

GCR Insurance Sector Risk Scores 30 August 2022

Analytical contacts

Primary analyst Johannesburg, South Africa	Godfrey Chingono GodfreyC@GCRratings.com	Sector Head: Insurance +27 11 784 1771
Primary analyst Johannesburg, South Africa	Matthew Pirnie MatthewP@GCRratings.com	Group Head of Ratings +27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Insurance Companies, July 2022
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, August 2022
GCR Financial Institutions Risk Scores, June 2022

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 gcrratings.com/risk-scores/, supersedes the publication titled "GCR Insurance Sector Risk Scores", which was published on 27 May 2022.

Summary of changes since last review

The following insurance sector risk scores have been assigned or updated since the last publication (27th May 2022):

- Republic of South Africa, Non-life Insurance Sector Risk Score assigned at 7.50.
- Republic of South Africa, Life Insurance Sector Risk Score assigned at 8.00

Insurance Sector Risk Scores

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

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 5.25. Country Risk Score 7.75, Mapping Table 7.5 to 8.0*

Botswana's insurance sector risk score of '5.25' balances an enhanced regulatory environment, healthier competitive dynamics, slower real gross premium growth rate 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 underwriting behaviour to manage industry earnings and liquidity risk. Nonetheless, this was offset by increased industry concentration following several high-profile mergers and acquisitions in the short-term industry and historically very high concentration in the long-term industry. The country's insurance penetration remained comparatively high within the region at c.3.0%, lending support to overall sector strength. The score also factors in low insurance density of USD202, albeit measuring higher than regional peers. Improved prudence in industry conduct is expected to reduce volatile and slower real gross premium growth trends in the short-term industry, with similar trends beginning to take hold in the long-term industry. We positively note an improvement in short-term industry underwriting margins, complementing the long-term industry, and expect this trend to be supported by the adoption of risk-based supervision. 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 2.50, 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 2.25, Mapping Table 2.0 to 2.5*

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 healthy ranges 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.

Republic of Ethiopia, Sector Risk Score 2.75. Country Risk Score 3.25, Mapping Table 3.00 to 3.25*

Ethiopia's sector risk score of '2.75' reflects an intermediate regulatory environment, underpinned by rule based solvency requirements and moderate enforcement of positive regulations such as no premium no cover. The market has limited depth relative to its peers, evidenced by an insurance density of less than USD10 and penetration of less than 1%. Earnings risk is however viewed to be low, characterised by positive underwriting margins and good investment returns. Barriers to entry are deemed to be high, due to local ownership rules that require (re)insurers to be owned by nationals or organisations wholly owned by nationals. With eighteen players in the short term market, more than 25% of the gross premiums are concentrated within a state owned insurer. Due to macro-economic challenges, the industry registered a slightly negative five year compounded real growth rate at FY20/FY21.

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 3.50, 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 7.75, Mapping Table 7.5 to 8.0*

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 4.00, Mapping Table 4.0 to 4.5*

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 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 Sierra Leone, Sector Risk Score 1.50. Country Risk Score 1.75, Mapping Table 1.0 to 2.0*

Sierra Leone's insurance sector risk of '1.50' reflects the intermediate regulatory environment, which is characterized by weak implementation and enforcement. Furthermore, transparency, in terms of availability of industry statistics and data, is considered very low. This is exacerbated by the relatively low retail utilisation of insurance, as evidenced by the low insurance penetration and density of less than 1% and USD10 respectively. Positively, the industry's earnings risk is viewed to be healthy, predominantly underpinned by the very competitive claims experience which continues to support the robust underwriting margins. Barriers to entry are considered low, in view of the very low minimum capital requirement. Notwithstanding this, there appears to be a restricted number of new entrances over the last fifteen years, partly due to the limited scope of business opportunities within the industry. Market composition is deemed to be somewhat concentrated, comprising twelve players, with the top five players controlling about 80% of gross premiums. The Sierra Leonean financial institution sector score has a negative impact on the insurance sector risk score.

Republic of South Africa, Life Insurance Market Sector Risk Score 8.00, Non-life Insurance Market Sector Risk Score 7.50. Country Risk Score 7.0, Mapping Table 7.0 to 7.5*

Life insurance market: We have assigned a new score of 8.00 to the South African life insurance sector. This reflects very high insurance penetration, which, at around 10%, is significantly higher than regional and global averages. The industry showed resilience during the COVID-19 pandemic, and we see growth potential to be positive, with real growth projected to be above 2% going forward. We also consider earnings potential to be sound, with return on revenue likely to be in a healthy positive range, but potentially remaining comparatively subdued over the near term given the prevailing economic challenges, which are likely to pressure affordability. Asset risk is well managed through good investment market depth and strong asset-liability matching, catering for the life sector's inherent exposure to investment market volatility and strategic investments at holding company levels. The industry is viewed to benefit from robust risk-based capital management and operates under an advanced regulatory framework, although there could be some reputational risk stemming from the recently announced Competition Commission investigations.

