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Global Alliance Seguros, S.A.

Mozambique Insurance Analysis **July 2016**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	AA-(MZ)	Stable	June 2017

Financial data:

(USD'm comparative)

	31/12/14	31/12/15
MZN/USD (avg.)	31.52	39.04
MZN/USD (close)	33.60	47.03
Total assets	47.8	41.3
Total capital	21.0	17.2
Cash & equiv.	24.0	18.7
GWP	84.7	64.3
U/w result	5.1	1.3
NPAT	5.0	2.7
Op. cash flow	4.2	5.5
Market cap.		n.a.
Market share*		25%*

*Based on provisional industry GWP for 2015.

Rating history:

Initial rating (November 2002)

Claims paying ability: BBB+(MZ)

Rating outlook: Stable

Last rating (June 2015)

Claims paying ability: AA-(MZ)

Rating outlook: Stable

Related methodologies/research:

Criteria for Rating Short Term Insurance Companies, Updated July 2015

Criteria for Rating Long Term Companies, Updated July 2015

GA Seguros rating reports, 2002 – 2015

GCR contacts:

Primary Analyst
Vinay Nagar
Credit Analyst
vinay@globalratings.net

Committee Chairperson
Marc Chadwick
Sector Head: Insurance Ratings
chadwick@globalratings.net

Analyst location: Johannesburg, ZA
Tel: +27 11 784-1771
Website: http://globalratings.net

Summary rating rationale

- Global Alliance Seguros, S.A. ("GA Seguros") reflects a very strong business profile, underpinned by a market leading position in the short term insurance arena. This is supported by strong branding, and a high level of client support and broker acceptance.
- GA Seguros, having previously exhibited consistently high margin availability, is expected to reflect constricted earnings capacity over the rating horizon. In terms of the former, GA Seguros recorded a four year average underwriting margin of 17% between FY11 and FY14. However, significant margin pressure arose in FY15, owing to currency and inflationary pressure on motor claims costs. Such pressures are expected to persist over the coming 18 months (owing in large to adverse economic conditions), while sizeable once-off reserve adjustments (MZN167m) are projected to further depress margins in FY16. Given this, a return to earnings elevation is likely to be attained only over the medium term.
- Capitalisation is viewed to be strong, and supportive of the insurer's rating. While GA Seguros' capital generation is likely to be subdued in FY16 (a function of a softening in earnings expectations), GCR expects risk adjusted capitalisation to be upheld at a strong level over the short term. This is expected to be a function of capital tolerance relative to underwriting risk exposure (with premium volume reductions lowering NWP exposure in FY16) and consistency in asset allocations (mitigating the ontake of market risk). Accordingly, GA Seguros is expected to reflect an international solvency margin range of 70% to 75% (preserving the strong 74% achieved in FY15).
- Liquidity is viewed to be strong, with GA Seguros expected to reflect healthy liquidity metrics over the rating horizon. The value of GA Seguros' liquid funds (FYE15: MZN879m; USD19m) positions the insurer to absorb the expected impact of technical provision adjustments and potential operating cash flow strain in FY16. Accordingly, while a moderation in liquidity metrics is expected (with cash coverage of net technical provisions likely to be closer to 1x, as opposed to the robust historical levels in excess of 2x), the insurer is nevertheless viewed to possess sufficient cash reserves to maintain rating strength going forward.
- The reinsurance program reflects strong counterparties, with the maximum net retentions per risk and event on XOL limited to a low 1.4% of FYE15 capital.
- GA Seguros' rating is supported by implicit shareholder support from the Absa group (a subsidiary of Barclays Bank Plc (UK)). In this regard, GA Seguros is provided with operational and technical support, as well as an additional avenue for growth by having access to the group's large client base. Furthermore, the group has demonstrated its continued financial support over the review period.

Factors that could trigger a rating action may include

Positive change: GA Seguros' rating currently matches the national scale ceiling applicable to entities operating within the Mozambican insurance industry. Accordingly, an upgrade of the rating could potentially follow a strengthening of key industry factors.

Negative change: A deterioration in key rating factors, such as a significant and protracted loss in market share, accompanied by deterioration in underwriting performance, impinging on key credit protection measures, may trigger a negative rating action.

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Operating environment

Economic overview

The Mozambican economy registered robust levels of GDP growth between 2010 and 2014, averaging approximately 7%. Economic growth was spurred by strong foreign direct investment (focused mostly on the extractive sector), increasing public expenditure (which was ramped up prior to the October 2014 general election) and a growing mining and energy sector (underpinned by a boost in coal exports). Other dynamic sectors are construction, services, and transport and communication, which are broadly correlated with infrastructure development and large-scale projects, referred to as 'mega-projects'. The agriculture sector (employing 70% of the population), however, lacks the same economic growth impact.

Table 1: Macroeconomic indicators	**2011**	**2012**	**2013**	**2014**	**2015e**	**2016e**
GDP growth (annual % Δ)	7.1	7.2	7.1	7.4	6.3	6.0
Inflation (annual average %)	10.4	2.1	4.2	2.3	2.4	6.0
Current acc. bal. (% of GDP)	(25.4)	(44.7)	(39.1)	(34.4)	(41.3)	(43.0)

Source: IMF World Economic Outlook, April 2016.
E: Estimate.

