Public credit rating report | Mozambique Insurance | August 2023

Global Alliance Seguros S.A.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
Global Alliance Seguros S.A.	Financial strength	National	BBB+$_{(MZ)}$	Stable Outlook

Analytical entity: Global Alliance Seguros S.A.

Global Alliance Seguros S.A (GA Seguros) is a composite insurance company, which was founded in 1993 trading as General Insurance Company of Mozambique (CGSM). In 2001, Global Alliance Holdings, a group based in Isle of Man, bought 100% of the shareholding with the entity subsequently renamed to Global Alliance CGSM, SARL in 2005, and to Global Alliance Seguros S.A in 2008. Barclays Africa Group Limited (now Absa Group Limited also referred here as the group or AGL) latter bought the business in 2011 through Absa Financial Services Africa Holdings (AFSAH or the parent). The shareholding structure of the insurer remained unchanged as at 31 December 2022, after the entity became compliant with the regulatory minimum capital requirement of MZN295m. AFSAH maintained a 98% stake in GA Seguros, with the balance equally split between Absa Insurance Company Limited and Absa Life Limited. However, the entity is not consolidated at immediate parent's level, neither does it materially contribute to the revenue of the ultimate parent company, AGL. Consequently, GA Seguros' rating follows a standalone approach with a consideration for parental support to reflect existing linkages with the group.

Credit profile summary

Strengths

- Adequate capitalisation albeit susceptible to growing underwriting risks;
- Sound liquidity supported by a very conservative asset allocation;
- Credit enhancing parental support from the larger and financially stronger AGL

Weaknesses

- An intermediate business profile despite strong recovery in the short-term business;
- An elevated total operating cost structure limiting underwriting and net profitability.

Rating rationale

GA Seguros' rating balances improvements in business profile with some moderations in the insurer's financial profile, while benefitting from the ongoing support from the ultimate parent AGL, through Absa Financial Services Africa Holdings. Business strongly grew by 49% in 2022, resulting in a market share recovery which is likely to be maintained over the next 12 to 18 months. Nevertheless, the recent growth in premiums and risk retention has triggered claims pressure, weighing down liquidity and capitalisation assessments given increasing operational cash requirements and underwriting risks.

Outlook statement

The Stable Outlook reflects GCR's expectations that GA Seguros will maintain a very conservative asset allocation, stabilising its financial profile as business grows. In this respect, the GCR liquidity ratio and GCR capital adequacy ratio (CAR) are each anticipated to measure around 1.4x over the next 12 months, albeit remaining sensitive to earnings volatility.

Rating triggers

Given additional pressure from business growth, continued weakness in capitalisation beyond expectations could result in negative rating action. In addition, further deterioration in earnings adversely impacting risk adjusted capitalisation and liquidity could be negatively viewed. Positive rating action may follow sustained or material improvements in core earnings, stabilising risk adjusted capitalisation above current levels. This needs to be supported by sustained liquidity strength.

Risk score summary

Rating components & factors	Risk score
Operating environment	**3.00**
Country risk score	1.00
Sector risk score	2.00
Business profile	**0.00**
Competitive position	0.00
Management and governance	0.00
Financial profile	**(0.25)**
Earnings	(1.00)
Capitalisation	0.50
Liquidity	0.25
Comparative profile	**0.50**
Group support	0.50
Government support	0.00
Peer analysis	0.00
Total risk **score**	**3.25**

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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 2023
GCR Country Risk Scores, May 2023
GCR Insurance Sector Risk Scores, February 2023

Rating history

Global Alliance Seguros S.A.

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	BBB+$_{(MZ)}$	Stable	November 2002
Financial strength	Last	National	BBB+$_{(MZ)}$	Stable	May 2022

Operating environment

The operating environment score reflects exposures to the local economy and market dynamics, given that the underwriter entirely operates in Mozambique.

Country risk

The Mozambican country risk score reflects low wealth levels, elevated fiscal deficits and unstainable government debt levels. Moderate institutional strengths are partly neutralised by economic fundamentals. The insurgence in the northern province have been curbed of late which positive. For a more detailed assessment of country risk scores for peer markets refer to https://gcrratings.com/wp-content/uploads/2023/05/20220515-Country-Risk-publication.pdf.

