8x), albeit noting relatively low operational cash coverage of 5 months at FY20 (FY19: 5 months). Operational cash coverage continues to be impacted by a high cost base associated with investment in the direct sales channel. Liquidity metrics are expected to be maintained at strong levels over the outlook horizon, despite potential



collection challenges in the short term as a result of the current challenging economic environment.

Underwriting performance is viewed to be moderately strong, supported by a relatively competitive claims ratio, which somewhat offsets the increasing operational cost base. In this respect, the underwriting margin equated to 5.3% in FY20 (FY19: 6.7%), while the return on revenue equated to 8.7% (FY19: 7.6%). Going forward, earnings may be negatively impacted by premium volume pressures associated with the weak economic environment and lower interest rates, although we expect earnings metrics to remain within a moderately strong range.

The rating takes into account the entity's limited business profile, which is a function of low market share and geographic diversification, while also noting high product concentration to motor. Oakhurst's relative market share equated to a low 0.5x at FY20, with motor contributing approximately 70% to total GWP.

Outlook Statement

The Stable Outlook reflects expectations that the financial profile will moderate slightly due to the weak economic outlook, albeit remaining within rating sufficient levels. Underwriting profitability may be affected by lower NEP leading to reduced scale efficiencies, while investment income may moderate due to softening interest rates, however, the overall impact on earnings is expected to be modest. GCR expects SCR coverage to be managed above 1.5x and stressed financial assets coverage of technical liabilities to be above 3x over the outlook horizon.

Rating triggers

The rating may be upgraded following an improvement in the business profile while all other credit protection metrics remain within their current range. Conversely, downward rating pressure may arise if SCR coverage and stressed financial assets coverage of net technical liabilities register below 1.5x and 2.5x respectively.

Analytical Contacts

Primary analyst	Sylvia Mhlanga	Senior Analyst: Insurance Ratings
Johannesburg, ZA	Sylviam@GCRratings.com	+27 11 784 1771
Committee chair	Godfrey Chingono	Deputy Sector Head: Insurance Ratings
Johannesburg, ZA	GodfreyC@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, May 2020
GCR Insurance Sector Risk Scores, July 2020

Ratings History

Oakhurst Insurance Company Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	A _(ZA)	Stable	January 2015
Financial strength	Last	National	A _(ZA)	Stable	November 2019

Risk Score Summary

Rating Components and Factors	Risk score
Operating environment	15.00
Country risk score	7.00
Sector risk score	8.00
Business profile	(3.00)
Competitive position	(2.00)
Premium diversification	(1.00)
Management and governance	0.00
Financial profile	1.50
Earnings	0.25
Capitalisation	0.50
Liquidity	0.75



Comparative profile	0.00
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	13.50

Glossary

Premium	The price of insurance protection for a specified risk for a specified period of time.
Primary Market	The part of the capital markets that deals with the issuance of new securities.
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 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 statements to 28 February 2019
Four years of comparative audited financial statements to 28 February;
Management accounts to 29 February and 31 May 2020; and
Other relevant information