



Credit Rating Announcement

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

Rating action

Johannesburg, 26 August 2021 - GCR Ratings ("GCR") has affirmed Centriq Insurance Company Limited's ("Centriq") national scale financial strength rating of AA_(ZA), with the Outlook accorded as Stable.

Rated entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Centriq Insurance Company Limited	Financial strength	National	AA _(ZA)	Stable Outlook

Rating rationale

Centriq's rating balances the insurer's sound and stable earnings and good business diversification with adequate capitalisation and liquidity. The rating derives uplift from implied support from Santam group, given Centriq's strategic relevance, earnings history and operational integration.

Centriq has a limited market share of c. 3% of overall short term insurance premiums, although we consider its specialist focus and established position in the cell captive market to be a relative strength. The insurer has reflected sound average growth over the review period, supporting an estimated market share of 16% in the cell captive segment. Premium diversification is good, with four lines of business being material statutory revenue contributors and a balance between risk finance and Underwriting Management Agency ("UMA") segments, along with a growing contribution of affinity business. However, the insurer is geographically concentrated to South Africa.

Centriq's earnings are credit positive, with its fee-centric business model and diversified earnings base supporting a sound and stable earnings track record. Return on equity was stable at 23% in FY20 and has ranged between 20% and 25% over the review period. We expect earnings to be maintained at similar levels going forward, supported by growing fee income.

Solvency is aligned with the regulatory requirement, which includes a fungibility adjustment for surplus funds within the cells. Solvency Capital Requirement coverage equated to an unchanged 1.04x at FY20 (1Q F21: 1.07x). The majority of cells had surplus capital levels, and Centriq's exposure to undercapitalised cells equated to only 15% of shareholders' funds at FY20 (FY19: 21%). We expect that regulatory solvency will continue to be managed at similar levels, as consistent earnings generation supports targeted shareholder returns.

Liquidity is intermediate, supported by conservative investment allocations and strong operational cash flow generation. After applying a stress for potential withdrawal of surplus funds, GCR's liquidity coverage ratio registered at an unchanged 1.2x at FY20 and is expected to be maintained at a similar level going forward, given consistency in the investment mix.

Outlook statement

GCR expects solid earnings generation and profit retention to support adequate risk adjusted capitalisation, and positive operational cash flow generation to maintain the liquidity coverage ratio between 1.1x and 1.3x. We do not expect a material change in the business profile over the outlook horizon, although this could strengthen over the longer term following continued new business growth.

Rating triggers

The rating could be upgraded on the back of a sustained strengthening in earnings and liquidity. Negative rating action could follow if risk adjusted capitalisation or liquidity decrease below current levels, or if earnings register below expectations.

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, August 2021
GCR Insurance Sector Risk Scores, April 2021

Ratings history

Centriq Insurance Company Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Financial strength	Initial*	National	A _(ZA)	Stable Outlook	March 2006
	Last	National	AA _{-(ZA)}	Stable Outlook	August 2020

*Formerly claims paying ability.

Risk score summary

Rating components & factors	Risk score
Operating environment	15.00
Country risk score	7.00
Sector risk score	8.00
Business profile	(0.75)
Competitive position	(0.25)
Premium diversification	(0.50)
Management and governance	0.00
Financial profile	(1.25)
Earnings	0.50
Capitalisation	(0.75)
Liquidity	(1.00)
Comparative profile	2.00
Group support	2.00
Government support	0.00
Peer analysis	0.00
Total score	15.00

Glossary

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.
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.
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.
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.
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.
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.

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 is based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating is 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 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 annual financial statements to 31 December 2020;
- Four years of comparative audited financial statements to 31 December;
- Budgeted financial statements to 31 December 2021;
- Unaudited management accounts to 30 June 2021;
- Other relevant documents

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