Non-life insurance market: We have decoupled the South African non-life insurance industry and assigned a score of 7.5, given its distinctive risk profile characterised by a different market structure from the life insurance industry. Core market factors remain stable reflecting a strong regulatory environment and a deep insurance market on a global scale. South Africa's regulatory environment is guided by risk-based supervision through the Solvency Assessment and Management ("SAM") model and a strong legal framework as well as healthy self-regulation, which supported markets during the COVID-19 pandemic,

averting reputational risks. In this respect, the non-life insurance market managed to retain positive real gross premium growth potential, which we project within a 2% to 5% range over the medium term and capable of supporting insurance penetration of above 2.5%, given corresponding real GDP growth forecasts of below 2%. Market dynamics are considered healthy at an estimated HHI of below 1000, further supported by a proliferation of innovative product delivery models. Earnings risk is viewed to be relatively low, although has increased in the wake of increased frequency of catastrophe events and high value claims, mostly due to the effects of climate change, albeit with risk-based supervision somewhat mitigating these effects through better management of asset risk.

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 an intermediate market structure, with 70% of gross premiums concentrated among the top three players. 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 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 adoption. 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*

Despite increasing headwinds from a volatile economic and political environment, Zimbabwe's insurance sector risk score has been maintained at '2.75' due to offsetting positive regulatory steps taken by the regulator which are expected to cushion the industry. The insurance market in Zimbabwe displays sound progression in regulatory capacity and implementation, despite intermittent setbacks from the overarching environment, as evidenced by the proposed implementation of cash and carry regulations and the current parallel run of the Zimbabwe Integrated Capital and Risk Program ("ZICARP"), a local risk based solvency regime modelled along Solvency II. Furthermore, the industry's high transparency and data frequency levels are viewed to strengthen risk mitigation strategies. The assessment is partially offset by low levels of insurance penetration and density, albeit with the rebound in FY21 to 1.6% (FY20: 1.0%) and USD26.3 (FY20: USD16.4) respectively viewed positively. This was on the back of strong inflation adjusted gross premium growth rates of 31.1% and 181.0% in the short-term and long-term markets respectively. Earnings moderated in FY21 registering an underwriting deficit, driven mainly by an unfavourable claims experience particularly in the life industry, and an inhibitive cost structure underpinned by hyperinflationary pressures. The short-term industry is fairly diversified, contrasting the highly concentrated long-term industry, which is dominated by two funeral businesses, given the limited product offerings and low confidence in longer term products in the hyperinflationary environment. We view potential for less market friendly interventions in the financial sector to be high over the 18 months period ahead; however, the current assessment of risks to the insurance sector has factored in possible risk scenarios.

