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Renasa Insurance Company Limited

South Africa Insurance Analysis | **December 2013**

Security class	Rating scale	Rating	Rating outlook	Review date
Claims paying ability	National	A-$_{(ZA)}$	Stable	12/2014

Financial data:

(US$'m Comparative)

	30/06/12	30/06/13
R/US$ (avg.)	7.79	8.84
R/US$ (close)	8.29	9.89
Total assets	17.7	13.3
Total capital	5.5	4.5
Cash & equiv.	7.6	4.4
GWP	75.2	74.5
U/w result	0.4	(0.4)
NPAT	0.4	(0.1)
Op. cash flow	1.3	(1.8)
Market cap.	n.a.	
Market share*	0.8%	

*Based on GCR's estimate for the sample group in 2012 and calculated in terms of total GWP.

Rating history:

Initial Rating (03/2006)

Claims paying ability: BBB+$_{(ZA)}$

Rating outlook: Stable

Last Rating (11/2012)

Claims paying ability: A-$_{(ZA)}$

Rating outlook: Stable

Related methodologies/research:

GCR's Global Master Criteria for Rating Insurance Companies.

Renasa Insurance Company Limited ("Renasa") rating reports, 2004-2012

RSA Short Term Insurance Bulletin 2001-2013.

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Summary rating rationale

The ratings are based on the following key factors:

- Renasa has made sound progress in terms of growing its market share, enhancing portfolio diversification and improving critical mass. The insurer's exclusive rolling three-year reinsurance programme provides the necessary capacity for medium term growth, as well as forming an integral part of its capital management strategy.
- Capitalisation measures have remained sound through the review period, supported by a conservative capital distribution strategy. Some growth strain has, however, materialised, which has seen solvency metrics soften from review period highs. This notwithstanding, medium term solvency projections are augmented by reinsurance support.
- The rating is supported by the insurer's conservative investment strategy, given the high weighting in cash and cash equivalents. This has supported sound liquidity metrics, as well as stable investment returns and overall profitability.
- The performance of the gross loss ratio has evidenced comparative stability relative to its peers. A higher degree of net underwriting volatility has, however, been seen over the review period.
- Note is taken of the reinsurance commission inflows (relating to the reinsurance programme), which has provided relief to Renasa's delivery cost ratio. Furthermore, outlays made over the past two years have been aimed at positioning the business to capture additional volumes and enhance scale efficiencies going forward. As such, GCR expects cost pressures to ease in the medium term, subject to the insurer's successful implementation of strategic initiatives.
- Factors considered constraints in the rating were the significant concentration risks given the high weighting of motor, coupled with the concentration of premium origination (albeit with the concentration reducing in the recent period). Whilst cognisance is taken of the innovative and proactive approach aimed at reducing the motor loss ratio, which has been evidenced through the review period, the motor class remains prone to the vagaries of the industry and could impact on profitability.

Factors that could trigger a rating action may include

Positive change: Upward movement of the rating or outlook could develop as Renasa's track record as a rated entity matures through enhanced premium diversification, and the realisation of improved scale efficiencies, whilst maintaining underwriting profitability. This must be accompanied by risk appropriate solvency levels and the maintenance of the sound investment portfolio.

Negative change: A downward movement of the rating or outlook may arise if there was a pronounced weakening in credit protection and liquidity metrics, and if current measures approached the lower limit of the rating band. This could also be brought about through a significant change in the reinsurance programme, which has negative repercussions on operational efficiencies.

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Industry overview

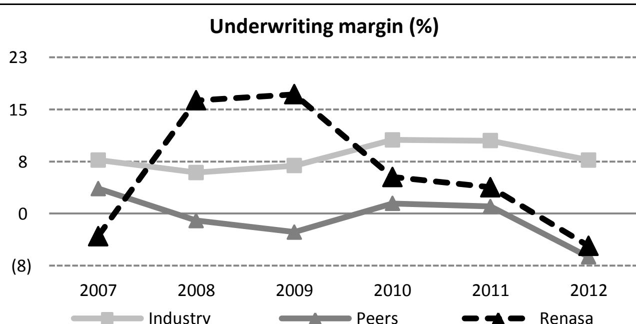
Table 1: South Africa short-term insurance key industry data			
Regulatory authority			FSB
Min. capital requirement (non-life)			R10m
# of registered typical non-life insurers			32
# of registered niche non-life insurers			32
# of registered captive non-life insurers			10
# of registered cell captive non-life insurers			8
# of registered re-insurers*			7
Cumulative market share of top 5 insurers			47%
Non-life industry GWP in 2012**			R87.7bn
Non-life ins. penetration (% of GDP)			4.0%
Key ratios (%):	**5-yr avg.**	**2011**	**2012**
GWP growth	7.6	7.7	8.3
Retention	74.0	74.0	73.5
Earned loss	61.8	58.2	61.3
Management expense	20.3	22.8	22.8
U/w margin	8.4	10.5	7.7
Int. solvency	57.5	59.4	59.8
LOB % of GWP	Motor (43%)	Property (33%)	Accident (8%)

Note: Key ratios are based on a sample of 37 insurers, representing 88% of industry GWP.
*One niche entity has been reclassified as a reinsurer by the FSB as of June 2013.
**Total industry GWP is based on the FSB's quarterly industry report.