Sector risk

Mozambique's insurance sector risk score 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 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. A detailed assessment of peer insurance markets can be accessed on https://gcrratings.com/wp-content/uploads/2023/02/Insurance-Sector-Risk-publication-20-February-2023.pdf.

Competitive position

Table 1: Market position (MZN'm)

	2018	2019	2020	2021	2022*
Company ST GWP	1 084.5	1 191.7	1 238.3	1 328.4	2 152.6
Company LT GWP	381.4	381.7	347.1	270.2	235.9
Total Company GWP	1 465.8	1 573.4	1 585.4	1 598.6	2 388.5
Industry ST GWP	11 483	13 814	16 029.0	17 859.1	19 113.1
Industry LT GWP	1 676.2	2 136.5	2 465.5	2 370.3	3 225.7
Total Industry GWP	13 159	15 950	18 494.1	20 229.4	22 338.8
Key ratios (%)					
LT Market share	22.8	17.9	14.1	11.4	7.3
ST Market share	9.4	8.6	7.7	7.4	11.3
Aggregate market share	11.1	10.0	8.6	7.9	10.7

*Based on interim industry report.

The business profile improved as GA Seguros' gross written premiums ("GWP") strongly grew by 49% in 2022, underpinned by development in accident, miscellaneous and property, compensating for continued premiums loss in the life segment due to interest rates' increases. As such, consolidated premiums levels materially recovered from the massive contraction registered in 2017, with market share registering at about 11% in 2022 (2021: 8%; 2020: 9%). GA Seguros progressed to the fourth position in the ranking of the short-term and consolidated industries, despite sliding to the fifth place in the long-term market. Achieved growth is attributable to an increase marketing action as well as reinforced partnerships in the markets notably with brokers and banks. Management maintains double-digit growth targets over the medium to long term, planning to leverage off group resources to reinforce marketing efforts and using among other means, digitalisation to improve the quality of services, stimulate product uptake and increase customers' retention. In GCR's view, growth targets could be achieved in 2023 given a 43% realisation rate as at March 2023, which is expected to consolidate gained market share and position. However, we note that the entity increased its retention to 70% in 2022, compared to 58% in 2021 and 56% over the previous five years. Given persisting underwriting challenges which could be exacerbated by the recurrence of cyclones in the region, a sustainable enhancement in the quality of the insurer's portfolio while stabilising premiums levels at improved levels will represent a key consideration going forward.

Table 2: Line of business diversification (%)

	GWP		NWP		Retention	
	2021	2022	2021	2022	2021	2022
Fire/property	16.4	39.8	7.8	34.0	27.4	60.1
Transport	3.7	1.2	1.3	1.1	19.8	68.9
Motor	23.4	17.2	39.1	22.7	97.0	92.8
Accident	17.6	13.8	16.9	15.1	55.7	77.1
Liability	4.8	3.3	8.3	4.6	99.3	98.4
Individual life	0.0	0.0	0.1	0.0	100.0	100.0
Group life	16.9	9.9	19.2	10.0	66.0	71.2
Miscellaneous	17.1	14.9	7.4	12.3	25.2	58.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**58.0**	**70.3**

GA Seguros product mix reflects a well-diversified earnings base, with at least three lines of business consistently contributing materially to overall GWP and net written premiums (NWP). We positively noted dilution of historical concentration to motor risks in 2022, subsequent to increased retention in property, accident, transport, group life and miscellaneous. However, geographic concentration remains evident given that all premiums are sourced domestically. Further limiting the factor assessment, the distribution channel mix is skewed towards brokers with associated contribution of at least 79% of GWP (2021: 58%; 2020: 45%), along with concentration to the five largest brokers which constituted about 50% (2021: 36%; 2020: 30%) of total written premiums. Resultantly, corporate risks continued accounting for the bulk of the portfolio at around 84% of gross written premiums against 17% for personal lines (2021: 83% and 17%; split respectively). Meanwhile policyholder diversification remained moderately high, with the largest and top five accounts constituting 26% and 36% of GWP in 2022 (2021: 9% and 18%; 2020: 11% and 19%), respectively. Given the corporate centric model pursued to drive business growth, we expect a relatively similar distribution over the over the medium term, with potential to dilute exposures to brokers and corporate clients over the longer term, as the entity utilises more group resources to also attract small and medium size businesses.

