GCR Lowers Insurance Sector Risk Scores for Kenya, Mauritius, South Africa, Tanzania and Zimbabwe

Johannesburg, 04 June 2020: GCR Ratings ("GCR") has maintained the Insurance Sector Risk Scores for Botswana, Ghana, Malawi, Mozambique, Namibia, Rwanda and Uganda, while simultaneously lowering the insurance sector scores for the following:

- Kenya lowered to '4.25' from '4.75'.
- Mauritius lowered to '5.75' from '6.00'.
- South Africa lowered to '8.00' from '8.75'.
- Tanzania lowered to '3.00' from '3.25'.
- Zimbabwe lowered to '2.75' from '3.25'.

The Insurance Sector Risk Scores are available for download at gcrratings.com/risk-scores/ and relevant sector research pieces are available at: http://gcrresearch.com/reports/house/industry-reports/.

The GCR Insurance Sector Risk Assessment

The Insurance sector risk score (ranging from 0 to 15) is a key factor in the operating environment component score. The core of the GCR Ratings Framework is based on GCR's opinion that an entity's operating environment largely frames its creditworthiness. As a result, the operating environment analysis anchors the underlying risk score for the GCR rating methodology. GCR combines elements of the country risk and sectoral risk analysis, blended across countries for entities operating across multiple jurisdictions, to anchor an insurer to its current operating conditions. For more details on any of the above, please read the related criteria and research listed below.

GCR will periodically publish updated "Insurance Sector Risk Scores", which will supersede previous publications. The publication titled "GCR Insurance Sector Risk Scores, 04 June 2020", available at https://gcrratings.com/risk-scores/, supersedes the article published on 08 May 2020.

Insurance sector risk scores

Republic of Botswana, Sector Risk Score 5.0. Country Risk Score 9.0*, Mapping Table 9.0 to 9.5

Botswana's insurance sector risk score of '5.0' balances an enhanced regulatory environment and increased industry concentration. The enactment of Insurance Industry Act 2015, effective 2019, along with various prudential measures entrenched risk based solvency management and enhanced control of intermediary behaviour to manage industry liquidity risk. Nonetheless, this was offset by increased industry concentration following a number of high profile mergers in the short term industry. The country's intermediate insurance penetration remained comparatively high within the region at 2.9%, lending support to overall sector strength. The score also factors in very low insurance density of USD209 per capita, albeit measuring higher than regional peers. Improved prudence in industry conduct is expected to stabilise growth trends in the short term industry (a key sensitivity to the assessment, given high volatility in recent years), complementing sustained healthy growth in the long term industry, while protecting currently pressurised underwriting margins (due to softening premium rates) on the backdrop of low investment yields. Botswana's financial sector score has a neutral impact on the insurance sector risk score.

Republic of Ghana, Sector Risk Score 4.25. Country Risk Score 3.5*, Mapping Table 3.5 to 4.0

Ghana's insurance sector risk score of '4.25' reflects a moderately strong regulatory environment, with well enforced cash and carry regulations and developing risk based solvency management. Furthermore, healthy growth potential and moderately high barriers to entry, following the increase in minimum capital requirements to GHS50m for insurers and GHS125m for reinsurers and enforcement of premium domestication rules, are expected to support market consolidation over the medium term. This is on the backdrop of very low insurance penetration (less than 1%) and low insurance density (less than USD20 per capita), suppressing scale efficiencies. Nonetheless, weak underwriting performance is partially offset by strong investment income, given the comparatively high interest rate environment, resolving earnings risk at an intermediate level. GCR also considers the fairly competitive structure of the market, with the top five players accounting for about 45% of gross premiums, resulting in fairly stable market dynamics. The Ghanaian financial sector risk score has a negative impact on the insurance sector risk score

Republic of Kenya, Sector Risk Score 4.25. Country Risk Score 4.0*, Mapping Table 4.0 to 4.5

Kenya's insurance sector risk score of '4.25', a moderation from '4.75', reflects persistent reduction in insurance penetration and weaker industry growth potential. The rate of insurance penetration has been on a downward path for four consecutive years from the most recent peak of 2.9% in 2014, settling at 2.4% in 2018. Sustained compression in insurance penetration is largely due to unhealthy price competition, with industry gross premiums (5-year real compound annual growth rate: 2%) underperforming a corresponding GDP growth rate of 5%. Nevertheless, the regulatory environment remains moderately strong, underpinned by a provisional risk-based solvency assessment regime and generally very high levels of transparency. The score also factors in the highly competitive market structure (with the top five players accounting for 46% of gross premiums in 2019), contributing to premium rates compression. In this regard, GCR considers the level of earnings risk to be intermediate, being largely impacted by the competitive dynamics. Barriers to entry are moderately high (with a limited number of successful new entrants in the market over the last five years), given the market structure and dynamics. The Kenyan financial sector score has a negative impact on the insurance industry score.