Industry GWP growth rose by 8% in 2012, with the growth rate closely aligned to conventional cover within personal motor and household protection. Business volumes have been constrained, however, given contained capital expenditure by government and large commercial entities, as well as the pressures exhibited in the productive sector. Against this backdrop, the overarching issue of strained economic conditions remains pertinent, as it continues to restrain broader uptake of insurance products across market segments.

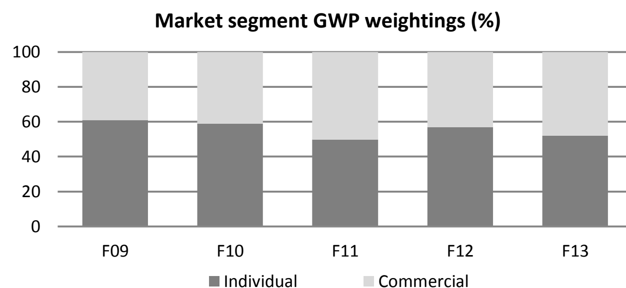
Both the motor and property loss ratios were impacted by weather related claims in 2H 2012. Accordingly, the industry's earned loss ratio is forecast to have deteriorated to 61% in 2012 (2011: 59%). Notably, given the skewed timing of the high severity claims experiences in 2012 (the bulk of which were clustered in the final quarter of the year), the industry's annual loss ratio will be impacted by timing differentials within analysis samples. It is GCR's view that over the medium term, the systemic challenges facing the motor industry (including Rand volatility), will pressure the motor loss ratio despite improved risk segmentation. As such, GCR expects underwriting profitability to remain in single digit territory over the medium term.

Competitive positioning



Note: Renasa's year-end was June 2013.

Renasa has been operating in South Africa since 1998. The insurer is owned by a consortium of local investors and operates in the commercial and personal lines space through a network of independent brokers. Renasa has recorded a GWP compound annual growth rate ("CAGR") of 23% over a seven year period, which has exceeded the internal benchmark of 20% (albeit off a low base). More recently, over the review period the 4-year CAGR has softened to 9%, given the base effects, as the insurer enters the more developed stage of the business life cycle, which is in line with the medium growth targets.



Premium generation has been supported by the motor and property portfolios, with the insurer maintaining a specific focus on commercial lines. This has been largely underpinned by the use of independent brokers and a non-centralised approach, with the insurer widening its branch network over the review period. This initially necessitated the take-on of personal lines portfolios (given the composition of the intermediaries' portfolios). Subsequently, the insurer has grown the commercial side of the business, with the split of the book largely in line with industry averages. Whilst note is taken of the change in premium composition, the participation within personal lines and SMME space introduces greater exposure to the competitive individual motor class, accentuated by the presence of the direct players.

Accordingly, Renasa has engineered and instituted a strategy to compete effectively in the personal lines and smaller commercial segment. This has seen the insurer invest heavily in an IT system, which utilises a large amalgamated database, integrated broker policy administration platforms and real-time policyholder information. This allows the insurer to monitor and price the risks underwritten, with a statistical assessment feeding into a risk-based rating tool. The scientific pricing system enables the insurer to control the quality of the underlying portfolio while growing volumes, which has been further aided by the enhancements to the internal pricing tool in the most recent period, through the addition of an auxiliary statistical tool, assisting the overall ratemaking within the portfolio. Furthermore, the system gives Renasa substantial control over the quality and consistency of information, as it enables the company to track the performance of each policy over time (from underwriting through to the claims stage). Access to this type of granular information is viewed as a positive rating factor (supported by the overall downward loss ratio trend).

Substantial advances have also been made in terms of downstream integration and procurement, following the historic establishment by the Renasa group of service providers that are directly involved in claims settlement and administration. These include salvage yards, paralegal entities, loss adjusters and assessors. This has enhanced claims control efficiencies and contained associated costs. Furthermore, a web-based IT system affords the insurer the ability to administer claims online, allowing for more timeous receipt and management of reported claims.

The aforementioned rating tool has enabled the insurer to introduce a scientific underwriting approach, assisting the rating structure of the portfolio. Resultantly, the insurer's loss ratio has consistently trended downward towards the broader industry over the review period. That being said, the atypical weather related losses saw a deterioration in the claims experience and a rise to the loss ratio in F13, in line with the general industry trend. Notwithstanding the above, Renasa's overall underlying profitability has converged to that of the peer group average. Note is taken of the fact that Renasa's core lines of business are loss leaders, with secondary niche classes underpinning profitability.

Table 2: Peers F13 (R'm)	Renasa	Etana	NNAC	Zurich	Peer avg.*
GWP	658.2	2,268.6	893.0	3,403.0	-
NWP	84.3	1,102.2	261.1	2,755.5	-
U/w result	(3.9)	75.7	(6.2)	(327.6)	-
NPAT	(0.5)	89.8	6.0	16.9	-
Capital	44.1	523.6	165.7	1,886.6	-
Assets	131.5	1,588.9	418.9	3,746.5	-
Operating ratios (%)					
GWP growth	12.3	13.8	1.9	(2.4)	4.0
Retention	12.8	48.6	29.2	81.0	58.2
Earned loss ratio	69.5	57.6	76.4	75.4	70.6
Comm. ratio	(25.0)	4.9	15.6	14.9	11.5
Mgt exp ratio	60.1	30.7	10.4	21.6	24.1
Delivery cost ratio	35.2	35.6	26.0	36.5	35.6
U/w margin	(4.7)	6.8	(2.4)	(11.9)	(6.2)
Credit protection (%)					
Int. solvency	52.3	47.5	63.5	68.5	62.3
Stat. solvency	63.4	45.7	31.8	38.5	39.9
Cash cover (mths)	8.8	14.7	17.1	5.7	8.5

*Includes Renasa.
Note: NNAC and Zurich have December 2012 year-ends.

