GCR affirms Phoenix of Tanzania Assurance Company Limited's national scale financial strength rating of AA-$_{(TZ)}$; Outlook Stable

Rating action

Nairobi, 23 December 2020 – GCR Ratings ("GCR") has affirmed Phoenix of Tanzania Assurance Company Limited's ("Phoenix Tanzania") national scale financial strength rating of AA-$_{(TZ),}$ with the Outlook accorded as Stable.

Rated entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Phoenix of Tanzania Assurance Company Limited	Financial strength	National	AA-$_{(TZ)}$	Stable Outlook

Rating rationale

The rating exhibits a strong financial profile, bolstered by very strong liquidity and sound risk adjusted capitalisation, offsetting the entity's limited business profile.

Phoenix Tanzania demonstrates a very strong liquidity position, supported by conservative asset allocation coupled with review year reduction in net technical liabilities. Accordingly, cash and stressed financial assets coverage of net technical provisions improved to 6.1x at FY19 (FY18: 4.6x), while coverage of operational cost requirements equated to 44 months (FY18: 48 months). Looking ahead, the liquidity ratio is expected to slightly moderate, albeit remaining above 5.0x coverage following management's plan to increase investment in long-dated, higher yielding government securities.

Risk adjusted capitalisation is viewed to be strong, evidenced by a stable GCR capital adequacy ratio ("CAR") of 4.4x, underpinned by sustained earnings generation and full profit retention. Nevertheless, the insurer's capital quality is viewed negatively due to a material exposure to investment property, which accounted for 40% of the entity's capital at FY19. From a statutory solvency standpoint, the underwriter met the minimum regulatory requirement closing with a solvency position of 10x at FY19. GCR expects capital strength to be sustained over the rating horizon, underpinned by sound earnings generation and retention.

Earnings are assessed to be strong, reflected by positive average underwriting profitability and sustained healthy investment income. As such, the insurer posted an improved review period aggregate underwriting margin of 5.3% (prior review period average: 3.5%), while the return on revenue was sustained above 30%. Earnings are expected to slightly improve given observed growth in profitable lines of business, along with expectations of sound investment income generation.

The rating is negatively impacted by the insurer's limited business profile. In this regard, Phoenix Tanzania maintained an intermediate competitive position, with a market and relative market share of 4.5% and 1.1x in FY19 (FY18: 4.4% and 1.1x), respectively. The premium base is somewhat diversified, with three lines of business contributing materially to the gross premium base. The insurer's revenue source is geographically concentrated, given that all premiums are derived from the primary market. GCR expects competitive position to slightly improve, supported by an expansive branch network and client retention.

GCR did not apply group support due to MUA Insurance (Kenya) Limited's ("the group") weaker credit profile, albeit with MUA Ltd's ("the ultimate parent") credit profile being assessed at relatively stronger levels. The rating therefore factored in operational insulation, taking cognisance of assessed limited transfer of risks from the group, the absence of material related party transactions and the ultimate parent's developing strategy.

Outlook statement

The Stable Outlook reflects GCR's expectations of persistent stability in liquidity and capitalisation, while factoring in the likelihood of a sustained improvement in earnings. Competitive position is expected to improve, with the relative market share anticipated to lie between 1.2x – 1.4x over the next 12 months. The Outlook further captures GCR CAR and liquidity coverage projections of at least 4x over the next 12 months, with the five-year moving underwriting margin likely to stabilise within the 5.5% to 6% range.

Rating triggers

Positive rating action may stem from a sustained improvement in earnings and the group's credit profile, while all other credit protection metrics remain within strong to very strong ranges. Conversely, downward rating pressure may arise from a deterioration in the group's credit profile and/or increased evidence of credit linkages between Phoenix Tanzania and the group.

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, November 2020
GCR Insurance Sector Risk Scores, July 2020

Ratings history

Phoenix of Tanzania Assurance Company Limited

Rating class	Review	Rating scale	Rating	Outlook	Date
Claims paying ability	Initial	National	AA-$_{(TZ)}$	Stable	November 2005
Financial strength	Last	National	AA-$_{(TZ)}$	Stable	December 2019

Risk score summary

Rating components and factors	Risk score
Operating environment	**6.75**
Country risk score	3.75
Sector risk score	3.00
Business profile	**(1.00)**
Competitive position	(0.25)
Premium diversification	(0.75)
Management and governance	0.00

Financial profile	**4.00**
Earnings	0.50
Capitalisation	1.50
Liquidity	2.00
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total score	**9.75**

Glossary

Premium	The price of insurance protection for a specified risk for a specified period of time.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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.
Retention	The net amount of risk the ceding company keeps for its own account.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Short Term	Current; ordinarily less than one year.

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;
- Four years of comparative audited financial statements to 31 December 2019
- Full year budgeted financial statements to 31 December 2020.
- Unaudited interim results to 30 June 2020.
- Other relevant documents.