

GCR Insurance Sector Risk Scores 22 April 2021

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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

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 Ratings' ("GCR") 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.

GCR periodically publishes updated "Insurance Sector Risk Scores", which will supersede previous publications. This publication, available at gcratings.com/risk-scores/, supersedes the publication titled "GCR Insurance Sector Risk Scores", which was published on 10 February 2021.

Summary of changes since last review

The following insurance sector risk scores have been updated and/or assigned for the first time since the last publication (10th February, 2021):

- 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

Insurance Sector Risk Scores

Republic of Benin, Sector Risk Score 2.75. Country Risk Score 3, Mapping Table 3.0 to 3.5*

Benin's sector risk score of '2.75' reflects GCR's view of an intermediate regulatory environment, further limited by very low levels of financial inclusion, evidenced by insurance penetration well below 1% and insurance density of less than USD10. Nevertheless, industry growth potential remained moderately healthy, with real industry premium growth measuring around 5%. Risk to earnings is considered moderate, supported by sound investment income, albeit noting moderation in underwriting margins. Barriers to entry remained moderately high with limited scope for new entrants, supporting a fairly diversified market structure across mid and bottom tier market players, despite two insurance groups controlling at least 70% of industry gross premiums. The banking sector score has a negative impact on the insurance sector risk score.

Republic of Botswana, Sector Risk Score 5.0. Country Risk Score 8.75, Mapping Table 8.5 to 9.0*

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.

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 Cambodia, Sector Risk Score 3.0. Country Risk Score 4.5, Mapping Table 4.5 to 5.0*

Cambodia's insurance sector risk score of '3.0' is a function of weak insurance sector regulation and relatively low premium scale, with some uplift derived from strong earnings generation and high growth potential. The sector is currently managed under a basic solvency framework and, despite intermediate legislation and enforcement, exhibits low levels of transparency. Furthermore, insurance penetration is very low, measuring below 1%, with insurance density equally subdued. While this has attracted a number of new players in recent years, the sector remains concentrated, with four top insurers, specifically in the long-term industry, comprising around 96% of gross premiums (short-term: 69%). Positively, the sector continues to register strong real gross premium growth in recent years, accompanied by healthy earnings, despite evidencing some degree of moderation due to the effects of the COVID-19 pandemic. Overall, the financial sector risk score is viewed to be negative to insurance sector strength.

Republic of Cameroon, Sector Risk Score 2.75. Country Risk Score 3.25, Mapping Table 3.0 to 3.5*

Cameroon's insurance sector risk score of '2.75' reflects its above average market depth compared to peers in the region, evidenced by an insurance penetration rate trending around 1% and insurance density of USD14, albeit very low from a global perspective. Furthermore, the score balances moderately healthy growth potential (with the real growth rate registering around 5%) and moderately low earnings risks. These strengths are however offset by an intermediate regulatory environment, despite recent institution of cash and carry reinsurance purchase, among other efforts aimed at promoting healthy market dynamics amidst economic challenges exacerbated by the COVID-19 pandemic. Barriers to entry remained intermediate, while a fairly competitive market structure was maintained, demonstrated by gross premiums well spread among top, mid, and bottom tier market players. The financial sector score has a negative impact on the insurance sector risk score.

Republic of Cote d'Ivoire, Sector Risk Score 3.25. Country Risk Score 4.5, Mapping Table 4.5 to 5.0*

Cote d'Ivoire's insurance sector risk score of '3.25' reflects its resilient depth relative to regional peers, demonstrated by an insurance penetration rate slightly above 1%. Density measured around USD30, which also compares well with regional peers (Cameroon: USD14; Burkina Faso: USD8), despite being very low from a global perspective. Furthermore, the industry maintained healthy premium progression, underpinned by relatively strong economic growth. Note was taken of the regulator's efforts aimed at promoting healthy market dynamics, such as the recent institution of the cash and carry regulation at the level of reinsurers. Nevertheless, moderately high risk to earnings is expected to persist due to increased competitive dynamics amidst economic challenges due to the COVID-19 pandemic. Market composition is deemed fairly diversified across market participants, although controlled by insurance groups given intermediate barriers to entry. The financial sector score has a negative impact on the insurance sector risk score.