Renasa utilises reinsurance to provide significant solvency support, which acts as the primary capacity building mechanism. This has been achieved through a rolling three-year, predominantly quota share-based arrangement. As such, the accompanying reinsurance commission recoveries have provided expense relief. Note is, however, taken of the declining net commission income ratio over the review period, as the underlying portfolio develops. Whilst this has impacted on the delivery cost base, the primary driver has been the rise of the management expense ratio, as the insurer builds the infrastructure to support premium generation. The delivery cost ratio is, however, largely in line with the peer group and industry average of 36% and 31% respectively. Going forward, the realisation of improved scale efficiencies is anticipated to support underlying profitability. Credit protection measures remained sound, underpinned by conservative investment portfolio and reinsurance support.

Risk diversification

On the back of the premium development recorded within the commercial business unit, Renasa recorded sound growth of 12% in F13 (F12: 8%). Accordingly, the premium contribution of commercial lines rose to 48% in F13 (F12: 43%). Personal lines business contributed a smaller 52%, compared with 57% previously. Note is taken of the concentration of premium origination (albeit with the concentration reducing in the recent period).

Table 3: Premium by class (%)	GWP		NWP		Retention	
	F12	F13	F12	F13	F12	F13
Property	23.5	22.8	18.0	16.7	9.9	9.4
Motor	59.2	60.0	65.6	67.6	14.4	14.4
Guarantee	1.1	1.0	0.8	0.8	9.4	10.0
Miscellaneous	16.3	16.3	15.7	15.0	12.5	11.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**13.0**	**12.8**

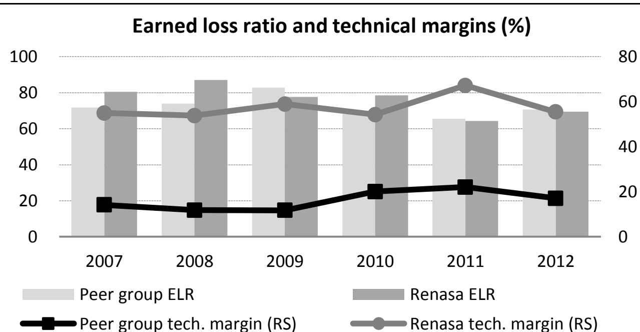
Following the take-on of a motor portfolio (specialising in 4x4 insurance) as at 1 February 2012, the recognition of a full year of premiums (approximately R50m in annual premiums) saw the motor class expand by a strong 14% in F13 (F12: 2%). As such, motor continued to dominate the business mix, representing 60% of GWP in F13 (F12: 59%). Given the higher relative net retention of motor, on a risk basis this rises to 68% of NWP (F12: 66%). Whilst note is taken of the specialised motor underwriting risks (such as, HCV and taxi risks), within the risk base, this continues to represented a small portion of the overall motor portfolio. Property and miscellaneous expanded by 9% and 13% respectively in F13 to comprise a largely unchanged 23% and 16% of the overall gross premium base respectively. However, owing to the reduced net retention of these two classes, the overall weighting within the risk base narrowed to 32% in F13 (F12: 34%). Hence, the overall retention declined narrowly to 12.8% from 13% previously.

Table 4: Incurred loss ratio (%)	Gross		Reinsurance		Net	
	F12	F13	F12	F13	F12	F13
Property	60.6	93.3	68.9	100.7	(15.2)	22.3
Motor	83.0	84.4	86.1	84.4	64.6	84.3
Guarantee	10.0	35.7	10.0	28.2	10.0	102.5
Miscellaneous	64.8	55.6	53.2	56.0	146.0	52.6
Total	**74.1**	**81.2**	**75.8**	**83.0**	**62.6**	**69.4**

In line with the general industry trend on the back of the weather related losses, motor gross claims incurred rose to R334m in F13 (F12: R286m). As such, the motor gross incurred loss ratio increased to 84% in F13 (F12: 83%), whilst the gross paid loss ratio evidenced a more pronounced rise to 90% from 85% in F12. The property gross incurred loss ratio increased by 33 percentage points to 93%, following a large fire claim and a R29m increase in provisions in F13. This, in conjunction with the higher motor loss ratio, resulted in the overall gross loss ratio rising to 81% (F12: 74%), despite the improvement in the miscellaneous gross loss ratio to 56% from 65% in F12.

