

Global Alliance Seguros, S.A.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Global Alliance Seguros, S.A.	Financial strength	National	A _(MZ)	Stable Outlook

Rating rationale

The national scale financial strength rating of Global Alliance Seguros, S.A. ("GA Seguros") reflects its access to operational and technical support from the parent company, Absa Financial Services Africa Holdings Proprietary Limited and the wider Absa Group Limited. While GCR notes the insurer's strong local market presence, coupled with a diversified product offering, these credit positives are, however, moderately diluted, given their limited contribution to earnings resilience. Furthermore, intermediate levels of capitalisation and liquidity are offset by a protracted weakness in earnings, with the insurer's overall financial profile assessed to be credit neutral.

Outlook statement

The reversion to a Stable Outlook is underpinned by expectations of capital and liquidity forbearance should the current depressed earnings cycle persist over the rating horizon.

Rating triggers

Positive rating action: An upward rating movement may follow a sustained improvement in earnings, liquidity and risk adjusted capitalisation. This will have to be supported by the insurer's continued strong market presence along with a diversified premium base.

Negative rating action: Downward rating pressure may follow material weakness in earnings, risk adjusted capitalisation and/or lack of demonstrated shareholder support in times of financial stress.

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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 Scale, Symbols & Definitions, May 2019
 GCR Country Risk Scores, January 2020
 GCR Insurance Sector Risk Scores, January 2020

Ratings history

Rating class	Review	Rating scale	Rating	Outlook	Date
Claims paying ability	Initial	National	BBB _(MZ)	Stable	November 2002
	Last	National	A _(MZ)	Negative	June 2018

The analytical entity is GA Seguros, SA. The insurer was incorporated in 1993 and has established itself as one of the leading insurance companies operating in Mozambique. The company has a composite licence to transact both non-life and life insurance.

Operating Environment

Country risk

GA Seguros's country risk score reflects a 100% weighting of premiums from its domicile, Mozambique. For details regarding Mozambique country risk score please visit <https://gcratings.com/wp-content/uploads/2020/01/202001-Country-Risk-publication.pdf>.

Sector risk

The sector risk score applicable to GA Seguros reflects the insurer's total exposure to the Mozambican insurance market. More information on Mozambique sector risk score can be found on <https://gcratings.com/wp-content/uploads/2020/02/Sector-Risk-publication-31-January-2020.pdf>.

Business Profile

Competitive position

Table 1: Premium scale, growth and market share

	FY14	FY15	FY16	FY17	FY18
Gross written premiums (MZN'm)	2,669.6	2,512.2	2,459.8	1,539.8	1,465.8
Gross written premium growth (%)	34.6	(5.9)	(2.1)	(37.4)	(4.8)
Market share (%) *	31.4	24.5	21.8	13.1	11.2

*Market share is calculated using total gross written premiums of the Mozambican short- and long-term insurance industry.

- ❖ Competitive positioning remained strong despite persistent moderation on the back of a tough operating environment and ongoing portfolio remediation efforts.

GA Seguros' market position is viewed to be strong (despite moderating from the market leading position over the past few years), with relative market share registering around 2.2x. In this respect, the insurer was ranked the fourth largest player, with a share of total industry premiums registering at 11% at FY18 (FY17: 13%; FY14: 31%). Loss of market share was largely due to persistent gross premium contraction attributed to the challenging operating environment, coupled with management's efforts aimed at shedding loss making accounts. As at the end of FY18, gross written premiums amounted to a lower MZN1.5bn (a 5% contraction), measuring well below management's expectations of MZN1.9bn. GCR expects the gross premium base to register muted growth over the outlook horizon, given the operating environment, and competitive pressures. This view differs from management's expectations of strong growth (10%) in FY19, premised on the projected increase in new and recurring business across major distribution channels.

Premium diversification

Table 2: Line of business summary	GWP		NWP		Retention	
	FY17	FY18	FY17	FY18	FY17	FY18
Fire/property	19,2	9,6	5,8	4,3	15,6	24,7
Transport	3,0	2,6	1,1	0,8	19,5	16,5
Motor	22,9	21,0	44,2	37,9	100,0	99,8
Accident	10,3	15,0	18,2	17,8	91,2	65,4
Liability	4,4	5,1	8,2	7,8	97,3	85,2
Life	18,0	26,3	10,4	20,7	29,8	43,6
Miscellaneous	22,2	20,5	12,1	10,7	28,1	28,9
Total	100,0	100,0	100,0	100,0	51,7	55,2

- ❖ The premium base is well-diversified by product line. However, geographic diversification is deemed limited given that all premiums are sourced domestically.

