

# GCR affirms Société Nationale d'Assurances et de Réassurances' rating at A<sub>(BF)</sub>; Outlook Positive

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Johannesburg, 19 October 2017—Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Société Nationale d'Assurances et de Réassurances of A<sub>(BF)</sub>, with the outlook accorded as Positive. The rating is valid until October 2018.

### SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating to Société Nationale d'Assurances et de Réassurances ("SONAR-IARD") based on the following key criteria:

The Positive outlook reflects the potential for Sonar's risk adjusted capitalisation to improve to strong levels over the rating horizon (from moderately strong levels), supported by sound internal capital generation, in tandem with the insurer's adoption of a formalised capital management strategy. As such, capital is expected to grow to above XOF8bn at FY17 (FY16: XOF7.0bn; FY15: XOF5.7bn), catering for increased insurance risks and high market exposures. According to management, the aim is to gradually increase capital to XOF12bn by FY20, to support growth targets, while diluting elevated market risks.

Earnings capacity strengthened to an intermediate level, underpinned by a positive underwriting result in FY16. The underwriting margin registered at 5% in FY16 (FY15: -8%), largely supported by an atypical loss ratio of 38% (review period average: 50%). Going forward, note is taken of increased risk selection and prudent underwriting, which is expected to moderate loss pressure relative to historical levels, with the net incurred loss ratio expected to register below 45%. This could support a consistent recovery in underwriting profitability to a level that sustains earnings capacity within an intermediate range.

Liquidity metrics reduced from strong to moderately strong levels, deviating from expectations of continued strength. The reduction in liquidity metrics followed an increase in risky asset purchases, which was exacerbated by increased net reserves (largely impacted by timing issues). As such, cash coverage of net technical liabilities lowered to 0.7x at FY16 (FY15: 0.9x). In GCR's view, liquidity measures may remain within a moderately strong range, with improvements contingent upon higher cash generation from operations, and conservative asset allocation.

Sonar's competitive position remained very strong, supported by the insurer's strong brand in the Burkina Faso short term market, coupled with well entrenched client facing relationships and relative business excellence. As such, the insurer successfully retained its share of short term insurance industry premiums at 28% in FY16 (FY15: 28%; FY14: 30%), despite the continued enforcement of prudent underwriting disciplines and increased competitive dynamics. As such, GCR views the insurer's strong competitive position to have facilitated strategy execution fairly well.

Increased retention on the low claiming transport class, a favourable regulatory environment and resurgent economic growth facilitated the broadening of the product mix to a moderately strong level in FY16. In this regard, three lines of business contributed materially to net earnings (FY15: two lines), with concentration to motor moderating to 48% (FY15: 60%). Going forward, further dilution of motor's weighting is expected to stem from accident and transport, as the former benefits from high product uptake, and retention on the latter increases in line with management objectives.

Maximum exposures per risk and event are limited to levels viewed to be very conservative relative to capital. The reinsurance programme structure introduces a moderate degree of counterparty concentration and credit risk, although

cognisance is taken of the planned consolidation of security on the program to reduce single counterparty exposure over the medium term.

The rating may be upgraded should the insurer's risk adjusted capitalisation register within a strong range, while earnings capacity is sustained at similar levels. Furthermore, positive rating action may stem from liquidity metrics strengthening beyond expectations. Conversely, negative rating action could follow a sustained weakening in operating performance and asset quality.

#### **NATIONAL SCALE RATINGS HISTORY**

Initial rating (October 2009)

Claims paying ability: A<sub>(BF)</sub>

Outlook: Stable

Last rating (October 2016)

Claims paying ability: A<sub>(BF)</sub>

Outlook: Positive

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#### **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Short Term Insurance Companies, updated July 2017

Société Nationale d'Assurances et de Réassurances (SONAR-IARD) rating reports, 2009-2016

#### **RATING LIMITATIONS AND DISCLAIMERS**

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#### **SALIENT FEATURES OF ACCORDED RATINGS**

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; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Société Nationale d'Assurances et de Réassurances (SONAR-IARD) 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 has been disclosed to Société Nationale d'Assurances et de Réassurances (SONAR-IARD) with no contestation of the rating.

The information received from Société Nationale d'Assurances et de Réassurances (SONAR-IARD) and other reliable third parties to accord the credit rating included:

- Audited financial statements to 31 December 2016
- Four years of comparative audited numbers
- Unaudited interim results to 30 June 2017
- Budgeted financial statements for 2017
- Statutory Annual Returns for 2016
- 2017 reinsurance summary
- Industry comparative data, and
- Other related documents.

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

#### **GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY**

Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
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.
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.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Enterprise Risk Management	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.
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.
International Scale Rating ("ISR")	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Intermediary	A third party in the sale and administration of insurance products.
Interest	Money paid for the use of money.
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. 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.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
National Scale Rating ("NSR")	National Scale credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss.
Policyholder	The person in actual possession of an insurance policy.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
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.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.

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.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.

For a more detailed glossary of terms, please click [here](#)

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