On a net incurred basis, the motor loss ratio rose to 84% (F12: 65%), on the back of the weather related losses sustained, as well as due to other systemic issues plaguing the motor sector. Adjusting for the weather

related losses the loss ratio was closer to 78%. Management advise this exceeded the internal benchmark earned loss ratio of 75%, although amid the growth strategy a loss ratio of 78% is still considered acceptable. Following the deterioration of the property claims experience, coupled with the claims reserve provisions, property registered net claims payments of R3m in F13, compared with a net claims recovery of R2m in F12. This equated to a loss ratio of 22% in F13, which compared favourably with the reinsurance net incurred loss ratio of 101% (F12: 69%). The weaker claims experience in property and motor was, however, partially dampened by the improvement in the miscellaneous earned loss ratio to 53% from 146% in F11, which marked a normalisation from 44% in F10. The overall earned loss ratio weakened to 69%, from 63% in F11 (5-year average: 52%)



Note: Renasa's year-end was June 2013.

The technical margin has trended well above that of the peer group average over the review period. This has been driven by the earned loss ratio, which has converged to the peer group average over the review period. Furthermore, this has been supported by the commission recoveries, which rose to R123m in F13 (F12: R114m), with motor representing 50% of the commission recoveries. This notwithstanding, given the rise in the earned loss ratio, the technical margin declined to 56% from 69% previously (review period average: 58%). Following the strong rise of management expenses in F12, due to the expansion of the branch network and related costs, improved scale efficiencies were realised with the management expense ratio lowering to 60% (F12: 64%). Overall, a negative statutory underwriting margin of 4% was recorded in F13, compared with positive 4% in F12 (review period average: 7%).

Table 5: U/w performance (R'm)	Mgmt exp		Comm. income		U/w result	
	F12	F13	F12	F13	F12	F13
Property	(11.3)	(11.5)	3.7	2.4	8.0	1.8
Motor	(28.4)	(30.4)	13.4	13.0	2.5	(8.4)
Guarantee	(0.5)	(0.5)	1.2	0.9	1.2	0.4
Miscellaneous	(7.8)	(8.2)	5.6	4.7	(7.7)	2.4
Total	**(48.0)**	**(50.6)**	**23.8**	**21.0**	**4.0**	**(3.8)**

Reinsurance

Renasa's growth and business strategy has been supported by the unique three-year rolling treaty quota share arrangement that runs concurrently with the headline treaties. The lead headline treaty reinsurers are internationally secure rated entities, namely Munich Re Africa and Africa Re, with other participants including Hannover Re Africa and Santam Re. Consistent with Renasa's business model, the treaties underpin the insurer's ability to meet the increased capital requirements associated with the anticipated medium term growth and underwriting risk. Renasa renewed the treaty for another 3-year rolling period in 2012/2013, although the terms of the programme, in respect of the commission rates, quota share proportions and XOL premium rates can change annually.

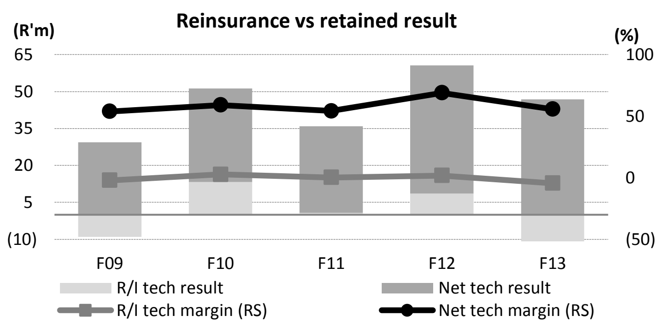
Table 6: Reinsurance	Retention	Capacity	
		per risk	per event
Surplus (no of lines)			
Fire and Engineering (10)	R5m (1)	R50m (10)	R200m
Excess of loss (layers)			
General account XOL(4)*	R1.2m	-	R175m
Quota share (%)			
Motor	12%	R3m	R160m
Fire and Engineering	12%	R5m	R20m
Liability	12%	R20m	R40m
Bonds and Guarantees	10%	R30m	-
Accident	12%	R5m	R20m

*Per risk limit of R1.2m.

Renasa uses facultative placements to increase capacity for certain risks that are written on an accommodation basis. No risks are written to EML, with all policy and reinsurance limits stipulated on a sum insured by location basis. The general XoL treaty limits the highest net retention per risk and event to R1.2m, or 3.1% of FYE13 capital. Where necessary, the company uses the reinsurance broker models to verify the appropriateness of its assumptions, with the CAT cover of R175m deemed adequate. This was modelled to be sufficient for an earthquake in Johannesburg based on a 1 in 2000 level of certainty. Based on the information provided, a breakdown of the largest risk exposures at FYE13 indicates that all were within the treaty limits and associated net retention level.

Table 7: Reinsurance account (R'm)	F09	F10	F11	F12	F13
Premium ceded	(412.8)	(496.7)	(477.5)	(506.1)	(573.3)
Commission recovered	91.4	107.9	103.9	114.0	123.3
Claims recovered	330.3	375.5	372.9	383.5	475.8
Incurred result	**9.0**	**(13.3)**	**(0.7)**	**(8.6)**	**25.7**
Cash result	**10.2**	**(38.1)**	**(21.7)**	**(16.6)**	**(12.7)**

On a cash basis, claims recoveries amounted to a higher R438m in F13 (F12: R379m), with property and motor recoveries rising to R119m and R273m respectively (F12: R97m and R240m). Note is, however, taken of large facultative claims of R26m relating to the fire losses in F13. After taking into account reserve movements, net reinsurance claims incurred increases to R476m (F12: R384m), with property and motor recoveries amounting to a higher R136m and R286m in F13 respectively. Together with commission recoveries, total net cash recoveries rose to R561m, or 98% of the cessions for the year (F12: 97%). On an incurred basis, a net receipt from the reinsurance counterparties of R26m was recorded in F13 (F12: R9m transfer). Adjusting for the facultative fire loss, a small net transfer would have been recorded.