In 2015, the economy experienced an overall slowdown, with the pace of GDP growth registering its slowest level since 2009 (2015: 6.3%; 2014: 7.4%). This was attributed to (amongst others):

- *Falling world commodity prices*, which placed pressure on the country's extractive industry, with the effects particularly hard felt within the developing coal industry.
- *Weak growth among trading partners* leading to further reductions in coal demand, thus exacerbating the impact on an already strained export sector.
- *Reduced inflows of foreign direct investment* ("FDI"). The effects of lower commodity prices were further magnified by a degree of fiscal consolidation in 2015 (through lower government spend on infrastructure development), coupled with the postponement of specific mega projects (investment decisions for the development of gas fields in the Rovuma basin remain pending).
- *Increased political risk.* Subsequent to the elections at the end of 2014, the ruling party retained power, albeit with a lower percentage of total votes (2014: 58% vs. 2009: 75%). The opposition disputed the legitimacy of the result, and has since been waging a low intensity insurgence against the ruling party. This has created a degree of political instability in the country.

In the context of the overarching economic environment, rising food prices (which have been aggravated by the onset of a drought towards the latter part of 2015) spurred inflation to a high of 11.1% by year end 2015 (2015 average CPI was 2.4%). The situation was further accentuated by the marked depreciation of the Metical ("MZN") during 2015 (losing approximately 25% of its value against the USD over 2015), which added to inflationary pressure through import pass-through dynamics. As a means to contain inflationary pressure and stabilise the depreciating currency, the Banco de Moçambique ("BM", "the central bank") intervened by selling off foreign reserves and tightening its monetary policy towards the last quarter of 2015. In this regard, after maintaining the standing lending facility rate at 7.5% during much of 2015, the central bank implemented four rate increases between October 2015 and February 2016, with the lending rate standing at 12.75% at May 2016.

Following the tightening of US monetary policy, coupled with reduced FDI and foreign currency reserves, the MZN continued on a downward spiral over 2015, to close the year at MZN47.03/USD (31 December 2014: MZN33.6/USD). This translated to an average 2015 exchange rate of MZN39.04/USD (2014: MZN31.52/USD). It is noted that that MZN weakness in 2015 was not solely a country-specific phenomenon. The pervasive 'risk-off' attitude in global investing since late 2014, which resulted in material currency depreciation in most emerging market currencies, was also a contributing factor. However, local challenges have amplified global trends. The currency continued to lose value in the first third of 2016, closing at MZN53.49/USD at 30 April 2016. In view of mounting levels of external debt, coupled with a continuation of the decline in overall economic conditions evidenced in 2015, the MZN is expected to depreciate even further against the USD in 2016.

Looking ahead, the subdued trend in commodity prices is expected to continue through 2016, with GDP growth initially forecast at 6% for the year. Note is further taken, however, of recent developments pertaining to the government's debt servicing ability, including the disclosure of USD1.4bn in previously unreported public debt in April 2016 (estimated at 9.2% of 2015's GDP). This has cast doubt over the transparency of government's reporting measures and as a consequence, foreign aid through the International Monetary Fund, the World Bank and the UK government have been suspended. Furthermore, the proposed restructuring of (government guaranteed) debt obligations by certain state owned entities was negatively received, with Standard & Poor's, Fitch and Moody's Investor Services cutting the country's sovereign credit ratings. This is likely to result in increased reliance by government on domestic sources of funding in local currency, exacerbating currency depreciation and inflationary pressure. Based on this confluence of factors, the forecast for short term economic growth may be lower than initially expected.

Over the medium to longer term, prospects for GDP growth acceleration remain intact, should associated FDI in the gas sector come to fruition. In view of this, World Bank forecasts point to a more positive economic outlook beyond 2017 (albeit that such projections were made prior to recent negative economic developments). This notwithstanding, the country continues to be subject to downward risk if there is a further deterioration in the political landscape and prolonged postponements in mega project investments.

Insurance industry overview

Insurance activities in Mozambique are regulated by the Institute of Insurance Supervision in Mozambique (Instituto de Supervisão dos Seguros de Moçambique, or "ISSM"), which was established in July 2010. Its predecessor was Inspecao Geral de Seguros ("IGS").

Regulatory oversight manifests mainly via the enforcement of a minimum statutory solvency ratio and a minimum capital requirement, which are stipulated in relation to the nature of insurance activities undertaken. In this regard, short term and life insurance businesses are required to reflect a minimum level of capitalisation (including retained earnings) of MZN33m and MZN67m respectively, whilst a composite insurance licence remains subject to a minimum capital level of MZN100m. Besides other complementary governing initiatives (pertaining of late to fronting arrangements and the encouragement of local participation on large scale oil exploration and infrastructure risks), insurance activities are conducted relatively free of regulatory intervention. Coupled with fairly lenient incorporation and ownership requirements (with no local shareholding currently mandated), this translates to very low barriers to entry. Given the attractive risk mix in the underlying market, this gives rise to a potential strong influx of new entrants into the industry and a subsequent increase in market competition over the medium term.

