



Credit Rating Announcement

GCR affirms Renasa Insurance Company Limited's national scale financial strength rating of A_(ZA); Outlook Stable

Rating action

Johannesburg, 11 December 2020 - GCR Ratings ("GCR") has affirmed Renasa Insurance Company Limited's ("Renasa") national scale financial strength rating of A_(ZA), with a Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Renasa Insurance Company Limited	Financial strength	National	A _(ZA)	Stable Outlook

Rating rationale

The national scale financial strength rating for Renasa is anchored by strong liquidity, balancing intermediate capitalisation and constrained earnings capacity. The business profile is credit negative given limited premium and geographic diversification.

The insurer's liquidity profile remained strong supported by sound internal cash generation and conservative asset allocation. In this regard, coverage of net technical liabilities by stressed financial assets registered at 7.2x at FY20 (FY19: 5.0x; FY18: 6.4x), while operational cash coverage equated to 13 months (FY19: 12 months; FY18: 18 months). Liquidity metrics are expected to remain within a similar range given consistency in asset allocation.

Capitalisation was assessed within an intermediate range, with Solvency Capital Requirement ("SCR") coverage equating to 1.2x at 3MF21. Risk adjusted capitalisation is expected to be maintained at rating adequate levels, with SCR coverage likely to remain at a similar level, supported by well contained underwriting and market risk exposures.

Renasa's earnings are viewed to be intermediate, with a comparatively high loss ratio resulting in thin and fairly volatile underwriting profitability. In this regard, the five-year average gross underwriting margin equates to 2% and the net margin to -1%. Net earnings continue to be supported by investment income, with the review period average return on revenue equating to 7%. Cross cycle earnings are expected to remain at a similar level going forward, noting limited direct exposure to COVID-19 related claims and containment measures in place.

The insurer's business profile continues to be a rating constraint, characterised by a relatively limited market position and an intermediate level of premium diversification. Renasa's share of local short-term industry premiums has been maintained at 1.6% over the past two years, while relative market share was sustained at 1.3x. The business mix is limited, with two lines of business contributing materially to revenue and the premium base being skewed towards the motor book. Going forward, no major changes are expected given the increased competitive dynamics in the local market, which may be stiffened further by potential industry premium pressures due to economic challenges.

Outlook statement

The stable outlook reflects expectations that earnings will be sufficient to support liquidity and risk adjusted capitalisation within rating sufficient ranges. The business profile is unlikely to change materially over the medium term, although the maintenance of above average quality growth could form a positive factor consideration over the medium term.

Rating triggers

The rating may be upgraded on sustained improvement in earnings while maintaining adequate risk adjusted capitalisation and strong liquidity. Conversely, we could lower the rating if earnings register below expectations, negatively impacting risk adjusted capitalisation or liquidity.

Analytical contacts

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Insurance Companies, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, November 2020
GCR Insurance Sector Risk Scores, July 2020

Ratings history

Renasa Insurance Company Limited

Rating class	Review	Rating scale	Rating class	Outlook/Watch	Date
Claims paying ability	Initial	National	BBB+(ZA)	Stable Outlook	September 2006
Financial Strength	Last	National	A-(ZA)	Stable Outlook	August 2020

Risk score summary

Rating Components and Factors	Risk score
Operating environment	15.00
Country risk score	7.00
Sector risk score	8.00
Business profile	(3.00)
Competitive position	(2.00)
Premium diversification	(1.00)
Management and governance	0.00
Financial profile	0.50
Earnings	(0.75)
Capitalisation	0.00
Liquidity	1.25
Comparative profile	0.00
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	12.50

Glossary

Premium	The price of insurance protection for a specified risk for a specified period of time.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
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.
Technical Liabilities	The sum of Net UPR and Net OCR IBNR.
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.
Upgrade	The rating has been raised on its specific scale.
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For a detailed glossary of terms please click [here](#)

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 was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was 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 entity. The rating above 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 rated entity and other reliable third parties to accord the credit rating included:

- Audited financial results as at 30 June 2020;
- Four years of comparative audited financial statements to 30 June
- Full year budgeted financial statements to June 2021;
- Unaudited interim results to 30 September 2020;
- Reinsurance cover notes for 2020; and
- Other relevant documents.

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