Overall, Renasa recorded a net technical surplus of R47m in F13 (F12: R52m), compared with the gross technical result for the year of R21m (F12: R61m). As such, over a seven year period the insurer's net technical profits have amounted to R224m of the R226m in gross underwriting profits, which equated to an average profit retention rate of 98%. As the portfolio matures, the commission receipts are expected to reduce, albeit in the medium term are likely to continue to support profitability on a net basis. Renasa continues to maintain a strong relationship with Munich Re, given the large level of cessions on an absolute basis.

Asset management

Throughout the review period Renasa has adopted and maintained a conservative asset management strategy. Given the higher operational cash flow requirements in the period under review, cash and equivalents contracted by 32% to R43m at FYE13. This represented a reduced 33% of the total asset base (FYE12: 43%). The cash portfolio is well diversified, with the largest financial institutions holding 25% and the balance of the four institutions holding no more than 19%. Given the 21% rise in net claims incurred, to R59m, the claims cash coverage ratio moderated to 9 months in F13 (F12: 16 months), albeit comparing with the industry average of 11 months. Similarly, cash covered net technical liabilities by a reduced 2.2x at FYE13, compared to 3.7x at FYE12. This notwithstanding, this measure is well above the industry average and GCR's minimum comfort level. The sound liquidity metrics are supportive of the claims paying ability, given the composition of the underwriting portfolio.

Amid the soft interest rate cycle, the investment yield equated to a benign 5.8% (F12: 4.8%), albeit continuing to support internal capital generation. This included an interest expense related to the preference share facility of R0.7m in F13 (F12: R0.9m). Going forward, the insurer plans to maintain the conservative investment portfolio, which is supportive of the rating.

Solvency and reserving

On the back of the underwriting losses sustained, the capital base contracted by 4% to R39m as at FYE13, having recorded a 4-year CAGR of 8% over the review period. With the risk premium base expanding by a higher 11%, and given the stable retention ratio, the international solvency margin accordingly softened to 46% in F13, which compared to both budget and F12 of 54%. Included within the capital structure are preference shares to the value of R5m, which are redeemable at the option of the preference shareholder. The preference shareholders have indicated that they will not redeem the shares in the forthcoming financial year. Inclusive of this facility, the solvency margin rises to 52% in F13 (F12: 60%; budget 59%). The dividend payment relating to the ordinary shares amounted to R1.5m in F13 (F12: R1.3m), which translated to a dividend cover of -0.3x (F12: 2.2x). The increase in corporate-based growth is expected to produce an expansion of the risk base in F14. This notwithstanding, the international solvency margin is projected to increase to 49% in F14, which assumes a dividend cover of 1.6x.

On a statutory basis, surplus assets exceeded the AFS, which is attributed to the R5m preference shares recognised as a liability on an IFRS basis. As such, under the interim SAM solvency measures, Renasa's CAR cover amounted to 1.7x at FYE13 (FYE12: 2.1x), and remains comfortably above the regulatory requirement of 1x. This is supported by the high admissibility of the near cash portfolio, which results in no market risk capital charge arising, thereby strengthening CAR coverage.

Renasa assess the adequacy of claims estimates on a quarterly basis. Given the claims experience in the period under review, the net outstanding claims and IBNR reserve rose to R17m at FYE13 (FYE12: R15m), which translated to 20% of NWP. A standard 7% NWP factor is applied in terms of IBNR. The run-off triangle shows sufficient provisioning, with the ratio of original estimates to adjusted estimates averaging 98% over the past five years.

Financial Performance

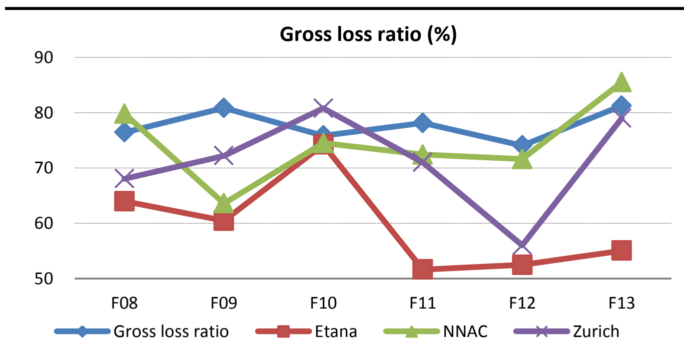
A five year synopsis is reflected at the end of this report and brief comment follows. The insurer's financial statements for 30 June 2013 were audited by Deloitte & Touché with an unqualified opinion issued.

