GCR RATINGS

GCR downgrades CIC Generals Kenyan financial strength rating of $A_{(KE)}$ to $BBB+_{(KE)}$ on deterioration in group earnings; Negative Outlook

Rating action

Johannesburg, 29 July 2020 – GCR Ratings ("GCR") downgrades CIC General Insurance Limited's ("CIC General") national scale financial strength rating of $A_{(KE)}$to $BBB+_{(KE)}$, Negative Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
CIC General Insurance Limited	Financial strength	National	$BBB+_{(KE)}$	Negative Outlook

Rating rationale

CIC General's rating reflects the strengths and weaknesses of CIC Insurance Group PLC ('the group"), being the core operating entity of the group. The rating downgrade follows the recent deterioration in the group's earnings profile. The Negative Outlook reflects potential for further downward ratings pressure should the planned corrective measures aimed at addressing solvency and liquidity challenges fail to materialise within expected timelines and terms.

The group's earnings performance went under pressure over the last two years, largely due to an increase in claims for the long-term business in FY18 followed by a spike in medical claims in FY19 in the core entity. In this respect, net claims and benefits rose by 6% to KES10bn, limiting operating profitability headroom. In addition, the group's investment income remained repressed, averaging KES1.9bn over the past two years relative to historical levels (prior three-year average of KES2.4bn) due to weak performance on the stock market along with depressed real estate valuations. As such, the operating margin sunk to the lowest level over the review period, equating to 2% in FY19 (FY18: 4% FY17: 5%). Earnings pressure is likely to persist over the outlook horizon with potential sensitivities to COVID19 pandemic risks expected to dampen prospects of near-term earnings recovery.

Risk adjusted capitalisation has been assessed as intermediate with persistent earnings pressure together with the growth in underwriting risk, resulting in a moderation in group GCR capital adequacy ratio ("CAR") to 1.3x at FY19 (FY18: 1.6x). Furthermore, GCR capital adequacy ratio ("CAR") for the core operating entity registered at 1.3x at FY19 while the regulatory CAR stood at 93% at 1H FY20 (FY18: 146%), measuring below the required minimum of 100%, mainly due to increased exposure to aged receivables, related party loans and the high extraction of dividend. Going forward, the maintenance of the group's risk adjusted capitalisation within the intermediate range is dependent upon the group's planned sale of land currently held as investment property.

The group's liquidity has been maintained at an intermediate level, factoring in our expectation of the land sale over the outlook horizon, with cash and stressed financial assets coverage of net technical liabilities equating to a lower 1.0x at FY19 (FY18: 1.2x), while coverage of operational cost requirements registered at 13.5 months (FY18: 11.3 months). The core entity's metrics registered at 0.8x and 7.1 months at FY19, respectively. Liquidity metrics are expected to improve to higher levels going forward, presuming the group successfully sells the land.

The rating is supported by the group's business profile. In this regard, the group's competitive position is viewed to be strong with a stable market share of 8% in FY19 and relative market share of 2.7x (FY18: 2.3x), supported by strong brand recognition and expansive group networks. The group's franchise strength has been demonstrated by the recent growth in the other markets of operation (South Sudan, Uganda and Malawi). Furthermore, the business mix is viewed to be well diversified with three lines of business contributing materially to revenues together with intermediate geographic diversification. Competitive position is expected to be maintained within the same range, supported by strong brand recognition and entrenched market relationships.

Outlook statement

The Negative Outlook captures potential ratings pressure should the pending land sale fail to materialise within expected timelines and terms. The Outlook further reflects GCR's expectations of persistent earnings pressure which may be compounded by the impact of the COVID-19 pandemic risks. The group's business profile is nevertheless expected to be maintained at similar levels over the rating outlook.

Rating triggers

Positive rating movement may result from a sustained improvement in earnings and risk adjusted capitalisation. The rating could be downgraded, should management fail to dispose of the property within expected timelines or if the transaction is closed at a higher discount than expected, coupled with the failure to reduce regulatory risk at the core operating entity level. Furthermore, persistent deterioration in earnings below anticipated levels may also warrant a downward rating movement.

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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

CIC General Insurance Company Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Claims paying ability	Initial	National	$A_{(KE)}$	Stable Outlook	May 2013
Financial strength	Last	National	$A_{(KE)}$	Stable Outlook	November 2019

Risk score summary

Rating Components and Factors	Risk score
Operating environment	**7.75**
Country risk score	3.75
Sector risk score	4.00
Business profile	**0.50**
Competitive position	0.50

Premium diversification	0.00
Management and governance	0.00
Financial profile	**(0.50)**
Earnings	(0.50)
Capitalisation	0.50
Liquidity	(0.50)
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total score	**7.75**

Glossary

Premium	The price of insurance protection for a specified risk for a specified period of time.
Property	Movable or immovable asset.
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.
Real Estate	Property that consists of land and / or buildings.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.

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.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
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.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Technical Liabilities	The sum of Net UPR and Net OCR IBNR.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
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.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.

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 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 June 2020;
- Reinsurance cover notes for 2020; and
- Other relevant documents.