Table 2: Key industry data	
Regulatory authority:	ISSM
Min. capital req. (non-life; reinsurance):	MZN33m
Min. capital req. (life):	MZN67m
Min. capital req. (composite):	MZN100m
# of registered non-life insurers:	12
# of registered life assurers:	7
Market share top 5 non-life:	83%
Market share top 5 life:	93%
Non-life industry GWP 2015:	MZN8.6bn
Life industry GWP 2015:	MZN1.7bn
Insurance penetration (% of GDP):	1.4%

Supported by the discovery of large offshore oil & gas reserves, associated engineering and construction risks have gained notably in prominence in recent years. However, given the limited capacity amongst domestic insurers relative to the size of risks underwritten, the bulk of these risks flow to the international market (via multinational brokerages operating in the country and their affiliated global risk structures). Domestic insurance risks are dominated by property, motor 3rd party liability and workman's compensation, with demand for cover for the latter two supported by their compulsory nature. This notwithstanding, market feedback is that enforcement of compulsory insurance products remains limited. Similar to the underlying insurance industry, the broker market is largely unregulated, with commissions negotiated directly between the transacting parties.

Total industry GWP advanced by a robust 20% to MZN10.3bn in 2015, of which 83% pertained to short term risks. Note is, however, taken that industry growth continues to emanate off a relatively low base, with the domestic insurance market remaining relatively small when compared to other regional jurisdictions (i.e. Kenya at USD1.5bn). Nonetheless, insurance penetration remains reasonable in the African context (at 1.4% of GDP in 2015).

In view of the above, the number of insurers operating in Mozambique has increased considerably over the review period, with the 19 registered companies nearly having trebled against the corresponding figure at the start of the review period. More specifically, the industry displays a two tier structure, with notable concentration towards the four largest players evidenced (combined: 85% of market share as at FY14).

Corporate profile

Corporate history

GA Seguros was incorporated in 1993, and has rapidly grown to become one of the leading insurance companies operating in Mozambique, with four branch offices providing support. The company has a composite license to transact both non-life and life insurance.

Ownership structure

GA Seguros was previously a 99.5% owned subsidiary of Global Alliance Holdings. During 2011, 100% of GA Seguros' shares were purchased by the Absa group (now known as Barclays Africa Group Limited following the corporate transaction with Barclays' African Operations in 2013), with its ultimate holding company being Barclays Bank Plc (UK) (approximately 50.1% shareholding as at July 2016). In view of GA Seguros' strong brand in the domestic market, Absa chose to retain its name. The transaction formed part of the greater Barclays Africa Group Limited's African Bancassurance Expansion Programme into countries in which it or Barclays Bank Plc (UK) has a presence.

Risk management framework

GA Seguros' risk management and governance framework has been aligned with the Absa group and Barclays Bank Plc (UK) risk philosophy and methodologies. The framework is managed through a quarterly Capital Investment & Underwriting Committee and Risk Governance & Control Committee. Furthermore, monthly EXCO meetings are held, while GA Seguros has access to Absa insurance and reinsurance expertise when required.

Financial reporting

The 2015 financial statements were audited by PricewaterhouseCoopers, Lda, with an unqualified opinion issued.

Competitive positioning

Market position

GA Seguros reflects a very strong business profile, underpinned by the leading position in the short term insurance arena. The insurer reflects an estimated market share of 25%. This is supported by strong branding, and a high level of client support and broker acceptance. Going forward, as a means of defending existing market share, management will continue to leverage off franchise value, while increasing efforts towards improving service levels as a means of consolidating its current market position in a relatively strained economic environment, which is exacerbated by increased competition from new players entering the market.

Earnings diversification

Market segment diversification

The corporate market segment dominated the business mix, comprising 78% of GWP in FY15. This is a function of the long standing relationships that GA Seguros has with large multinational companies, manifesting through the ontake of high value corporate/commercial risks. The bulk of corporate risks pertain to property, engineering and motor fleet risks.

GA Seguros launched its life division (Vida) in FY10, initially focusing on group and credit life. The life product offering has subsequently been expanded to include investment products, employee benefits, income replacement and funeral policies, all of which are still in infancy stages in Mozambique (thereby offering significant growth potential).

Distribution channels

GA Seguros currently has a 91%/9% split between short term (“ST”) and long term (“LT”) business. In view of the high value corporate/commercial risks dominating the risk pool, broker representation remained moderately high, comprising 47% of total GWP in FY15 (FY14: 55%). In this regard, intermediary concentration is viewed to be moderate, with the single largest and three largest brokers combined accounting for 18% and 37% of total GWP respectively in FY15 (FY14: 17% and 34% respectively). Business sourced directly amounted to a higher 44% (FY14: 37%), while bancassurance channels comprised 10% of total premiums. The latter is facilitated by GA Seguros’ affiliation with Barclays Bank Mozambique S.A (“Barclays Mozambique”). However, with Barclays Mozambique struggling to retain market share in the industry, the insurance products offered by the bank are considered to be ancillary products. This notwithstanding, GA Seguros will continue to pursue penetration into the banks’ book of business as a means of supplementing top line revenue during the current economic cycle.