Republic of Malawi, Sector Risk Score 2.75. Country Risk Score 1.5, Mapping Table 1.0 to 2.0

Malawi's insurance sector risk score of '2.75' balances intermediate regulatory oversight, high growth potential, low but improving insurance penetration (1.8%), and very low insurance density (USD6.6). Earnings risk is moderately high given the low underwriting levels, relatively lower levels of investment income, the absence of minimum premium rates and aged receivables affecting reinsurers. Cognisance is, however, taken of the improvement in underwriting margins. The industry is concentrated, particularly in the long-term sector, with two insurers commanding 87% of the long-term market. In GCR's view, given the low likelihood of new entrants into the market, barriers to entry are viewed to be moderately high. The financial sector score for Malawi has a negative impact on the insurance sector risk score.

Republic of Mauritius, Sector Risk Score 5.75. Country Risk Score 8.75*, Mapping Table 8.5 to 9.0

Mauritius' sector risk score of 5.75 reflects the industry's good growth prospects and very strong earnings in the long-term segment, although this is partly offset by a reducing (but still healthy) profit trend in the short- term market, which reflects a more challenging competitive landscape. Insurance penetration of approximately 3.2% is intermediate, comparing favourably with the emerging market average but remaining low in global terms, while insurance density of around USD680 reflects similar relativity. After a once-off contraction in 2015, the industry has registered sound real growth that has translated into a strengthening in both of these metrics (supported by development of the long-term market), which if sustained, could support upward movement in the sector assessment over the medium term. A slight negative adjustment was made to the assessment of regulatory oversight after it was recently announced that Mauritius would be added to the European Union's blacklist for regulatory shortfalls in terms of anti-money laundering and terrorism financing. This was balanced by good insurance-specific legislation, application of a risk-based solvency framework and high transparency, albeit with some lag in timeliness of statistical publications.

Republic of Mozambique, Sector Risk Score 2.0. Country Risk Score 1*, Mapping Table 1.0 to 2.0

Mozambique's insurance sector risk score of '2.0' reflects GCR's view of a weak regulatory environment, low insurance penetration (2018: 1.5%) and very low insurance density (2018: USD8 per capita). Earnings risk is expected to remain moderately high, given the high susceptibility of the industry to overarching macroeconomic factors. The score factors in moderately healthy growth potential, with real growth averaging around 4%. Cognisance is taken of the fairly stable industry structure (with the top five players accounting for about 69% of industry premiums). Barriers to entry are viewed to be intermediate, balancing the dominance of government related business, compounded by administrative constraints, with market potential. The financial sector risk score is viewed to have a negative impact on the insurance sector risk score.

Republic of Namibia, Sector Risk Score 5.75. Country Risk Score 5.5*, Mapping Table 5.5 to 6.0

Namibia's insurance sector risk score of '5.75' is supported by comparatively high levels of insurance penetration, coupled with an intermediate regulatory environment. Sector risks are managed by a strong legislative framework and intermediate levels of transparency and policy enforcement, while the planned implementation of risk based solvency management holds potential for enhanced industry discipline. The sector evidences high insurance penetration of 7.1% and insurance density of USD417 per capita, surpassing most regional peers. This is largely due to the presence of strong insurance franchises, translating into well managed earnings risk, albeit with market concentration viewed to be high. Industry growth is likely to be maintained at an annual average of 2%. GCR factors in the financial institution score, which is viewed to have a neutral impact on the insurance sector risk score.

Republic of Rwanda, Sector Risk Score 3.25. Country Risk Score 3.75*, Mapping Table 3.5 to 4.0

Rwanda's insurance sector risk score of 3.25 reflects its moderately strong regulatory environment, notably enhanced by the implementation of a risk based solvency model, despite the low level of transparency in the industry. Furthermore, note was taken of consistent implementation and enforcement of directives such as premium localisation, bancassurance and microinsurance, which could improve penetration (below 2% over the last five years)) over the long term. Meanwhile, policies on fraud controls and motor rates increases among others could somewhat relieve persisting earnings strain in the private insurance sector. Offsetting these positive regulatory developments are expectations of pressures on premium growth, due to reduced disposable income and economic challenges related to COVID-19. Barriers to entry remained high, ringfenced by market regulations. Therefore, a relatively concentrated structure was maintained, reflecting predominance of a public insurer and ongoing market consolidations. The financial sector risk score had a negative impact Rwanda's insurance sector score.