Figure 1: GCR Insurance Sector Risk Score Ranking

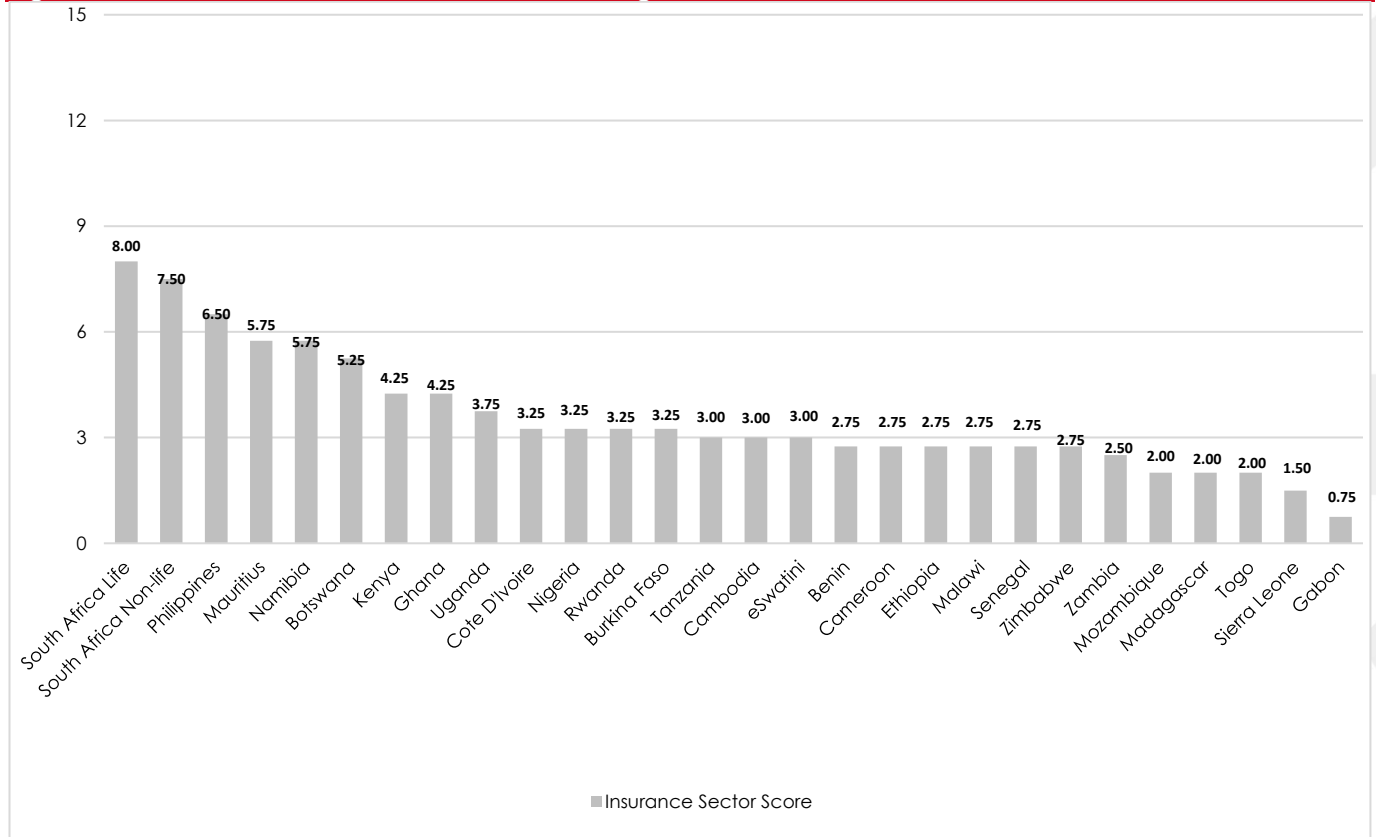
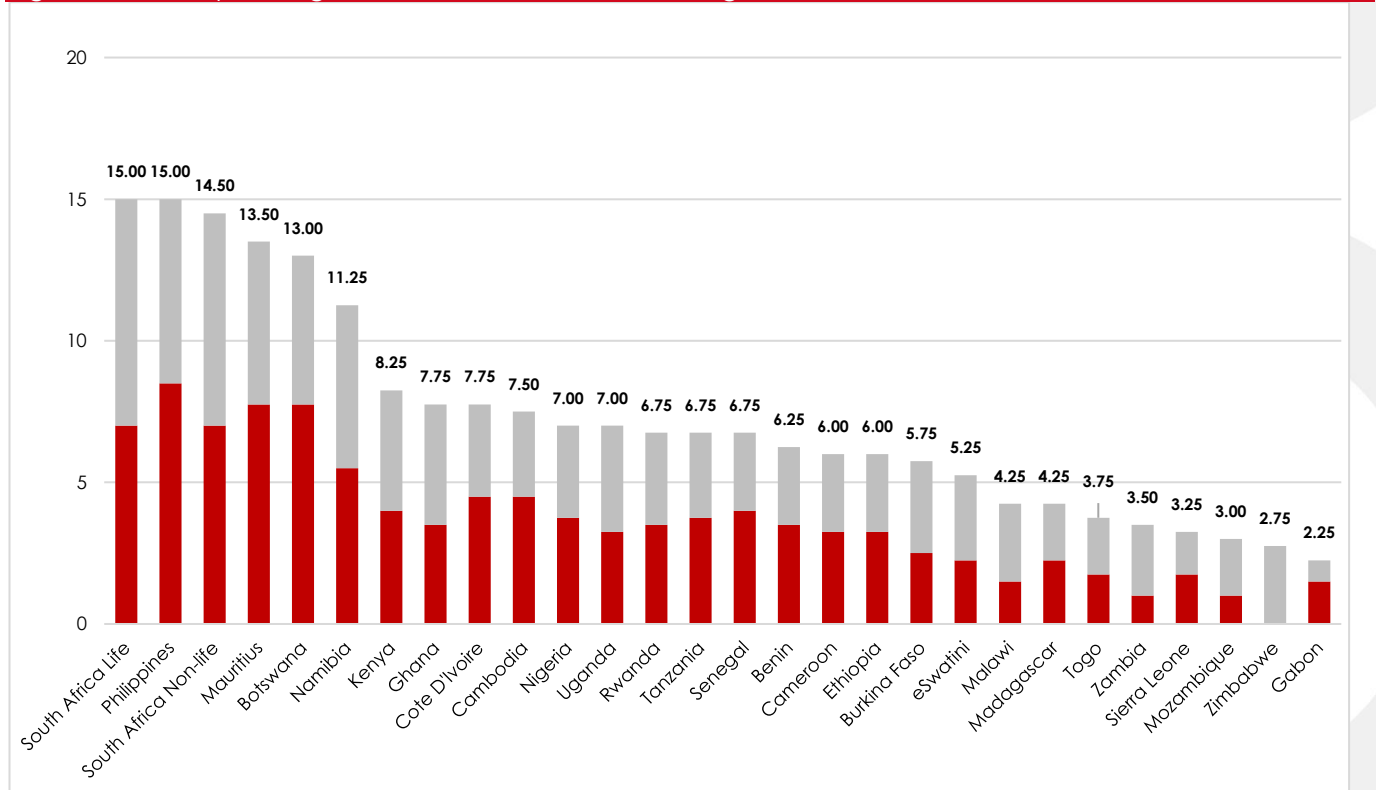
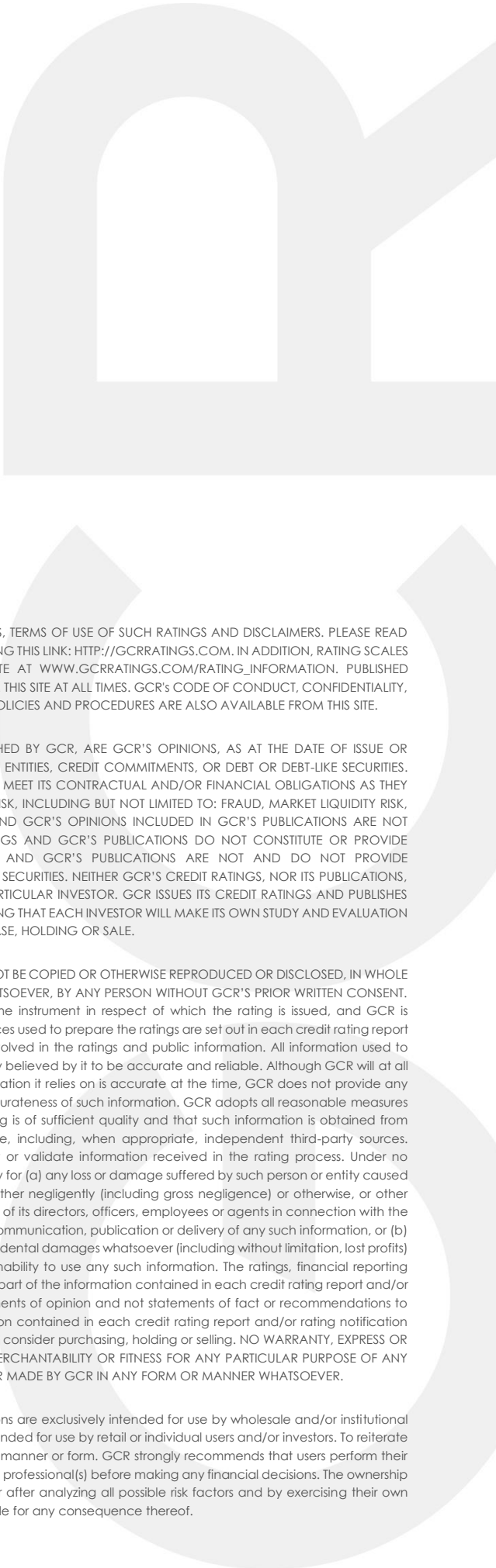


Figure 2: GCR Operating Environment Risk Score Ranking*



*Relates to country risk scores at the time of publication



ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GCRRATINGS.COM](http://GCRRATINGS.COM). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GCRRATINGS.COM/RATING_INFORMATION. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2022 GCR INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.

GCR's credit ratings, assessments, other opinions and publications are exclusively intended for use by wholesale and/or institutional users and/or investors only and are therefore specifically not intended for use by retail or individual users and/or investors. To reiterate as per above, GCR does not provide investment advice in any manner or form. GCR strongly recommends that users perform their own independent research and/or consult with suitably qualified professional(s) before making any financial decisions. The ownership of any investment decision(s) shall exclusively vest with the user after analyzing all possible risk factors and by exercising their own independent discretion, and GCR shall not be liable or held liable for any consequence thereof.