Gross premium diversification

Gross premiums declined by 6% to MZN2.5bn in FY15. This marks a notable change to prior year trends, where GA Seguros was able to sustain strong levels of growth (in excess of 30%) through participation on high value risks (relating to megaprojects). According to management, the key factors contributing to the premium contraction included:

- The overall slowdown in economic activity during FY15 (see economic overview);
- Increased competition that resulted in the loss of major corporate accounts to rival insurers; and
- The expiry of once off policies.

Management expects this trend to persist in FY16, and has advised that initial growth projections for FY16 are unlikely to be achieved (FY16: GWP budgeted to grow by 52% to MZN3.8bn). Furthermore, the 2016 budget was premised on the uptake of sizeable bancassurance business, which is unlikely to materialise according to initial expectations. Accordingly, gross premiums for FY16 are anticipated at similar levels to those reported in FY15.

Management view FY16 as a consolidating period, where focus will be placed on retaining existing business amidst increased market competition, while looking for opportunities to grow within the existing base. In terms of the latter, the insurer took on medical business for two corporate clients in FY15. Although the risks are largely ceded, and as such, not expected to have a material impact on the net risk base, this is seen as accommodative business, with GA Seguros receiving an admin fee for fronting the risk.

Table 3: Gross premiums	FY14		FY15	
	MZN'm	%	MZN'm	%
Fire & engineering	1,578.4	59.1	734.6	29.2
Motor	459.2	17.2	370.0	14.7
Accident	233.6	8.8	187.0	7.4
Transport	73.2	2.7	67.6	2.7
Miscellaneous	31.9	1.2	519.6	20.7
Liability	130.3	4.9	63.9	2.5
Life	163.0	6.1	221.4	8.8
Medical	n.a	n.a	348.1	13.9
Total	**2,669.6**	**100.0**	**2,512.2**	**100.0**

The impact of the economic strain was evident across most lines of business, with only life and miscellaneous achieving growth.

- In view of the above, much of the premium contraction arose from the fire and engineering book, which shed over half its premium base to register at a lower MZN735m in FY15 (FY14: MZN1.6bn). Accordingly, fire and engineering represented a much lower 29% (FY14: 59%) of total GWP in FY15. Going forward, GA Seguros may evidence a lowered level of retained property premiums, owing to the depressed economic climate's impact on the line. This notwithstanding, the reduction in FY16 is not expected to be as pronounced as it was in the previous year, given that the bulk of the lost business to new competitors is viewed to have taken effect.
- Similarly, with the motor book being predominantly sourced through corporate clients, the aforementioned economic strain, coupled with increasing competition saw the motor book reduce by 19% to MZN370m in FY15.

- Positively, miscellaneous business increased to MZN520m (FY14: MZN32m). Management attributed this to an uptick in clients who opted to purchase additional insurance cover (beyond the traditional fire and business interruption) such as fidelity guarantee cover with higher limits.
- Life GWP rose to MZN221m in FY15 (FY14: MZN163m), as the insurer continues to focus on smaller risks within the long term market.

Net premium diversification

Table 4: Net premiums	FY14		FY15	
	MZN'm	%	MZN'm	%
Fire & engineering	190.3	19.5	102.6	9.4
Motor	451.2	46.2	368.8	33.8
Accident	171.5	17.6	177.6	16.3
Transport	22.4	2.3	24.5	2.2
Miscellaneous	23.9	2.4	153.1	14.0
Liability	19.0	1.9	62.9	5.8
Life	98.5	10.1	162.9	14.9
Medical	n.a.	n.a.	40.3	3.7
Total	**976.8**	**100.0**	**1,092.6**	**100.0**

The premium retention rate amounted to 44% in FY15 (FY14: 37%). Accordingly, NWP advanced by 12% to MZN1.1bn in FY15. With GA Seguros retaining the bulk of motor premiums, this class represented the dominant portion of net premiums at 34% in FY15. This was followed by accident, contributing 16% of NWP for the period while life and miscellaneous comprised a higher 15% and 14% of NWP in FY15 respectively (FY14: 10% and 2% respectively). Given the potentially high value of claims in fire and engineering, GA Seguros adopts a conservative approach to these risks. This, coupled with the marked reduction in its gross premium base, saw fire and engineering accounting for a lower 9% of NWP in FY15 (FY14: 20%).

Profitability

Claims

Table 5: Class performance (%)	Earned loss ratio		Net commission ratio		Technical margin	
	FY14	FY15	FY14	FY15	FY14	FY15
Fire & engineering	28.3	(11.0)	6.5	17.9	65.2	93.1
Motor	58.3	83.8	10.2	11.4	31.6	4.8
Accident	97.4	70.7	15.4	16.4	(12.8)	12.9
Transport	25.0	55.8	11.6	12.8	63.5	31.4
Miscellaneous	45.8	61.2	14.6	15.5	39.7	23.3
Liability	5.5	53.0	(6.8)	9.5	101.3	37.5
Life	27.4	52.9	15.8	11.7	56.8	35.4
Medical	n.a.	4.7	n.a.	(4.2)	n.a.	99.5
Total	**53.2**	**60.1**	**10.3**	**12.8**	**36.5**	**27.1**

The claims ratio increased by seven percentage points to 60% in FY15. This was largely driven by the motor book, where the claims ratio deteriorated to a review period high 84% in FY15 (prior three year average: 64%). Management attributed this to the combined impact of 1) increased competition leading to lower rates; 2) a depreciating local currency which has seen the price of imported spare parts increase; and 3) inflationary pressures leading to claims exceeding the value of the vehicles, giving rise to higher levels of vehicle write offs over the course of the year.