Republic of South Africa, Sector Risk Score 8.00. Country Risk Score 7*, Mapping Table 7.0 to 7.5

South Africa's insurance sector risk score of 8.00 reflects its very high penetration in global terms, strong regulatory oversight and healthy cross cycle earnings. However, GCR has lowered the score from 8.75 to reflect our view of reduced short to medium term growth potential given the already poor economic performance in 2019 and the expectation that this will worsen materially in the wake of the COVID-19 pandemic. GCR expects gross premium development to be in the negative single digit range, given increased affordability constraints, reduced commercial activity, business closures and higher unemployment. Stringent regulatory requirements and competitive dynamics are viewed to be barriers to entry, although a slight negative adjustment was made to regulatory oversight to reflect comparatively limited regulatory disclosure, with company specific performance not being published owing to confidentiality considerations. Overall regulatory oversight is assessed to be strong, as evidenced by regular reporting and monitoring, a conservative and embedded solvency & risk management framework and sound legislative framework. The assessment was marginally weighed down by limited incidences of minimum solvency requirement shortfalls, although we have typically observed short term corrections after implementation of remedial plans.

Republic of Tanzania, Sector Risk Score 3.00. Country Risk Score 3.75*, Mapping Table 3.5 to 4.0

Tanzania's insurance sector risk score moderated from '3.25' to '3.00' reflecting limited transparency within the insurance regulatory environment. The score is supported by a moderately strong regulatory environment with a rules-based minimum capital requirement. However, strong regulatory implementation and intervention is viewed positively. Insurance penetration is approximated at 0.6% (regional peers: 2.5%; global average: 6.3%) while insurance density is also very low at less than USD10. Industry premium growth potential is viewed to be moderately healthy with a five year compound annual real growth rate of around 3%. Earnings risk is intermediate, with healthy investment income partially offsetting weak underwriting performance. The environment is fairly competitive, with the top five players accounting for about 53% of total industry gross premiums at FY19. Because of strict localization within the industry, barriers to entry are considered to be moderately high. The Tanzanian financial sector score has a negative impact on the insurance sector risk score.

Republic of Uganda, Sector Risk Score 3.75. Country Risk Score 3.25*, Mapping Table 3.0 to 3.5

Uganda's insurance sector risk score of '3.75' is supported by solid gross premium growth, coupled with low earnings risk, while ongoing regulatory reforms present opportunities for a further strengthening of the sector. Despite low insurance penetration of 0.9% and insurance density of USD5.60 per capita, Uganda displays strong growth potential in both the short term and long term markets, with the 5-year average real industry growth rate measuring at 9%. Regulatory discipline is viewed as a key industry feature, supporting low earning risk through enforcement of minimum premium rates and, more recently amid the COVID-19 pandemic, a risk adjusted implementation of cash and carry regulations. The sector is currently implementing a parallel run of a risk based solvency model, which is expected to come into effect in 2023, potentially offsetting pressures that could arise from increased competitive dynamics on the back of a number of well franchised market entries in recent years. The financial sector credit strength is assessed at limited levels, negatively impacting the insurance sector risk score.

Republic of Zimbabwe, Sector Risk Score 2.75. Country Risk Score 0*, Mapping Table 0 to 1.0

Zimbabwe's insurance sector risk score has been revised to '2.75' from '3.25' reflecting a drastic reduction in insurance penetration, more than offsetting an intermediate regulatory environment and generally high levels of transparency. The score factors in lower insurance penetration of 0.5% (2018: 3.7%) and very low insurance density of USD9 per capita. Despite a structural fall registered in 2019, gross premium growth is generally viewed to be moderately healthy, albeit with note taken of continuing risks from overarching macroeconomic factors and the impact of COVID-19. GCR also takes into account moderately healthy earnings risk, against a volatile environment, with moderately strong net profitability having been maintained through the cycle. The score also takes into account the competitive structure of the market, with the top five players accounting for more than 62% of gross premiums, and stability in market participants over the past five years. GCR factors in the very weak financial institution score, which has a very negative impact on the insurance sector score.

*Country Risk scores as at date of publication.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Insurance Companies, May 2019
GCR Country Risk Scores, May 2020
GCR Financial Institutions Risk Scores, May 2020