GA Seguros' product mix is viewed to be well-diversified, with four product lines contributing materially to overall gross premiums in FY18. The net risk base resembles a similar spread, albeit with a bias towards motor risks. Policyholder diversification for the short-term business is assessed at moderately high levels, with the largest and top five policyholders accounting for 4% and 12% of total short term GWP at FY18 respectively. Brokered business remained dominant, while geographic diversification is assessed at a limited level, with all premiums sourced from Mozambique.

Management and governance

- ❖ Management and governance factors are considered to be neutral to the rating.

The Board of Directors (BOD) comprises three directors one of whom is independent and is also the Chairperson. The insurer's BOD receives support from the Group's board and its subcommittees.

Financial Profile

The financial profile is assessed to be neutral to the rating, with intermediate levels of capitalisation and liquidity offset by a protracted weakness in earnings.

Earnings

Table 3: Key performance metrics	FY16	FY17	FY18
Net incurred loss ratio (%)	84.4	68.4	65.5
Operating expense ratio (%)	16.5	41.2	31.4
Total expense ratio (%)	36.3	63.3	54.9
Underwriting margin (%)	(20.7)	(31.7)	(20.5)
Realised investment yield (%)	5.5	7.5	8.4
Operating margin (%)	(14.6)	(18.8)	(4.1)

- ❖ Earnings weakness persisted on the back of poor underwriting results.

Earnings remained suppressed, with the underwriting margin trending within the negative range for the fourth consecutive year. Sustained weakness in underwriting profitability is largely due to persistent scale inefficiencies over the last two years, given the continued reduction in premium volume. Accordingly, the recent three-year cycle average underwriting margin equated to -24%, compared to the prior two-year cycle metric of 8%. Despite an improvement in realised investment income to MZN134m in FY18 (FY17: MZN113m), which translated to an investment yield of 8%, the operating margin remained in the negative range, albeit narrowing down to -4% (FY17: -19%).

While management expected improved cost efficiencies to drive positive underwriting result in FY19, GCR noted potential implementation risk inherent in the premium growth target under pursuit, projecting an extension of the underwriting deficit cycle into FY19.

Liquidity

Table 4: Key liquidity ratios (%)	FY16	FY17	FY18
Operational cash coverage (months)	10.3	13.4	17.8
Cash (incl Govt bonds) / Net technical provisions	1.5	1.6	1.6

- ❖ Liquidity metrics demonstrated resilience amidst deteriorating earnings, underpinned by a large, conservatively invested asset portfolio.

Liquidity remained strong, underpinned by a sizable investment portfolio, with a large quantum of assets placed in liquid instruments (FY18: 89%; FY17: 83%). Accordingly, average operational cost coverage by cash equated to a stable

1.6x at FY18, while cash covered net technical provisions by 18 months (FY17: 13 months). Liquidity metrics are expected to trend within a similar range over the outlook horizon.

Table 5: Investment portfolio	FY17		FY18	
	MZN'm	%	MZN'm	%
Cash on-hand	431,1	27,8	328,5	20,0
Short term deposits	547,6	35,3	615,6	37,4
Short term government securities (<1 year)	307,9	19,9	524,1	31,9
Cash and equivalents	1 286,6	83,0	1 468,2	89,3
Interest securities	73,0	4,7	0,0	0,0
Investment property	189,8	12,3	175,6	10,7
Non-cash investments	262,8	17,0	175,6	10,7
Total investments	1 549,5	100,0	1 643,9	100,0

The insurer follows a very conservative asset allocation, with the majority of funds invested in liquid assets (FY18: 89%). The portfolio advanced 6% to MZN1.6bn in FY18 (FY17: MZN1.5bn), accounting for a stable 73% of total assets. Non-cash investments comprise two properties namely; Property 9A Golden sands and Property Marginal. The latter is a building in Maputo, partly utilised as GA Seguros' head office, with the other portion rented out.

Capitalisation

❖ Substantial capital erosion from operations in FY17 led to a moderation in risk adjusted capitalisation.