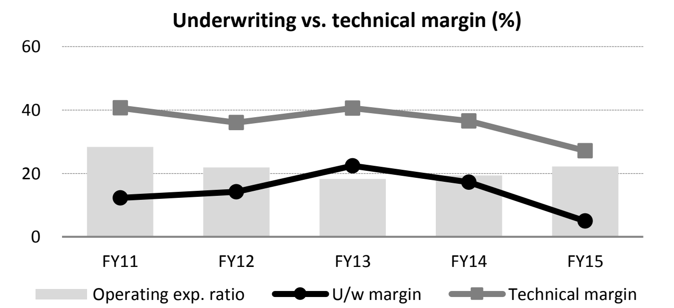
Going forward, the claims ratio is expected to remain elevated in FY16, as the underlying operating environment placing upward pressure on motor claims is likely to persist. Given the prominence of motor in the business mix, the overall claims ratio is likely to follow the trend within this book of business. Further claims pressure is anticipated to stem from the corrective action being taken on the insurer's reserves (see reserving section) that will see the insurer raising additional technical provisions in the region of USD3.4m in FY16. As at June 2016, approximately USD1.25m has already been added to technical liabilities.

Commissions

The net commission ratio increased to 13% in FY15 (FY14: 10%) on the back of subdued reinsurance commission inflows, particularly from fire and engineering business (largely ceded). The commission ratio is expected to remain elevated in FY16, as premium volumes from fire and engineering (conducive to commission income) continue to be constrained. On a positive note, the ontake of medical business may serve to alleviate some pressure on the commission ratio, given the associated stream of additional commission receipts.

Technical profitability

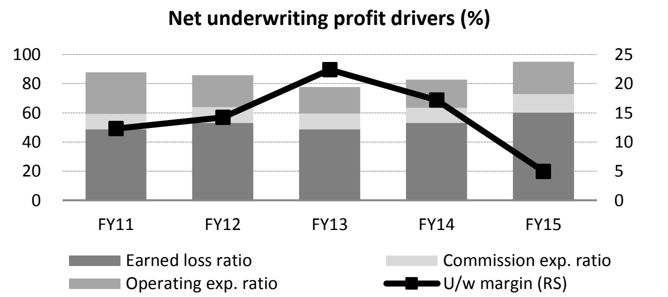
The technical margin continued to trend lower amidst the rise in the claims and commission ratios respectively. In this regard, the technical margin was reported at a softer 27% in FY15 (FY14: 37%). This level is viewed to be supportive of potential operating surpluses (a positive, given the operating environment), although profit compression to thin margins is likely.



Expense analysis

Operating expenses remained well contained in FY15, amounting to MZN227m (FY14: MZN181m). Against a 10% rise in NPE, the expense ratio tracked in line with the review period average at 22% (five year average: 22%). The bulk of the cost base pertains to salaries and bonuses (equating to approximately 60% of total operating expenses). Looking ahead, lower anticipated premium growth, coupled with the high inflationary environment witnessed during FY16 thus far, may serve to apply upward pressure on the operating expense ratio. This may contribute to margin suppression over the short term.

Underwriting profitability



In contrast to prior years, GA Seguros reported a comparatively subdued underwriting margin of 5% in FY15 (FY14: 17%; Review period average: 14%). Significant margin pressure arose in FY15, owing to currency and inflationary pressure on motor claims costs. Such pressures are expected to persist over the coming 18 months (owing in large to adverse economic conditions), while sizeable once-off reserve adjustments (MZN167m) are projected to further depress margins in FY16. Given this, a return to earnings elevation is likely to be attained only over the medium term.

Table 6: Financial performance (MZN'm)	FY15		FY16	
	Actual	Budget	Actual*	Budget
GWP	2,512.2	1,749.8	968.7	3,812.5
NWP	1,092.6	814.6	386.9	1,694.6
NPE	**1,024.7**	**815.6**	**330.3**	**1,617.8**
Claims	(615.4)	(405.6)	(330.1)	(719.4)
Commission	(131.0)	57.2	(46.1)	(206.9)
Operating expenses	(227.4)	(233.3)	(135.3)	(372.1)
U/w result	**50.8**	**233.9**	**(181.2)**	**319.5**
Investment income	40.5	11.0	102.4	31.9
Unrealised movements	72.4	0.0	144.6	0.0
Other income/(exp.)	26.4	0.0	10.2	0.0
Tax	(86.4)	(78.4)	(24.3)	(112.4)
NPAT	**103.8**	**166.6**	**51.7**	**238.9**
Other comp. income	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0
Retained earnings	**103.8**	**166.6**	**51.7**	**238.9**
Capital	*809.4*	*863.7*	*794.6*	*1,048.4*
Key ratios (%)				
GWP growth**	(5.9)	(34.5)	(7.5)	51.8
Retention	43.5	46.6	39.9	44.4
Earned loss ratio	60.1	49.7	99.9	44.5
Commission ratio	12.8	(7.0)	14.0	12.8
Operating expense ratio	22.2	28.6	41.0	23.0
U/w margin	5.0	28.7	(54.8)	19.7
Op. margin	8.9	30.0	(23.8)	21.7
RoR (gross)	4.1	9.5	5.3	6.3
RoR (net)	9.5	20.4	13.4	14.1
Solvency**	74.1	106.0	85.6	61.9

*5 months to May 2016.
**Annualised for year to date results.
Note: Budget FY16 translated using an exchange rate of MZN39.28/USD and Ytd16 has been translated using an average exchange rate of MZN50.47/USD.

