



Global Credit Rating Co.

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## CREDIT RATING ANNOUNCEMENT

### GCR affirms New National Assurance Company Limited's rating of A<sub>(ZA)</sub>; Outlook Negative

Johannesburg, 29 June 2018 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating accorded to New National Assurance Company Limited of A<sub>(ZA)</sub>, with the outlook accorded as Negative.

#### SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating to New National Assurance Company Limited ("NNAC") based on the following key criteria:

The Negative outlook considers the underperformance in earnings capacity relative to expectations, following five years of net underwriting losses. In this respect, the five year average underwriting margin registered at -1% in FY17, compared to a corresponding budgeted margin of 3%, while certain key Underwriting Management Agency portfolios continued to report net loss ratios in excess of medium term targets (despite incremental improvements in FY17). In GCR's view, achievement of strategic turnaround targets is susceptible to a degree of execution risk, particularly given the challenging industry and economic conditions. Accordingly, margin compression may persist in the absence of a sustainable turnaround in underwriting performance.

Capital accumulation has been underpinned by healthy levels of realised investment income and a consistently conservative dividend policy. Accordingly, nominal and risk adjusted solvency metrics continued to register at strong levels relative to growth in the risk base, with the international solvency margin equating to 68% at FY17 (FY16: 66%). GCR nevertheless notes the low Solvency Capital Requirement ("SCR") coverage ratio at 1Q F18 (based on anticipated Solvency Assessment and Management parameters), which implies potentially elevated regulatory risk. While GCR recognises the remedial action that is being undertaken to restore SCR coverage over the near term, the rating may be sensitive to continued pressure on regulatory solvency metrics should this persist over a longer than expected timeframe.

NNAC's key liquidity measures have been maintained at sound levels, with adjusted cash coverage of average monthly claims and net technical provisions equating to 12 months and 1.7x respectively at FY17 (FY16 unadjusted: 10 months and 1.6x). GCR expects liquidity metrics to remain strong over the rating horizon, supported by the conservative investment strategy.

Reinsurance arrangements are largely placed with highly rated counterparties, while the excess of loss net deductibles are limited to conservative levels relative to capital.

NNAC has executed strategic objectives relatively well from a portfolio management perspective, resulting in an enhanced degree of earnings diversification. Accordingly, positive impacts could materialise as newer books of business reach critical mass over the medium to longer term. The insurer nevertheless evidences a modest market share of around 1%, which is expected to remain at similar levels over the short to medium term, given the value of the premium base in absolute terms.

Negative rating action could follow a deviation in profitability or solvency metrics relative to expectations, and/or a moderation in liquidity. Conversely, the rating outlook may revert to Stable should the insurer effectively implement ongoing corrective measures, translating into a sustainable strengthening in underwriting performance. This would need to be accompanied by sustained strength in capital adequacy and liquidity levels.

#### NATIONAL SCALE RATINGS HISTORY

Initial rating (September 2005)

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

Outlook: Stable

Last rating (June 2017)

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

Outlook: Stable



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## APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated May 2018  
RSA Short Term Insurance Bulletins, 2001 – 2017  
NNAC rating reports, 2005 - 2017

## 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; 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.

New National Assurance Company Limited 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 New National Assurance Company Limited with no contestation of the rating.

The information received from New National Assurance Company Limited and other reliable third parties to accord the credit rating included:

- The latest audited financial statements to 31 December 2017
- Four years of comparative audited financial statements to 31 December
- Budgeted financial statements to 31 December 2018
- Year to date management accounts to March 2018
- Quantitative statutory return to 31 December 2017
- The current reinsurance programme summary
- Other relevant 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**

Capital	The sum of money that is invested to generate proceeds.
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.
Deductible	The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.
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.
Execution Risk	The risk that a company's business plans will not be successful when they are put into action.
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.
Investment Income	The income generated by a company's portfolio of investments.
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.
Net Loss	The amount of loss sustained by an insurer after giving effect to all applicable reinsurance, salvage, and subrogation recoveries.
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
Rating Outlook	A rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
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.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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.
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 detailed glossary of terms please click [here](#)



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