Table 8: Income statement	**F13**		**% of budget**
(R'm)	**Actual**	**Budget**	
GWP	658.2	696.2	94.5
NWP	84.3	88.9	94.8
NPE	**84.2**	**88.5**	**95.1**
Claims	(58.5)	(61.5)	95.1
Commission	21.0	35.1	59.9
Mgmt expenses	(50.6)	(57.0)	88.7
U/w result	**(3.9)**	**5.1**	**(77.8)**
Key ratios (%)			
GWP growth	12.3	18.8	-
Earned loss ratio	69.5	69.5	-
Commission ratio	(25.0)	(39.7)	-
Mgmt expense ratio	60.1	64.5	-
U/w margin	(4.7)	5.7	-
International solvency	52.3	59.1	-
Statutory solvency	51.0	53.9	-

*Includes other income and expenses; excludes unrealised movements.

Renasa achieved 95% of its targeted premium in F13, due largely to the slower growth recorded in the property and miscellaneous portfolios. Whilst the insurer continues to build further scale, it remains selective in its underwriting approach. This notwithstanding, premium

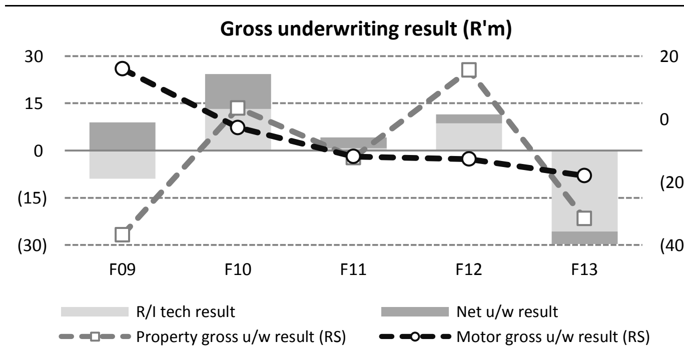
concentrations (to broker portfolios) present a key risk to the insurer in the medium term. With the retention rate largely stable, net premiums earned rose by 12% to R84m in F13 (exceeding the 4-year CGAR of 11%).



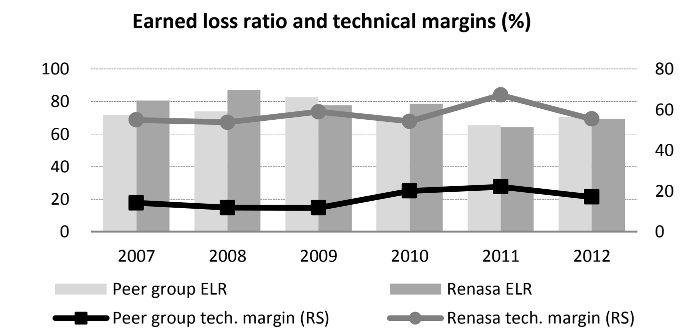
Renasa's gross loss ratio has displayed some stability, relative to the peer group, trending within a five percentage point range over the review period. This notwithstanding, the performance of the property portfolio has a significant bearing on the overall performance of the portfolio, which is largely attributed to the absence of scale.

Table 9: Gross u/w account (R'm)	F09	F10	F11	F12	F13
GWP	468.3	563.7	545.2	585.9	658.2
GPE	**467.4**	**561.1**	**542.4**	**581.6**	**657.5**
Claims	(377.9)	(425.6)	(423.9)	(430.8)	(534.2)
Commission	(69.1)	(84.3)	(82.6)	(90.2)	(102.3)
Mgmt expenses	(20.5)	(26.9)	(31.8)	(48.0)	(50.6)
U/w result	**(0.1)**	**24.3**	**4.1**	**12.6**	**(29.6)**
Key gross ratios (%)					
Gross loss ratio	80.8	75.8	78.1	74.1	81.2
Gross comm. ratio	14.8	15.0	15.2	15.5	15.6
Gross mgmt exp ratio	4.4	4.8	5.9	8.3	7.7
Gross u/w margin	(0.0)	4.3	0.8	2.2	(4.5)

Renasa have actively managed the delivery cost base, which has similarly evidenced some stability, with an average of 22% evidenced over the corresponding period. Following the expansion of the branch network in F12, some scale efficiencies have been realised, which saw the delivery cost ratio narrow. This notwithstanding, owing to the weak claims experience, the gross underwriting margin weakened to -4.5% in F13 from 2.2% previously (review period average: 0.4%).



On the back of the aforementioned weak claims experience (specially motor and property), the earned loss ratio showed a pronounced weakening to 70% from 64%, albeit still below the five year average of 74%. This is attributed to the reinsurance protection afforded, amid the book build stage of the underlying portfolio. Despite the net commission recovery ratio softening to 22% (F12: 23%), the technical result improved to R51m in F12 (F11: R35m). This translated into a technical margin of 55% (F12: 67%), against a review period average of 58%.



Note: Renasa's and Etana's year-end was June 2013.

Following the strong increase in the preceding period (on the back of branch distribution network expansion), and increased regulatory cost pressures, management expenses rose by a subdued 6% to R51m in F13 (F12: R49m). Given the improved scale efficiencies, the management expense ratio declined from a review period high of 63% to 60% in F13, and was below budget. As a percentage of gross premiums, management expenses amounted to an efficient 8%, which was well below the peer group and industry averages of 14% and 16% respectively. Consistent with its business model, medium term profitability is supported by reinsurance commission inflows, with the delivery cost ratio equating to 35% in F13 (F12: 32%; review period average: 19%). This notwithstanding, the delivery cost ratio has trended higher over the view period, amid the declining trend of net commission receipts (relative to earned premiums), and a higher management expenses component, in line with the growth of the underlying portfolio. Overall, a negative underwriting margin of 5% was evidenced in F13 (F12: 4%), below the review period average of 7%.