Net profitability

Spurred by higher interest receipts, investment income advanced by 1.9x and amounted to MZN41m in FY15, corresponding to an average investment yield of 4% (FY14: 2%). GA Seguros reported a favourable unrealised net exchange gain of MZN72m, which combined with other income of MZN26m, drove the net profit after tax amount to MZN104m in FY15 (FY14: MZN156m).

Over the medium term, the aforementioned margin pressure is likely to result in subdued net profit margins in FY16. Although unrealised forex gains may continue to uplift NPAT in the short term (due to ongoing local currency depreciation), from a domestic currency perspective, capital generation is likely to be curtailed in FY16.

Reinsurance

Reinsurance counterparties

The lead reinsurer across most of the programme is Munich Re of Africa, and it also includes Swiss Re, Hannover Re Africa, Partner Re, SCOR Africa Ltd, Everest Re, Transatlantic Re (USA), Africa Re, Odyssey Re and Caisse Centrale de Reassurance (France). Reinsurance counterparties reflect a strong aggregated level of credit quality. A number of additional reinsurers take up smaller lines. Treaties are priced in both Rands and USD, with exchange rates set (mitigating forex fluctuations risk on deductibles and capacity).

Reinsurance structure

The structure of the reinsurance programme for 2016 is relatively unchanged from the previous year. In addition to the general account XOL treaty, an additional three XOL treaties enable Absa Underwriting Managers to underwrite specific risks in Mozambique. These treaties are extensions of the general account XOL, providing additional capacity, albeit subject to a maximum net retention per risk or event of USD250,000 (or 1.4% of FYE15 capital). In terms of the life division, an XOL policy provides cover in the event of catastrophic losses, subject to a net retention of USD150,000.

Table 7: Reinsurance 2016	Retention	Capacity
Excess of loss (layers)		
General account (2)*	USD250,000	USD2m
Fire & allied perils CAT (6)**	R25m	R3,000m
Motor, acc., liab, eng EML & CAT (3)**	R3m	R25m
Risk CAT**	R5m	R12,5m
Surplus (lines)		
Compulsory surplus (19)#	USD1m	USD19m

*Fire & allied perils, CAR/EAR, marine, motor, misc, acc, liability.
**Specific to certain Underwriting Managers.
#All property, GIT, agriculture, business interruption/material damage.

Reinsurance account result

Table 8: Reinsurance result (MZN'm)	FY13	FY14	FY15
Premium ceded	(1,037.5)	(1,692.8)	(1,419.5)
Commissions received	46.0	67.9	35.4
Claims recovered	298.3	(45.3)	200.9
Net cash result	**(693.2)**	**(1,670.2)**	**(1,183.2)**

On the back of the decline in GWP, premiums ceded decreased by 16% to MZN1.4bn in FY15. Claims and commission recovered amounted to a combined MZN236m in FY15. Accordingly, the net cost of reinsurance decreased by 29% to MZN1.2bn.

Asset management

Table 9: Investments	FYE14		FYE15	
	MZN'm	%	MZN'm	%
Cash on hand	323.0	35.0	295.1	25.0
Short term deposits	248.1	26.9	349.3	29.6
Government bonds	234.6	25.4	235.0	19.9
Cash and equivalents	***805.7***	***87.2***	***879.4***	***74.4***
Interest securities	0.0	0.0	111.6	9.4
Investment property	118.0	12.8	190.4	16.1
Non-cash investments	***118.0***	***12.8***	***302.0***	***25.6***
Total investments	**923.7**	**100.0**	**1,181.4**	**100.0**

Investment strategy

The investment strategy has been formalised in line with Absa group policy. In this regard, the insurer must spread liquid assets across a minimum of five counterparties, all of which must reflect strong credit ratings (which can be derived from the group rating). Additionally, exposure to a single counterparty is capped at 30% of total assets. Going forward, management does not foresee any changes to the asset allocation strategy.

Cash and liquidity

On the back of sound operating cash flows, cash holdings increased by 9% to MZN879m at FYE15. Cash continued to dominate the investment portfolio, representing 74% (FYE14: 87%), and covered capital by a sound 1.1x. Key liquidity ratios remained very strong, with claims cash coverage registering at 17 months (FYE14: 20 months), while coverage of technical liabilities was reported at a very high 2.3x (FYE14: 2.3x). Cash holdings are fairly well spread among various banking counterparties, with the largest exposure being placed with BCI Fomento (at 22%).

In view of the actions currently being undertaken to correct the technical reserves, and the expectations for constrained operating cash flows in FY16, key liquidity metrics are likely to soften over the short term. Accordingly, while a moderation in liquidity metrics is expected (with cash coverage of net technical provisions likely to be closer to 1x, as opposed to the robust historical levels in excess of 2x), the insurer is nevertheless viewed to possess sufficient cash reserves to maintain rating strength going forward.

