

GCR affirms Société Nationale d'Assurances et de Réassurances' rating of A_(BF); Outlook Stable.

06 Oct 2014 In Rating Notifications

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Johannesburg, 06 Oct 2014—Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Société Nationale d'Assurances et de Réassurances of A_(BF); with the outlook accorded as Stable. The rating is valid until 10/2015.

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 rating is supported by the insurer's strong position as the market leader in the short-term insurance market in Burkina Faso. Going forward, GCR expects Sonar's market position to be sustained by the well-established brand, entrenched client-facing relationships and strong franchise value.

The insurer is sufficiently capitalized, despite high dividend pay-outs resulting in subdued capital growth. Furthermore, the reduction in aged debtors, following the implementation of the new premium credit regulations, resulted in the adjusted international solvency margin improving to 68% in F13 (F12: 44%). Note is taken of the fair value movements, supporting the rating (with valuations conducted by an independent and reputable property valuator), which maintains risk adjusted capital adequacy at strong levels.

Liquidity metrics are viewed to be moderate, with cash covering net technical liabilities by 0.6x in F13 (F12: 0.7x), and claims cash coverage at 37.3 months (F12: 39 months). Note is taken of Sonar's sizeable investment portfolio, representing 3.3x the net earned premium base, and 1.3x technical provisions. This allows for strong investment income, while also providing a source of redeemable instruments to supplement liquidity.

Asset risk is considered high, given the composition of the investment portfolio, with non-cash investments accounting for 1.7x of the insurer's capital base at FYE13 (FYE12: 1.6x). Cognisance is also taken of the investment restrictions imposed by the Conférence Interafricaine des Marchés d'Assurances ("CIMA") code, limiting the investment asset classes and diversification available in the region. Coupled with the conservative CIMA technical reserving requirements, this gives rise to an inherent degree of asset risk.

Sonar has registered net underwriting losses for four consecutive years. This is largely due to the insurer's inability to translate its notable scale advantage into material efficiency gains. However, strong investment income has helped the insurer achieve net profitability over the review period.

The insurer's exposure to loss accumulation exerts rating pressure, given the absence of CAT cover on fire risks. Furthermore, the reinsurance programme structure introduces a moderate degree of counterparty concentration and credit risk. Cognisance is, however, taken of the moderate credit quality of the underlying reinsurers in the Globus Re reinsurance programme and the fact that the company retains no risk for its own account.

Upward movement on the rating could develop with a demonstrated turnaround in underwriting profitability, reflecting an upward trend of earnings capacity.

Furthermore, a material strengthening in risk adjusted solvency, an improvement in liquidity metrics, and an increased spreading of liquid assets, would be positively considered. Conversely, downward rating movement may arise if the insurer were to evidence a material deterioration in underwriting performance, a sustained reduction in the risk adjusted solvency margin, and/or a further weakening in liquidity metrics.

For a detailed glossary of terms utilised in this announcement please click [here](#)

NATIONAL SCALE RATINGS HISTORY

Initial rating (Oct/2009)

Claims paying ability: A_(BF)

Outlook: Stable

Last rating (Nov/2013)

Claims paying ability: A_(BF)

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

[Criteria for Rating Insurance Companies, July 2014](#)

Société Nationale d'Assurances et de Réassurances (SONAR-IARD) rating reports, 2009-2013

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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.

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/s 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 the 2013 audited annual financial statements (plus four years of comparative numbers), latest internal report to management, full year budgeted financial statements for 2014, unaudited year to date management accounts to July 2014, the current year reinsurance cover notes, statutory reporting submissions 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.

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