Management and governance

The board of directors was constituted of four members as at December 2022, made up of two non-executive directors, an independent chairman and the company managing director. However, note is taken of the impending appointment of two new members to reconstitute a board of five members with two independents. The entity's operations, structure and shareholding are clear. The risk management and governance framework is aligned with the ultimate parent's risk philosophy and methodologies. The framework is managed through the capital investment & underwriting and risk governance & control committees, which convene quarterly. Furthermore, regular executive committee meetings are held, while GA Seguros benefits from access to the Absa group's insurance and reinsurance expertise when required. The level of transparency and disclosure is deemed adequate, noting among other factors that 2022 financial statements were audited by KPMG with an unqualified opinion.

Financial profile

Earnings

Table 3: Earnings progression (MZN'm)

	2018	2019	2020	2021	2022
Net earned premiums	820.7	917.2	892.3	899.4	1 644.9
Net claims incurred	(475.2)	(590.0)	(514.9)	(545.4)	(1 160.6)
Net commission expenses	(80.4)	(84.4)	(84.4)	(59.7)	(245.4)
Total expenses	(525.3)	(620.8)	(547.6)	(425.4)	(773.7)
Underwriting result	(179.8)	(293.7)	(170.2)	(131.1)	(289.5)
Net profit after tax	21.6	(28.4)	239.7	248.0	147.4

GA Seguros' core earnings performance remains relatively weak, limited by developing claims pressures, overshadowing achieved scale efficiencies. In this respect, net claims incurred more than doubled to MZN1.2bn, translating in a spike of the net incurred loss ratio to 71% (2021: 61%; 2020: 58%), due to recurring cyclone related claims notably in property, compounding historically low frequency claims in transport and accident classes. This coupled with a spike in the net commission expense ratio to 15%, from the past two years average of 6%, offset efforts to control operating expenses (including group shared costs and transfer pricing) and developed scale efficiencies, which supported a lower operating expense ratio of 32% (2021: 47%). As such, the cycle of underwriting losses prolonged, with the combined ratio increasing to 118% at 31 December 2022 (2021: 115%; 2020: 119%). While costs containment measures are expected to be pursued, the total operating cost structure of GA Seguros is likely to remain relatively high, considering ongoing expenses to support business growth, including intermediaries' incentives as well as the digitisation expenses. In addition, the net claims ratio could remain elevated with potential for pressures stemming from business growth to be aggravated by recurring catastrophic events. Consequently, volatile underwriting deficits are expected to persist, although developing scale could stabilise the combined ratio around the past three-year average of 117%.

Table 4: Earnings progression (%)

	2018	2019	2020	2021	2021
Net incurred loss ratio	57.9	64.3	57.7	60.6	70.6
Total expense ratio	64.0	67.7	61.4	53.9	47.0
Realised investment yield	8.2	8.1	6.0	7.8	10.7
Combined ratio	121.9	132.0	119.1	114.6	117.6
Return on revenue (excl. unrealised gains)	2.7	(2.3)	26.8	29.7	29.7
Return on revenue (incl. unrealised gains)	2.6	(3.0)	26.7	26.7	8.8

The insurer's underwriting profitability depressed net profits to MZN147m (2021: MZN248m; 2020: MZN240m). This translated in a net return on revenue of 9% (2021: 27%; 2020: 27%), Despite strong foreign exchange gains of MZN244m (2021: MZN287m; 2020: MZN306m) and investment income increasing by 22% to MZN177m (2021: MZN144m; 2020: MZN114m). While optimising returns from its investment portfolio, GA Seguros still maintains a sizeable amount of USD denominated deposits relative to USD liabilities. Therefore, volatile foreign exchange gains may continue anchoring the entity's bottom-line earnings over the medium term, which, coupled with the potential volatility of underwriting profitability, may further increase uncertainties around net profitability.

Capitalisation

Risk adjusted capitalisation moderated to an intermediate range, evidenced by the GCR CAR reducing to 1.6x from strong levels of around 1.8x in 2021, with the statutory solvency following a similar trend, declining to 240% (2021: 367%; 2020: 217%; 2019: 187%). The moderation was due to the growth in underwriting risks outpacing capital progression (2022: MNZ1.1bn; 2021: MNZ919m), despite full profit retention over the past five years which supported compliance the new regulatory minimum capital requirement of MZN295m, as well as capital stability above the historical peak achieved in 2015 before subsequent erosions. Given expected business growth and earnings pressures, the entity's capitalisation is likely to sustain a downward trend over the medium term.

