



GCR affirms Professional Insurance Corporation Zambia PLC's rating of A+_(ZM); Outlook Stable

Credit Rating Action

Johannesburg, 12 October 2020 - GCR Ratings ("GCR") has affirmed Professional Insurance Corporation Zambia PLC's ("PICZ") national scale financial strength rating of A+_(ZM), with a Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Professional Insurance Corporation Zambia PLC	Financial strength	National	A+ _(ZM)	Stable Outlook

Rating Rationale

PICZ's rating reflects the insurer's sound business profile, balancing a strong competitive position in the domestic market with limited premium diversification. Furthermore, the financial profile is solid, given sound earnings, strong capitalisation and intermediate liquidity.

The business profile is supported by the insurer's strong competitive positioning. PICZ is the market leader in the Zambian short-term insurance industry, with its share of industry gross premiums growing to 26% in FY19, from 24% in the previous year, translating to a relative market share of approximately 5x the industry average. PICZ's competitive position is expected to be sustained by strong franchise strength and growth initiatives as it gains business from smaller players. Premium diversification is however limited, with significant concentration to two business lines, fire and motor. The insurer also has single name concentration, with the largest and top five clients accounting for 30% and 45% of gross premiums respectively in FY19. Geographic diversification is also low as the insurer only operates in one market.

The insurer has a sound earnings profile, with the underwriting margin remaining stable at 9% in FY19 (FY18: 9.4%). Net profitability also remained fairly strong with return on net written premiums registering between 11% and 13% in the past four years. GCR expects earnings metrics to be maintained at similar levels over the outlook horizon, with comparatively elevated claims experience and the impact of receivable impairments likely to continue moderating earnings relative to historical levels.

Risk adjusted capitalisation moderated as the insurer's receivables increased in FY19, but the GCR capital adequacy requirement ("CAR") coverage remained in the strong range at 1.8x at FY19, supported by contained underwriting risk and limited market risk, as well as sound internal capital generation. In this regard, the GCR CAR is expected to remain above 1.6x over the outlook horizon, even if a stressed dividend scenario is applied.



The liquidity position is intermediate. GCR's cash and stressed financial asset coverage of net technical liabilities registered at 1.5x, and coverage of operational cash flow requirements equated to around 7 months. Liquidity is expected to register at similar levels over the outlook horizon, although could be impacted by lower than expected operational cash flow generation.

Outlook Statement

The Stable Outlook reflects expectations that the insurer's competitive position will be sustained at strong levels, while the business mix is not expected to change materially over the outlook horizon. Furthermore, earnings are expected to continue to support risk adjusted capitalisation and liquidity at rating sufficient levels, with GCR CAR expected to be maintained above 1.6x and coverage of net technical liabilities at around 1.5x.

Rating Triggers

Positive rating action could follow a strengthening in earnings that sees the underwriting margin increase to double digit levels on a sustainable basis and supports improved levels of liquidity. Downward rating pressure may arise following lower than expected earnings and if an increase in receivables adversely impacts capitalisation or liquidity.

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

Ratings History

Professional Insurance Corporation Zambia PLC

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	A+ _(ZM)	Stable	June 2010
Financial Strength	Last	National	A+ _(ZM)	Stable	December 2019

Risk Score Summary

Rating component and factors	Risk scores
Operating environment	4.25
Country risk score	1.75
Sector risk score	2.50
Business profile	0.00
Competitive position	1.25
Premium diversification	(1.25)
Management and governance	0.00
Financial profile	1.00
Earnings	0.50
Capitalisation	1.00
Liquidity	(0.50)
Comparative profile	0.00
Group support	0.00
Government support	0.00
Peer analysis	0.00

Total Score	5.25
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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 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 party. 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 face-to-face 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
Full year budgeted financial statements for 2020;
Unaudited interim results to 31 March 2020;
Reinsurance cover notes for 2020; and
Other relevant documents.