



GCR affirms Zimnat Life's national scale financial strength rating of A_(ZW); Outlook Negative

Rating action

Johannesburg, 23 December 2020 - GCR Ratings ("GCR") has affirmed Zimnat Life Assurance Company Limited's ("Zimnat Life") national scale financial strength rating of A_(ZW), with the Outlook accorded as Negative.

Rated entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Zimnat Life Assurance Company Limited	Financial strength	National	A _(ZW)	Negative

Rating rationale

Zimnat Life's rating is anchored by a strong financial profile, supported by sound risk adjusted capitalisation coupled with intermediate earnings, balancing a limited business profile.

Risk adjusted capitalisation has been maintained within a strong range, albeit reflecting a substantial reduction in the capital base following a change in functional currency from the US dollar to the local unit. As such, Zimnat Life's capital base lowered to USD6.7m (FY18: USD27.9m), having been impacted by the subsequent devaluation of the local currency and worsening inflation. Accordingly, the GCR capital adequacy ratio ("CAR") registered at 1.4x at FY19 (FY18: 2.2x). Looking ahead, management's ability to maintain risk adjusted capitalisation within a strong range given the strategy to invest in value preserving assets, supported by foreign currency denominated and inflation indexed policies is a key rating consideration.

Earnings moderated on the back of a large monetary loss of ZWL179m, which resulted in the insurer registering a net loss of ZWL55m (FY18: ZWL21m profit). Furthermore, an unfavourable claims experience exerted additional pressure on operating performance, offsetting review year high commission recoveries and net investment income. In this respect, the operating margin registered at -31% (FY18: 12%; prior review period average: 15%), while the net incurred loss ratio equated to 277% (FY18: 54%; prior review period average: 50%). Nevertheless, potential exists for the net incurred loss ratio to improve due to the introduction of inflation indexed products, coupled with foreign currency denominated policies, which are expected to support operating profitability. In addition, earnings are anticipated to be bolstered by investment income.

Zimnat Life's liquidity is moderately weak, reflecting management's strategy to invest in value preserving assets, thereby increasing the risk exposure of assets backing liabilities. As such, coverage of net technical liabilities by cash and stressed financial assets was maintained at 1.1x, while operational cash coverage registered at a lower 1 month (FY18: 12 months). Going forward, liquidity is likely to be assessed within a similar range, given the insurer's strategy to maintain the

current asset allocation amidst the hyperinflationary environment.

Zimnat Life’s market position was maintained within an intermediate range. In this respect, the insurer’s market share equated to 4.6% (FY18: 4.2%), given the review year contraction in long-term industry gross premiums caused by a depreciating functional currency. Zimnat Life’s business mix is viewed to reflect a well-spread product mix that provides a diverse income stream in spite of review year shift in the product mix towards group life products, with investment contracts providing a steady source of income. The product portfolio promotes aggregate product risk at low levels, partially offsetting limited geographic diversification.

The rating considers the overall risk profile of the majority shareholder, Masawara Plc, given operational alignment and demonstrated support for subsidiaries.

Outlook statement

The Negative Outlook reflects GCR’s expectations of financial profile vulnerability to the ongoing volatility in the operating environment.

Rating triggers

Conversion to Stable Outlook is likely to follow sustained improvement in earnings, positively impacting strength in risk adjusted capitalisation and liquidity metrics. Negative rating action could result from sustained earnings pressure further weakening risk adjusted capitalisation and liquidity metrics.

Analytical contacts

Primary Analyst	Linda Matavire	Analyst: Insurance Ratings
Johannesburg, ZA	LindaM@GCRratings.com	+27 11 784 1770
Committee chair	Tichaona Nyakudya	Senior Analyst: Insurance Ratings
Johannesburg, ZA	TichaonaN@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
Jurisdictional Supplement for Criteria, July 2020

GCR Country Risk Scores, November 2020

GCR Insurance Sector Risk Scores, July 2020

Ratings history

Zimnat Life Assurance Company Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	BBB+ _(ZW)	Stable Outlook	November 2011
Financial strength	Last	National	A _(ZW)	Stable Outlook	November 2019

Risk score summary

Rating components and factors	Risk score
Operating environment	2.75
Country risk score	0.00
Sector risk score	2.75
Business profile	(1.00)
Competitive position	(0.50)
Premium diversification	(0.50)
Management and governance	0.00
Financial profile	1.75
Earnings	0.75
Capitalisation	1.50
Liquidity	(0.50)
Comparative profile	0.50
Group support	0.50
Government support	0.00



Peer analysis	0.00
Total score	4.00

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 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.
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.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Technical Liabilities	The sum of Net UPR and Net OCR IBNR.
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.
Upgrade	The rating has been raised on its specific scale.

For a detailed glossary of terms utilized in this announcement please click [here](#).

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 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 30 November 2020;
- Reinsurance cover notes for 2020; and
- Other relevant documents

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