Risk adjusted capitalisation moderated to an intermediate level over the last two years, compared to the strong levels recorded at the start of the review period. Intermediate risk adjusted capitalisation is largely a function of substantial capital erosion in FY17 and the succeeding poor capital generation in FY18. In the absence of additional solvency support, risk adjusted capital adequacy is likely to remain within a similar range over the outlook horizon.

Statutory solvency

From a statutory solvency standpoint, the insurer's solvency margin deteriorated to 2.9x at FY18 (FY17: 3.4x) following a sharp increase in required capital during the year.

Reinsurance risk

The reinsurance panel reflects a strong aggregate level of credit strength. In this respect, the lead reinsurer on non-life reinsurance programme is Swiss Re, with a 41% participation on fire & engineering, motor, liability and accident, as well as marine cargo & hull XOL treaties. Other participants include Kenya Re, Africa Re, ZEP Re, East Africa Re and SCOR Africa Ltd.

Reinsurance account

Table 6: Reinsurance account (MZN'm)	FY16	FY17	FY18
Premium ceded	(1,342.4)	(743.4)	(656.3)
Claims recovered	709.2	539.1	88.8
Commission recovered	64.7	80.6	78.6
Net cash inflow / (transfer)	(568.5)	(123.7)	(489.0)
Ratios (%)			
RI loss ratio	52.8	72.5	13.5
RI comm. ratio	4.8	10.8	12.0
RI tech. margin	42.3	16.6	74.5

Following a sharp decrease in claims recoveries to MZN89m in FY18 (FY17: MZN539m), the reinsurer's loss ratio significantly improved to 14% (FY17: 73%). With the cost of acquiring business remaining fairly stable, the reinsurer's technical profitability substantially improved to MZN489m, translating to a higher technical margin of 75% (FY17: 17%).

Reserving risk

In terms of claims reserving, GA Seguros follows the higher of their group and the regulatory requirement. Local regulations stipulate a minimum of IBNR provision at 1% and 5% of the current year's net premiums earned for life and short-term business respectively. Reserves for outstanding claims are raised based on historical claims patterns and management's experience. As a percentage of the risk base, the outstanding claims (including IBNR) and the unearned premium reserves equated to 96% and 17% at FY18 (FY17: 86% and 18%) respectively.

Comparative Profile

Peer analysis

No peer adjustments have been factored into the rating.

Group support

The rating of GA Seguros receives uplift from the parent company, Absa Financial Services Africa Holdings Proprietary Limited and the wider Absa Group Limited given evidence of operational and technical integration.

Rating Adjustment Factors

Structural adjustments

No rating adjustment factors have been factored into the rating.

Instrument ratings

No adjustments for instrument ratings are applicable.

Rating factor	Risk score
Operating environment	3.00
Country risk score	1.00
Sector risk score	2.00
Business profile	1.00
Competitive position	0.00
Premium diversification	1.00
Management and governance	0.00
Financial profile	0.00
Earnings	(2.00)
Capitalisation	1.00
Liquidity	1.00
Comparative profile	1.00
Group support	1.00
Government support floor	0.00
Total score	5.00

Glossary

Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For an insurer, its exposure may also relate to the risk related to policies issued.
Financial Flexibility	The company's ability to access additional sources of capital funding.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Investment Income	The income generated by a company's portfolio of investments.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquidity	The speed at which assets can be converted to cash. The ability of an insurer to convert its assets into cash to pay claims if necessary. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loss	The happening of the event for which insurance pays.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Net Retention	The amount of insurance that a ceding company keeps for its own account and does not reinsure.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Policyholder	The person in actual possession of an insurance policy.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Reinstatement	The resumption of coverage under a policy, which has lapsed.
Reinsurance	The practice whereby one party, called the Reinsurer, in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance, which it has issued. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the rating is based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating is an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to the rated party. The rating was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating. The rated entity participated in the rating process via face-to-face management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The information received from the entity and other reliable third parties to accord the credit rating included:

- The audited financial results to 31 Dec 2018
- Four years of comparative audited numbers
- Unaudited interim results up to 30 June 2019
- Budgeted financial statements for 2019
- Reinsurance cover notes for 2019
- Statutory returns to 30 June 2018, and
- Other related documents.

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