Financial assets

Financial assets relate to GA Seguros' head office development in Maputo. The portion rented to third parties amounted to a higher MZN176m in FY15 (FY14: MZN110m). The portfolio also includes a small residential property that is utilised as a guest house (FY15: MZN14m; FY14: MZN7.5m). Investment property as a percentage of total capital amounted to a manageable 24% (FYE14: 17%).

Premium debtors

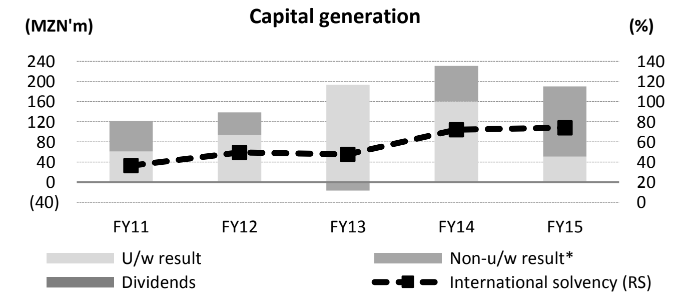
Premium receivables increased by a higher 23% to MZN530m at FYE15 (FYE14: MZN432m). Accordingly, there was a marked rise in the average turnaround of debtors, with the metric reported at 70 days in FY15 (FY14: 57 days). Management indicated that on an industry wide basis, there has been a notable rise in premiums that are delayed as payments to brokers. Much of this is directly related to the depreciating local currency, especially where policies are dollar denominated. The situation is compounded by the liquidity strain in the banking environment. Although the insurer will not pay out any claims where there are outstanding premiums, this poses a risk to cash flow requirements on a month to month basis. In the absence of regulatory enforcement, management continue to interact with its major brokerage clients in an effort to limit the impact of non-payment.

Capitalisation

Capital adequacy

Supported by robust levels of retained earnings (cumulatively amounting to MZN560m) and total review period capital injections of MZN142m, shareholders' funds increased at a strong four year CAGR of 44%. As such, capitalisation is viewed to be strong, and supportive of the insurer's rating. While GA Seguros' capital generation is likely to be subdued in FY16 (a function of a softening in earnings expectations), GCR expects risk adjusted capitalisation to be upheld at a strong level over the short term. This is expected to be a function of capital tolerance relative to underwriting risk exposure (with premium volume reductions lowering NWP exposure in FY16) and consistency in asset allocations (mitigating the ontake of market risk). Accordingly, GA Seguros is expected to reflect an international solvency margin range of 70% to 75% (preserving the strong 74% achieved in FY15).

On statutory basis, the statutory solvency margin improved slightly to 1.2x, from 1.1x previously, tracking marginally above the minimum requirement of 1x coverage.



*Investment & other income; inclusive of fair value movements.

Reserving

Based on the insurer's internal actuarial assessment conducted in March 2016, the IBNR and OCR technical liabilities were found to be under reserved by approximately USD3.4m. As such, GA Seguros began correcting the technical reserve account by gradually increasing provisions. An amount of USD1.25m has already been added to reserves as at June 2016. The correction of the technical account is expected to have an impact on the statutory solvency margin as well as key liquidity metrics in FY16, and GCR will continue to monitor the situation and its impact on key credit protection metrics going forward.

Global Alliance Seguros, S.A.

(MZN in millions except as noted)