The investment income component continued to support profitability, given the interest income reported of R3.8m. Net of finance charges related to the preference share facility, net investment income declined to R3.1m. Following a tax receipt of R0.3m (F12: payment R3m), the net loss after tax amounted to R0.5m (F12: NPAT R2.8m). This translated into a negative ROaE of 1.3% (F12: positive 6.9%), although adjusting for the preference share charges below the line translates into an ROaE of 0.4% in F13 (F12: 9.1%).

Future prospects

Renasa is forecasting stronger premium growth of 15% in F14 (F13: 12%), supported by the on-take of various portfolios from the open market, which is expected to be aided by the enhanced marketing and growth strategy at play from a medium term perspective. This is expected to be underpinned by the recently expanded branch network under its non-centralised approach, as a means of touching base with brokers and policyholders. This is anticipated to be aided by the insurer's integrated software platform, which allows for automated

underwriting controls, while maintaining the intermediaries' independence. This is in line with Renasa's ongoing "Fairfight" campaign, which is premised on passing on the benefits of its administration systems, relating to scientific underwriting and systemised claims cost control, to independent intermediaries to compete with direct insurers. In terms of the commercial lines business, Renasa remains focussed on brand building and expanding its reach in the larger commercial intermediary market, with a view to strengthening its market position and improving risk diversification within the book. The strategy is complimented by the extended branch network ensuring a high service offering to the broker base.

Table 10: Income statement (R'm)	**F14**		**% of budget**
	Actual YTD*	**Budget**	
GWP	182.6	758.4	24.1
NWP	24.8	94.3	26.3
NPE	**24.1**	**93.7**	**25.7**
Claims	(15.4)	(74.1)	20.7
Commission	5.9	35.8	16.4
Mgmt expenses	(12.3)	(54.9)	22.4
U/w result	**2.3**	**0.6**	**390.2**
Investment income**	0.6	4.1	13.6
Retained income	*2.1*	*3.4*	*60.7*
Capital	*46.1*	*47.5*	*97.2*
Key ratios (%)			
GWP growth***	11.0	15.2	-
Retention	13.6	12.4	-
Earned loss ratio	63.8	79.0	-
Commission ratio	(24.4)	(38.2)	-
Mgmt expense ratio	51.0	58.6	-
U/w margin	9.6	0.6	-
International solvency***	46.5	50.3	-
Statutory solvency	48.3		-

*Three months to September 2013.

**Includes other income and expenses; excludes unrealised movements.

***Annualised for year to date results.

Overall, the main lines of business, namely property and motor, are anticipated to expand by around 15% in F14. With the net retention ratio declining slightly, owing to the lower net retention on motor, the risk premium base is expected to expand by a smaller 12%. The high claims environment is forecast to persist as the insurance entity continues to expand its policyholder base, coupled with the systemic issues impacting on motor claims costs. The narrowing of the relative net commission income over recent periods is expected to reverse in F14, with the corresponding ratio anticipated to strengthen to 38% from 25% previously. With management expenses budgeted to rise by 9% to R55m, the management expense ratio is expected to improve further to 59% from 60% previously. This could see the delivery cost ratio fall to 20% from 35% in F13, in line with the five year average of 19%. This is considered crucial to allow for greater margin headroom. Overall, the underwriting margin is expected to remain subdued at 1%, owing to the weaker claims forecast. Notwithstanding, the new growth strain, the international solvency margin is anticipated to improve to 49% in F14.

For the first three months to 1Q 2014, volume performance is moderately below expectations, albeit above the corresponding period in the previous year. Management is, however, confident that volumes will improve as the year progresses, although have factored in the potential for a weaker growth environment. This notwithstanding, the earned loss ratio has moderated to 64%, driven by improved pricing and a normalisation in the claims environment. Despite the lower volumes, the delivery cost ratio has moderated to 27% (F13: 35%), which is a function of the lower management expense ratio. Overall, the underwriting margin recovered to 10% in 1Q F14, exceeding corresponding periods in earlier review periods. Given the new business growth strain, the annualised international solvency margin amounted to 47% as at 1Q F14.

Renasa Insurance Company Limited

(R in Millions except as Noted)

