



## GCR affirms Renasa Insurance Company Limited's national scale financial strength rating of A<sub>(ZA)</sub>; Outlook Stable

### Rating Action

Johannesburg, 22 November 2019 - GCR Ratings ("GCR") has affirmed Renasa Insurance Company Limited's ("Renasa") national scale financial strength (formerly claims paying ability) rating of A<sub>(ZA)</sub>, with a Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Renasa Insurance Company Limited	Financial strength	National	A <sub>(ZA)</sub>	Stable Outlook

GCR announced that it had released new criteria for rating insurance companies in May 2019. Consequently, the rating for Renasa was placed 'Under Criteria Observation'. GCR finalised the review for Renasa under the released Criteria for Rating Insurance Companies, May 2019. As a result, the rating for Renasa has been reviewed in line with the new methodology and subsequently removed from 'Under Criteria Observation'.

### Rating Rationale

Renasa's national scale financial strength rating reflects the insurer's very strong liquidity and adequate capitalisation, which are offset by a comparatively weak business profile.

The insurer's financial profile is supported by very strong liquidity, underpinned by sound stressed financial asset coverage of technical liabilities and underwriting expenses. GCR expects the insurer's liquidity to remain at similar levels going forward, given a conservative asset allocation. Renasa's risk adjusted capitalisation is neutral to the rating with Solvency Capital Requirement ("SCR") coverage viewed to be adequate and expected to be maintained within the internal target band.

Earnings is viewed to be intermediate, reflecting review period volatility in underwriting performance. The five year average underwriting margin and return on revenue equated to -0.1% and 8% respectively. Earnings were suppressed in FY19, given the higher claims experience observed on select motor books. Going forward, a degree of execution risk is implied in terms of managing underwriting profitability and growth appetite, which will form a key rating consideration over the medium term.

The insurer reflects a moderate market position with a market share of 1.5%. Renasa has limited premium scale on a net basis, which is a function of reinsurance utilisation, with an average retention ratio of 11% over the review period. Furthermore, premium diversification is viewed to be limited given the dominance of the broader motor class in the business mix and geographic

concentration to South Africa.

### Outlook Statement

The Stable Outlook reflects expectations that the financial profile will continue to be supported by very strong liquidity and adequate earnings and capitalisation, while the business profile is not expected to change materially over the outlook horizon.

### Rating Triggers

Positive rating action could develop on the back of sustained improvement in earnings, a strengthening in risk adjusted capitalisation and/or an enhanced business profile. Conversely, downward rating pressure may arise from risk adjusted capitalisation registering below expectations, or from a sustained weakening in earnings.

### 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, June 2019
GCR Insurance Sector Risk Scores, November 2019

### Ratings History

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	BBB+ <sub>(ZA)</sub>	Stable	September 2006
	Last	National	A <sub>(ZA)</sub>	Stable	December 2018

### Risk Score Summary

Risk scores	Renasa Insurance Company Limited
<b>Operating environment</b>	<b>16.25</b>
Country risk score	7.50
Sector risk score	8.75
<b>Business profile</b>	<b>(3.00)</b>
Competitive position	(2.00)
Premium diversification	(1.00)
Management and governance	0.00
<b>Financial profile</b>	<b>0.50</b>
Earnings	(0.75)
Capitalisation	0.00
Liquidity	1.25
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Government support	0.00
Peer analysis	0.00
<b>Total Score</b>	<b>13.75</b>

### 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.
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.
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 RATING

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 the 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 Renasa Insurance Company Limited. 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.



Renasa Insurance Company Limited 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 Renasa Insurance Company Limited and other reliable third parties to accord the credit rating included:

The audited financial results up to 30 June 2019  
Four years of comparative audited numbers to 30 June  
Unaudited interim results up to 30 September 2019  
Budgeted financial statements to 30 June 2020  
Other related documents.