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 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), suppressing scale efficiencies. Nonetheless, weak underwriting performance is partially offset by strong investment income, given the comparatively high interest rate environment, supporting 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' reflects low insurance penetration and weaker industry growth potential, despite exhibiting some degree of resilience to COVID-19 pandemic risks. The rate of insurance penetration has reduced over the last five years, equating to 2.3% in 2019. Sustained compression in insurance penetration is largely due to high price competition, with industry gross premiums (5-year real

average growth rate: 1.7%) underperforming a corresponding GDP growth rate of c. 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 companies accounting for c. 39% of total industry premiums), 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 Madagascar, Sector Risk Score 2.00. Country Risk Score 2.25, Mapping Table 2.0 to 2.5*

The Malagasy insurance sector risk score of '2.0' reflects GCR's view of an intermediate regulatory environment, healthy industry growth potential and moderate earnings risk. In this respect, solvency assessment is compliance based, while the legislative framework is considered intermediate. Implementation and enforcement are deemed to be low with infrequent onsite and offsite surveillance. Furthermore, transparency is assessed at weak levels, with key industry statistics not available in the public domain. Insurance penetration and density are very low, with the former approximately below 1% while the latter is below USD5.00. Industry growth potential is moderately healthy, having expanded by around 4% in real terms over the past five years. The risk to earnings is viewed to be moderate, with key players consistently posting underwriting surpluses. The industry is, however, susceptible to economic shocks emanating from erratic weather conditions and weak institutional and governance structures. The score also considers the somewhat concentrated structure of the market, comprising five players, with the top insurer accounting for about 59% of gross premiums, and moderately high barriers to entry. The insurance sector risk score is adversely impacted by a weak financial sector assessment.

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 low underwriting margins, relatively lower levels of investment income, high price-based competition and aged receivables affecting reinsurers. 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 8.50, Mapping Table 8.5 to 9.0*

Mauritius' sector risk score of 5.75 reflects the industry's sound regulatory framework and good growth prospects, as well as very strong earnings in the life segment. This is partly offset by a reducing profit trend in the short-term market, reflecting the more challenging competitive landscape in the sub-segment. Insurance penetration of c. 3.9% is intermediate, comparing favourably with the emerging market average

but remaining low in global terms, while insurance density reflects similar relativity. The industry has registered sound real growth (after normalising for once off company specific movements), outpacing real GDP growth by about 3.5 percentage points in recent years. However, we see downside risk to earnings in the short-term market, limiting potential for upward movement in the sector risk score over the outlook horizon. Furthermore, the growth outlook could be impacted by a slower than expected recovery in the Mauritian economy.

Republic of Mozambique, Sector Risk Score 2.0. Country Risk Score 1.0, 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 and very low insurance density of 1.5% and USD8 respectively. Earnings risk is expected to remain moderately high, given high susceptibility of the industry to overarching macroeconomic factors, exacerbated by increasing security risks in key growth areas. The score factors in moderately healthy growth potential, with real growth of above 5% tempered by concerns on the sustainability of recent growth momentum, given aforesaid risks. 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.

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. Real 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.

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

Nigeria's insurance sector risk score of '3.25' reflects the limited depth of the market relative to other regional peers, evidenced by low insurance penetration of less than 1%. Density is estimated slightly below USD10, which is also considered low from a global perspective. However, this is balanced by a moderately strong regulatory environment. Industry growth potential remains strong, as the real growth rate in gross premiums is likely to range between 2% and 5% over the medium term, in line with the past five years. Earnings risk and barriers to entry are currently considered to be at intermediate levels, with the expectation that these will become stronger should new capital requirements be successfully implemented. The financial sector score has a negative impact on the insurance sector risk score.

Republic of Philippines, Sector Risk Score 6.5. Country Risk Score 8.5, Mapping Table 8.5 to 9.0*

Philippines' insurance sector risk score of '6.5' balances a strong regulatory environment (with a risk-based solvency assessment regime and moderate levels of transparency), and healthy growth potential, with low insurance penetration (1.8%) and very low insurance density (less than USD75). The score also factors in high barriers to entry, with a very limited number of successful new entrants over the last five years, in the context of a highly competitive market structure (the top five players accounting for about 40% of total industry gross premiums). Net margins are relatively healthy, albeit remaining highly susceptible to natural disasters. The financial sector score has an overall neutral impact on the insurance sector risk score.

Republic of Rwanda, Sector Risk Score 3.25. Country Risk Score 3.50, 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, ring-fenced 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 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.

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

South Africa's insurance sector risk score was maintained at '8.00' reflecting our view that the sector is relatively resilient to potential risks associated with COVID-19. We expect real premium growth to register in the low single digits in 2021 following signs of recovery after the hard lockdown. Despite a high level of uncertainty regarding the development of contingent business interruption and mortality claims, we believe the sector's sound capitalisation is sufficient to absorb potential downside risk to earnings over the near term. The sector assessment incorporated South Africa's very high insurance penetration in global

terms and strong regulatory oversight, as evidenced by regular and intensified reporting and monitoring, a conservative and embedded solvency and risk management framework and sound legislative framework. Stringent regulatory requirements and prevailing competitive dynamics are seen to be barriers to entry.