Year ended : 30 June		2009	2010	2011	2012	2013
Income Statement						
Gross written premium (GWP)		468.3	563.7	545.2	585.9	658.2
Reinsurance premiums		(413.5)	(498.9)	(480.0)	(509.9)	(574.0)
Net written premium (NWP)		**54.8**	**64.7**	**65.2**	**76.0**	**84.3**
(Increase) / Decrease in insurance funds		(0.1)	(0.3)	(0.3)	(0.5)	(0.1)
Net premiums earned		**54.7**	**64.4**	**64.9**	**75.4**	**84.2**
Claims incurred		(47.6)	(50.0)	(51.0)	(48.5)	(58.5)
Commission		22.3	23.6	21.3	23.8	21.0
Management expenses		(20.5)	(26.9)	(31.8)	(47.8)	(50.6)
Underwriting profit / (loss)		**8.9**	**11.1**	**3.4**	**2.9**	**(3.9)**
Investment income (incl. realised gains)		4.1	1.5	1.8	2.9	3.1
Other income / (expenses)		0.0	0.0	0.0	0.0	0.0
Taxation		0.0	0.0	(0.9)	(3.0)	0.3
Net income after tax		**13.0**	**12.6**	**4.4**	**2.8**	**(0.5)**
Unrealised gains / (losses)		(0.4)	(0.2)	(0.0)	0.0	0.0
Retained surplus / (deficit)		**12.6**	**12.4**	**4.4**	**2.8**	**(0.5)**
Dividends in respect of financial year		0.0	(2.6)	(2.0)	(1.3)	(1.5)
Balance Sheet						
Total capital*		**28.6**	**38.4**	**39.6**	**40.8**	**39.1**
Preference shares		5.0	5.0	5.0	5.0	5.0
Total Capital		**33.6**	**43.4**	**44.6**	**45.8**	**44.1**
Net UPR		0.9	1.2	1.5	2.0	2.1
Net OCR & IBNR		10.6	8.4	10.4	14.9	17.2
Other liabilities		53.7	52.5	68.8	83.9	68.1
Total capital & liabilities		**98.7**	**105.5**	**125.2**	**146.6**	**131.5**
Fixed assets		2.8	2.9	4.6	4.5	4.7
Investments		0.3	0.1	0.0	0.0	0.1
Cash and equivalents		53.0	41.2	56.6	63.1	43.0
Other current assets		42.7	61.3	64.0	79.0	83.7
Total assets		**98.7**	**105.5**	**125.2**	**146.6**	**131.5**
Cash Flow Statement						
Cash generated by operations		9.6	12.7	5.3	6.1	(1.3)
Cash flow from investment income		3.7	3.1	3.5	2.9	3.1
Working capital decrease / (increase)		4.4	(21.8)	12.2	4.8	(17.4)
Tax paid		0.0	0.0	0.0	(3.3)	(0.5)
Cash available from operating activities		**17.7**	**(6.0)**	**21.0**	**10.5**	**(16.1)**
Dividends paid		0.0	(4.4)	(2.3)	(1.5)	(1.3)
Cash flow from operating activities		**17.7**	**(10.4)**	**18.7**	**8.9**	**(17.4)**
Cash flow from investing activities		**(2.4)**	**(1.4)**	**(3.2)**	**(2.5)**	**(2.7)**
Cash flow from financing activities		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash inflow / (outflow)		**15.2**	**(11.8)**	**15.5**	**6.5**	**(20.1)**
Key Ratios						
Solvency / Liquidity						
International solvency margin	%	52.3	59.3	60.7	53.7	46.3
Total capital / NWP	%	61.4	67.0	68.3	60.3	52.3
Statutory solvency margin	%	51.4	57.0	60.1	63.4	51.0
Statutory CAR coverage	x	-	-	-	2.1	1.7
Net UPR / NWP	%	1.6	1.8	2.3	2.7	2.5
Net OCR & IBNR / NWP	%	19.3	13.0	16.0	19.6	20.4
Financial base / NWP	%	73.2	74.1	79.0	76.0	69.2
Cash / Technical liabilities	x	4.6	4.3	4.7	3.7	2.2
Claims cash coverage	months	13.4	9.9	13.3	15.6	8.8
Efficiency / Growth						
GWP growth	%	78.9	20.4	(3.3)	7.5	12.3
Retention rate	%	11.7	11.5	12.0	13.0	12.8
Earned loss ratio	%	87.0	77.7	78.6	64.3	69.5
Commissions / Earned premiums	%	(40.8)	(36.6)	(32.9)	(31.5)	(25.0)
Management expenses / Earned premiums	%	37.5	41.8	49.0	63.4	60.1
Underwriting result / Earned premium	%	16.3	17.2	5.3	3.8	(4.7)
Trade ratio	%	83.7	82.8	94.7	96.2	104.7
Operating margin	%	76.2	80.4	91.9	92.4	101.0
Profitability						
Investment yield (including preference share finance charges)	%	8.1	2.8	3.7	4.8	5.8
Investment yield (excluding preference share finance charges)	%	9.0	6.5	7.1	6.3	7.1
ROaE (before preference share finance charges)	%	58.2	42.1	15.5	9.1	0.4
ROaE (after preference share finance charges)	%	56.3	36.9	11.2	6.9	(1.3)
Dividend cover	x	n.a.	4.8	2.1	2.2	(0.3)

*Excluding intangible assets.

SALIENT POINTS OF ACCORDED RATINGS

Information to be disclosed on the final draft of this report, as detailed in the credit rating process document.

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Renasa Insurance Company Ltd participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to Renasa Insurance Company Ltd with no contestation of the rating.

The information received from Renasa Insurance Company Ltd and other reliable third parties to accord the credit rating included the 2013 audited annual financial statements (plus four years of comparative numbers), full year detailed budgeted financial statements for 2014, unaudited year to date management accounts to September 2013, the 2013/2014 reinsurance cover notes, statutory return for FYE13 and other non-public statistical information.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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