



GCR reviews insurance sector risk scores, assigns first-time risk scores to Gabon, Senegal and Togo

Johannesburg, 22 April 2021: GCR Ratings (“GCR”) has reviewed insurance sector risk scores and increased the risk scores for Burkina Faso and Kingdom of Eswatini. At the same time, first-time insurance sector risk scores have been assigned to Gabonese Republic, Republic of Senegal and Togolese Republic.

Burkina Faso, Insurance Sector Risk Score increased from 3.00 to 3.25

Kingdom of Eswatini, Insurance Sector Risk Score increased from 2.75 to 3.00

Gabonese Republic, assigned first-time Insurance Sector Risk Score 0.75

Republic of Senegal, assigned first-time Insurance Sector Risk Score of 2.75

Togolese Republic: assigned first-time Insurance Sector Risk Score of 2.00

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 periodically publishes updated “Insurance Sector Risk Scores”, which will supersede previous publications. The publication titled “GCR Insurance Sector Risk Scores, 22 April 2021”, available at <https://gcrratings.com/risk-scores/>, supersedes the article published on 10 February 2021.

Insurance sector risk scores

Burkina Faso, Sector Risk Score 3.25. Country Risk Score 2.75, Mapping Table 2.5 to 3.0*

Burkina Faso’s insurance sector risk score of ‘3.25’ reflects the positive impact of consistently above average industry growth, stemming from the long-term industry, and the CIMA Zone regulatory environment. Consequently, insurance penetration reached 1%, comparing well with that of leading regional peers, although remaining in the low range. Insurance density remained very low at USD8. Earnings risk also measured in the intermediate range, supported by a stable stream of investment

income, offsetting underwriting pressures stemming from price competition. However, the real gross premium growth rate could slow down over the medium to long-term as the industry matures, which coupled with economic challenges, may moderate earnings. A fairly competitive market structure was maintained, supported by intermediate barriers to entry and consolidation among smaller market players. The financial sector factors negatively into the assessment.

Kingdom of Eswatini Sector Risk Score 3.00. Country Risk Score 2.5, Mapping Table 2.5 to 3.0*

Eswatini's insurance sector risk score increased to '3.0', from '2.75' previously, reflecting improved competitive dynamics and increased market depth. An increased number of players in the short-term industry reduced concentration and widened overall industry scope, albeit presenting higher hurdles for potential new entrants going forward. Insurance penetration measured at 2.7%, representing a comparative strength to sub-Saharan Africa peers. The regulatory environment is characterised by a developing risk-based solvency regime, an intermediate legislative framework and somewhat average transparency, albeit moderated by low levels of policy enforcement. Earnings risk is low, with consolidated industry profit margins expected to trend within a healthy range and industry real gross premium growth rates likely to average within the 2% to 5% band over the medium-term. The insurance sector risk score is adversely impacted by GCR's assessment of Eswatini's financial sector.

Gabonese Republic, Sector Risk Score 0.75. Country Risk Score 1.50, Mapping Table 1.0 to 2.0*

Gabon's insurance sector risk score of '0.75' is a function of material loss of gross premium scale since 2015, with penetration registering below 1%, while earnings volatility was compounded by limited investment returns within the economy. Going forward, GCR expects premium growth pressures and earnings constraints to persist, with additional economic challenges emanating from the COVID-19 pandemic. The industry assessment is further limited by a weaker regulatory environment compared to regional peers, although the market presents moderately high barriers to entry and a well-diversified structure with almost all market players retaining at least 10% market share.

Republic of Senegal, Sector Risk Score 2.75. Country Risk Score 3.75, Mapping Table 3.5 to 4.0*

Senegal's insurance sector risk score of '2.75' reflects strong market growth since 2014, which supports penetration and density at levels that are comparable to leading regional peers, albeit remaining in low ranges at 1% and USD20 respectively. While enhanced scale efficiencies improved underwriting profitability, stable streams of investment income from a comparatively sound economy further support the industry's net profitability. Nevertheless, GCR notes a limited regulatory environment compared to regional peers, which could cause compression of premiums and profit levels, amid additional economic challenges stemming from the COVID-19 pandemic, as well as rising competition with new players flooding the market.

Togolese Republic, Sector Risk Score 2.0. Country Risk Score 1.75, Mapping Table 1.0 to 2.0*

Togo’s insurance sector risk score of ‘2.0’ balances healthy gross premium growth with high earnings risk and a comparatively limited regulatory environment in the CIMA Zone. As such, industry penetration and density was maintained at levels comparable with regional peers, at around 1% and USD15 respectively. Due to volatile underwriting profits and investment returns within the market, the industry’s earnings are likely to remain strained over the medium-term. Nevertheless, the number of insurers operating in Togo remained limited, resulting in a concentrated market structure, with the top three players accounting for 70% of gross premiums. Going forward, similar market dynamics are expected to persist, with ongoing economic challenges from the pandemic threatening earnings stability.

*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 Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, March 2021
GCR Financial Institutions Risk Scores, February 2021