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. This represents a moderation of the view on the regulatory environment, which is characterised by rules-based minimum capital requirements. 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.

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.

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, 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 Zambia, Sector Risk Score 2.5. Country Risk Score 1.00, Mapping Table 1 to 2.0*

Zambia's insurance sector risk score of '2.5' reflects GCR's view of a limited regulatory framework (with solvency assessment which is not risk based and intermediate transparency levels). Note is taken of a potential strengthening in the regulatory framework to levels similar to regional peers over the medium term. Zambia reflects low insurance penetration of 1.1%, compared to regional peers at 2.5% (global average: 6.3%), and very low insurance density of less than USD50. Earnings risk is viewed to be moderately high, stemming from the competitive nature of the industry, coupled with inhibitive cost structures. The score factors in moderately healthy growth potential, with real industry gross premium growth of 4%. Barriers to entry are viewed to be low, with successful market entrants having been registered in both the short and long-term product space over the past ten years. In this regard, market dynamics may come under pressure over the medium-term, in the absence of responsive regulatory actions. The financial sector risk score has a negative impact on 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 sector risk score of '2.75' reflects low insurance penetration and industry growth potential. The low insurance penetration of 0.6% is mainly due to persistent economic constraints, coupled with depressed consumer confidence in insurance, restraining real gross premium growth prospects over the medium-term. Positively, the regulatory environment remains moderately strong, underpinned by a basic solvency model and good levels of transparency. Earnings risk is high due to the distortive impact of hyperinflation on underwriting profitability and value erosion on monetary assets, somewhat offset by better returns from investments with higher inflation pass-through. However, GCR sees scope for a slow reversion in earnings performance to pre-2019 levels in 2021 and 2022 as inflation pressures subside. The score also reflects positive market dynamics evidenced by the top five players accounting for 72% of short industry premiums, whilst three entities accounted for 63% of long-term industry gross premiums. The Zimbabwean financial sector score has a negative impact on the insurance industry score.