Capital management is viewed to be relatively moderate, albeit we take note of the planned introduction of a risk-based pricing approach. In this respect, capital management is largely dependent on reinsurance for balance sheet protection. As such, the insurer's ability to stabilise capitalisation at rating sufficient levels over the next 12 to 24 months represents a key rating consideration.

In terms of claims reserving, GA Seguros follows the higher of the group and local regulatory requirements. 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 60% and 12% at 2022 (2021: 119% and 20%) respectively.

Liquidity

Table 5: Liquidity metrics

	2019	2020	2021	2022
GCR liquidity ratio (X)	1.1	1.1	1.3	1.5

The underwriter's liquidity profile remains credit positive, with the GCR liquidity ratio registering at 1.5x (2020: 1.3x), despite working capital absorptions resulting in a 13% contraction in the value of the investment portfolio. Liquidity resilience is underpinned by observance of a very conservative asset allocation, with the review year further benefiting from improved collection of premium and reinsurance receivables. While most receivables remained due for less than 30 days, ongoing reconciliations and collections of reinsurance outstanding balances could see improvements in the operating cash generation and unlock liquidity potential of the entity. That said, the assessment remains susceptible to occurrences of catastrophic events, as well as to potential increases in working capital needs.

Table 6: Investments

	2021		2022	
	MZN'm	%	MZN'm	%
Cash on-hand	256.6	13.8	248.6	15.3
Short term deposits	675.2	36.4	322.1	19.9
Short term government securities (<1 year)	783.2	42.2	912.4	56.2
Cash and equivalents	**1 715.0**	**92.4**	**1 483.1**	**91.4**
Investment property	141.0	7.6	139.5	8.6
Non-cash investments	**141.0**	**7.6**	**139.5**	**8.6**
Total investments	**1 855.9**	**100.0**	**1 622.6**	**100.0**

GA Seguros follows a very conservative asset allocation strategy, with the quasi-totality of assets placed in low-risk investments, against one risky asset in the form of investment property, the latter with a moderate and stable weight of around 9% of the portfolio value. However, we note a continued shift towards treasury bills accounting for a higher 56% of the investment portfolio (2021: 42%; 2020: 31%), with short-term deposits' value halving to account for 20% of total investments (2021: 36%; 2020: 37%), while cash contribution remained relatively stable at 15% (2021: 14%). As a result, the insurer generated a higher investment yield of 11% (2021: 8%; 2020: 6%), which is expected to be maintained at around the past two years average of 9%, balancing the rising interest rate environment in Mozambique and the lower investment portfolio size. Meanwhile, banking counterparty concentration risk is viewed to be moderately low, with cash and short-term deposits spread across more than 10 banks. A proportion of these deposits is still held in foreign denominated currency, which exposes the insurer to a certain level of currency risk.

Comparative profile

Peer analysis

The peer analysis is neutral to the rating.

Group support

The rating of GA Seguros receives uplift from the wider Absa Group Limited, through Absa Financial Services Africa Holdings, given evidence of operational and technical integration. Nevertheless, the extent of support is still viewed to be relatively limited, in light of persistent challenges threatening a sustainable turnaround of the entity.

Rating adjustment factors

Structural adjustments

No structural adjustments have been factored into the final rating.

Instrument ratings

No adjustments for instrument ratings are applicable.

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Broker	One who represents an insured in the solicitation, negotiation or procurement of contracts of insurance, and who may render services incidental to those functions. By law the broker may also be an agent of the insurer for certain purposes such as delivery of the policy or collection of the premium.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Combined Ratio	Measures the ability to conserve profits through the expense line.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Diversification	Spreading risk by constructing a portfolio that contains different exposures 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.
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.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. 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.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Operating Expense Ratio	Measures the proportion of operating expenses in net premiums earned.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Retention	The net amount of risk the ceding company keeps for its own account.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term	Current; ordinarily less than one year.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Statutory	Required by or having to do with law or statute.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.

For a detailed glossary of terms utilized in this report please click here.

SALIENT POINTS OF ACCORDED RATING

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 virtual 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:

- Audited financial results as at 31 December 2022;
- Four years of comparative audited financial statements to 31 December;
- Unaudited interim results to 31 March 2023;
- Full year budgeted financial statements for 2023;
- Reinsurance cover notes for 2023; and
- Other relevant documents.