Year ended: 31 December		2011	2012	2013	2014	2015
Income Statement						
Gross written premium (GWP)		1,060.4	1,409.0	1,982.8	2,669.6	2,512.2
Reinsurance premiums		(547.1)	(744.4)	(1,037.5)	(1,692.8)	(1,419.5)
Net written premium (NWP)		**513.3**	**664.7**	**945.3**	**976.8**	**1,092.6**
(Increase) / Decrease in insurance funds		(16.6)	(7.0)	(81.3)	(43.3)	(68.0)
Net premiums earned		**496.7**	**657.6**	**864.0**	**933.5**	**1,024.7**
Net claims incurred		(241.7)	(348.9)	(420.5)	(496.2)	(615.4)
Net commission expenses		(53.1)	(71.7)	(92.8)	(96.3)	(131.0)
Operating expenses		(140.8)	(143.6)	(157.2)	(180.5)	(227.4)
Underwriting profit / (loss)		**61.1**	**93.5**	**193.5**	**160.5**	**50.8**
Realised investment income		9.3	8.5	10.1	14.0	40.5
Unrealised investment income		3.6	2.1	15.1	19.2	72.4
Other income / (expenses)		52.3	13.4	(45.3)	37.1	26.4
Taxation		(41.8)	(38.3)	(57.1)	(74.5)	(86.4)
Net income after tax		**84.4**	**79.3**	**116.4**	**156.3**	**103.8**
Other comprehensive income		(5.0)	21.1	3.5	0.0	0.0
Retained surplus / (deficit)		**79.4**	**100.4**	**119.8**	**156.3**	**103.8**
Dividends in respect of financial year		0.0	0.0	0.0	0.0	0.0
Balance Sheet						
Total capital		**187.1**	**330.1**	**449.9**	**705.7**	**809.4**
Net UPR		81.0	94.8	174.8	210.0	173.0
Net OCR & IBNR		76.0	97.0	113.3	144.3	203.6
Other liabilities		203.0	207.4	515.8	547.6	757.2
Total capital & liabilities		**547.2**	**729.2**	**1,253.8**	**1,607.6**	**1,943.3**
Fixed assets		73.5	116.6	114.9	111.5	108.2
Investments		117.8	89.3	99.7	118.0	302.0
Cash and equivalents		180.6	357.5	484.0	805.7	879.4
Other current assets		175.2	165.7	555.2	572.4	653.7
Total assets		**547.2**	**729.2**	**1,253.8**	**1,607.6**	**1,943.3**
Key Ratios						
Solvency / Liquidity						
International solvency margin	%	36.5	49.7	47.6	72.3	74.1
Net UPR / NWP	%	15.8	14.3	18.5	21.5	15.8
Net OCR & IBNR / NWP	%	14.8	14.6	12.0	14.8	18.6
Claims cash coverage	months	9.0	12.3	13.8	19.5	17.1
Cash / Technical liabilities	x	1.1	1.9	1.7	2.3	2.3
Efficiency / Growth						
GWP growth	%	30.2	32.9	40.7	34.6	(5.9)
Retention rate	%	48.4	47.2	47.7	36.6	43.5
Earned loss ratio	%	48.7	53.0	48.7	53.2	60.1
Commissions / Earned premiums	%	10.7	10.9	10.7	10.3	12.8
Operating expenses / Earned premiums	%	28.4	21.8	18.2	19.3	22.2
Underwriting result / Earned premium	%	12.3	14.2	22.4	17.2	5.0
Combined ratio	%	87.7	85.8	77.6	82.8	95.0
Operating margin	%	14.2	15.5	23.6	18.7	8.9
Profitability						
Investment yield (excluding unrealised gains / losses)	%	3.3	2.3	2.0	1.9	3.8
Investment yield (including unrealised gains / losses)	%	4.6	2.8	4.9	4.4	10.7
ROaE (excluding unrealised gains / losses)	%	54.8	29.8	26.0	23.7	4.1
ROaE (including unrealised gains / losses)	%	57.2	30.7	29.8	27.0	13.7
Dividend cover	x	n.a.	n.a.	n.a.	n.a.	n.a.

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

Accident	An unplanned event, unexpected and undesigned, which occurs suddenly and at a definite place.
Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Branch Offices	Offices established in various areas for product distribution.
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.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
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.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cede	To transfer all or part of a risk written by an insurer (the cedant or primary company) to a reinsurer.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
Compulsory Insurance	Any form of insurance, which is required by law.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer’s promise to perform.
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.
Coverage	The scope of the protection provided under a contract of insurance.
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.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Deductible	The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Diversification	Spreading risk by constructing a portfolio that contains different investments, 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.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Earned Loss Ratio	Measures the proportion of claims in the net premiums earned.
Exchange Rate	The value of one country's currency expressed in terms of another.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
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.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Forecast	A calculation or estimate of future financial events.
Fronting	The act of providing claims or administrative services by a primary insurer to a secondary insurer or reinsurer, with no risk retention.
International Scale Rating LC	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.
International Solvency Margin	Measures the ability to cover current year’s written premiums using shareholder’s funds.
Intermediary	A third party in the sale and administration of insurance products.
Interest	Money paid for the use of money.
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.

Lead Reinsurer	The reinsurer who negotiates the terms, conditions, and premium rates and first signs on to the slip. Reinsurers who subsequently sign on to the slip under those terms and conditions are considered following reinsurers.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
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.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Loss	The happening of the event for which insurance pays.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Net Retention	The amount of insurance that a ceding company keeps for its own account and does not reinsure.
Operating Expense Ratio	Measures the proportion of operating expenses in net premiums earned.
Outstanding Premiums	Premiums due but not yet collected. Also referred to as premium debtors or premium receivables.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Political Risk	The risk associated with investing and operating in a country where political changes may have a negative impact on earnings or returns.
Pool	An organisation of insurers or reinsurers through which particular types of risk are underwritten and premiums, losses and expenses are shared in agreed-upon amounts.
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.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
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.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Retention	The net amount of risk the ceding company keeps for its own account.
Retention Rate	The net amount of risk the ceding company keeps for its own account as a percentage of GWP.
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.
Securities	Various instruments used in the capital market to raise funds.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
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.
Statutory Solvency Margin	Gives an indication as to whether the minimum regulatory solvency margin is being met, based on the net statutory assets to statutory net premiums ratio.
Technical Margin	Measures the percentage of net earned premiums remaining after accounting for claims and expenses incurred.
Total Capital	The sum of owner’s equity and admissible supplementary capital.
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.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

For a detailed glossary of terms please click here

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

Global Alliance Seguros, S.A. 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 Global Alliance Seguros, S.A. with no contestation of the rating.

The information received from Global Alliance Seguros, S.A. and other reliable third parties to accord the credit rating included:

- Audited financial results to 31 December 2015
- Four years of comparative numbers
- Unaudited year to date results to 31 May 2016
- Budgeted financial statements for 2016
- 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.