Figure 1: GCR Insurance Sector Risk Ranking

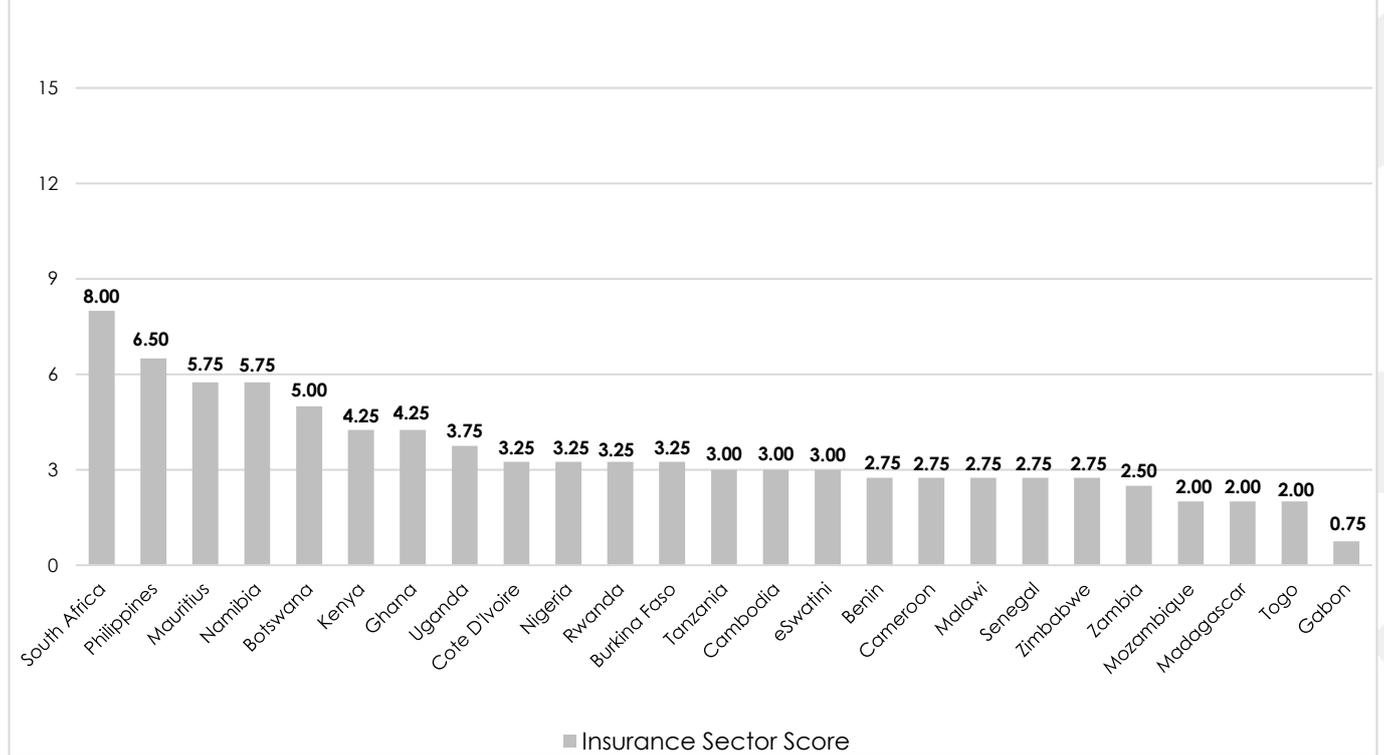
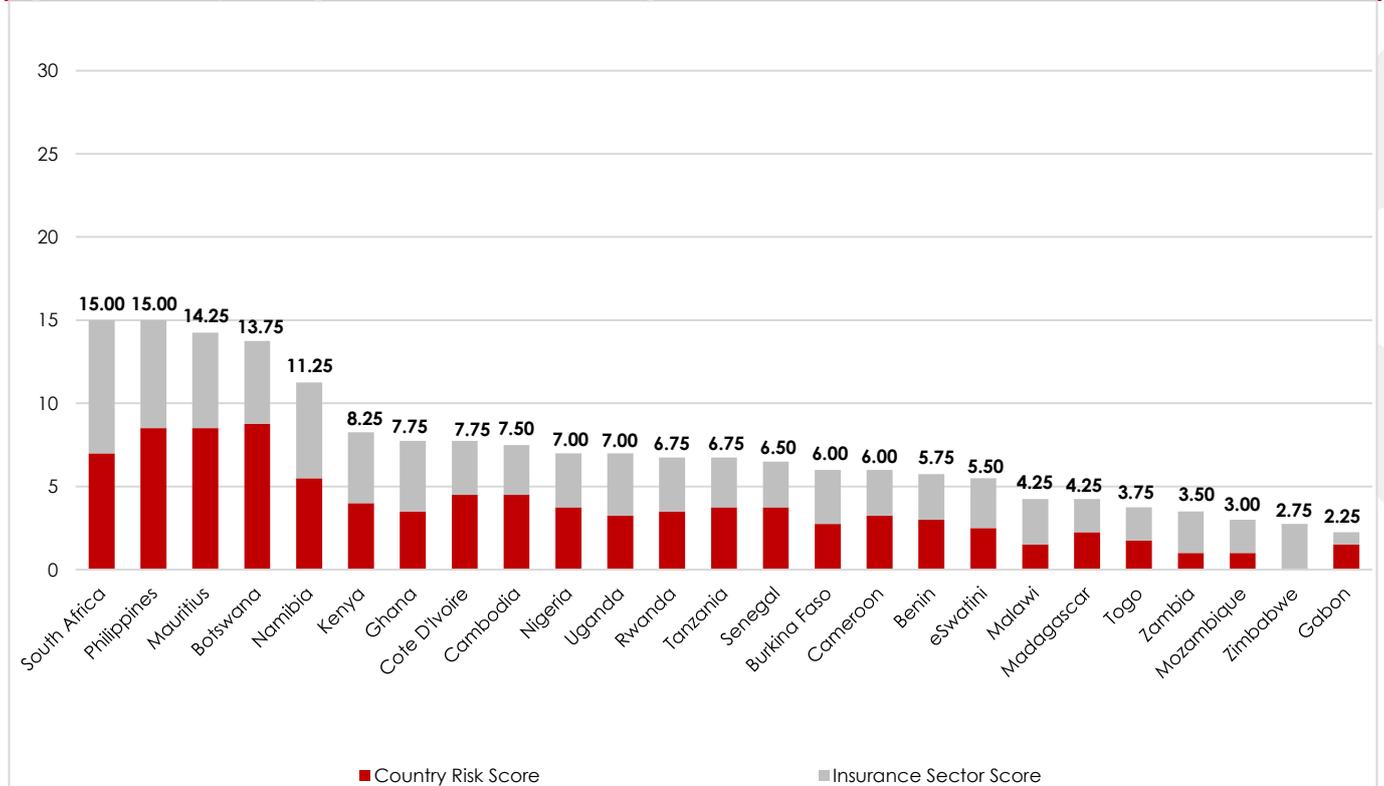


Figure 2: GCR Operating Environment Risk Ranking*





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