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International Commercial & Engineering Seguros

Mozambique Insurance Analysis | **April 2018**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	A-(MZ)	Stable	April 2019

Financial data:

(Stated in USD'm)

	31/12/16	31/12/17
Total assets	9.0	32.1
Total capital	1.6	8.9
Cash & equiv.	1.8	12.7
GWP	8.1	20.3
U/w result	(0.5)	0.1
NPAT	0.0	0.2
Op. cash flow	1.0	3.5
Market cap.		n.a.
Market share*		12.9%

*Based on total industry short term GWP 2017.

Ratings history:

Initial rating (April 2015)
Claims paying ability: BBB+(MZ)
Rating outlook: Stable

Last rating (May 2017)
Claims paying ability: BBB+(MZ)
Rating outlook: Stable

Related methodologies/research:

Criteria for Rating Short Term Insurance Companies, updated July 2017

Criteria for Rating Newly Established and Start-up Insurance Companies, updated July 2017

ICE rating reports, 2015-2017

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Summary rating rationale

- International Commercial & Engineering Seguros's ("ICE") rating upgrade reflects the strengthening in risk adjusted capitalisation following the USD6.1m capital injection in December 2017. Furthermore, asset quality measured within a very strong range subsequent to the placement of a large portion of capital injection proceeds in liquid instruments. The assessment of these rating factors is expected to be sustained over the rating horizon.
- Supported by the recent capital injection, coupled with modest exposure to insurance and market risks, ICE's risk adjusted capitalisation is assessed at very strong levels. In this regard, and against the backdrop of a very limited risk base, the adjusted international solvency margin rose to an excess of 500% in FY17 (FY16: 84%). Looking ahead, risk adjusted capitalisation is projected to remain within a very strong range over the rating horizon, supported by a very strong capital base, and limited exposure to insurance and market risks. GCR, however, notes the potential for a moderation in the risk adjusted capitalisation over the medium term given the insurer's exposure to potential profit volatility
- Liquidity measured at strong levels, supported by a very conservative asset allocation, along with enhanced cash flow generation. Furthermore, the placement of a large portion of the FY17 capital injection proceeds in short term instruments saw cash and equivalents strengthening materially to USD12.7m (FY16: USD1.8m). As a proportion of the total investment portfolio, liquid assets constituted 98% in FY17 (FY16: 100%), with the balance placed in unlisted equity. In this respect, cash coverage of average monthly claims and net technical provisions equated to a review period peak of 301 months and 11.2x (FY16: 60 months and 1.2x) respectively. Liquidity metrics are expected to trend within a similar range over the rating horizon.
- The business profile improved following ICE's recent advances on the competitive position ladder. Accordingly, the insurer was the third largest player in the short term business, with a market share of 12.9% in FY17 (FY16: 5.4%) in GWP terms (albeit remaining limited in NWP terms, given the high degree of reinsurance utilised in the operating model). This was largely attributable to the acquisition of a single, large value policy during FY17, more than offsetting the reduction in premium volume subsequent to the discontinuation of the motor and workmen's compensation portfolios. Nevertheless, the sustainability of the recent market share gain remains highly sensitive to the continued renewal of the mega policy. Furthermore, the product mix is heavily biased towards fire on a gross basis and concentrated around motor on a net basis, with the fire line constituting a higher 75% of the gross premium base, while the motor portfolio accounted for a greater 47% of the net premium base in FY17 (FY16: 49% and 44% respectively).
- Despite the recent turnaround in underwriting profitability (FY17: USD0.1m profit, FY16: USD0.5m deficit), earnings capacity continued to trend within an intermediate range, with the pursuit of a very conservative premium retention strategy in the core fire portfolio constraining the attainment of scale efficiencies. The reversal in the underwriting account was largely attributed to reserve releases (USD0.4m) along with higher commission recoveries. GCR positively considers the recent underwriting performance progression in light of the entity's start-up phase, notwithstanding the overarching view that such performance should be derived from sustainable sources. High commission recoveries are expected to sustain earnings capacity over the rating horizon, while the realisation of scale efficiencies (given the prospect for growth in the NEP base due to increased capital) is viewed as a source of potential earnings strength over the medium term.
- Reinsurance protection is considered integral in the context of ICE's business strategy. In this regard, the moderate credit strength displayed by most reinsurance counterparties serves to somewhat alleviate capital risk. Furthermore, growth in the capital base (due to a capital injection) in FY17 saw a moderation in the maximum XoL net retention as a percentage of capital to 2.8% (FY16: 6.3%).

Factors that could trigger a rating action may include

Positive change: Positive rating action could result from a sustained improvement in earnings capacity, coupled with the maintenance of strong liquidity and risk adjusted capitalisation. Furthermore, an improvement in the business profile (supported by increased risk retention) may lead to positive rating movement.

Negative change: Negative rating action could result from a protracted reduction in risk adjusted capitalisation (due to profit retention shocks), coupled with a deterioration in earnings capacity and/or business profile.

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Operating environment

Economic overview

Recent data released by the Mozambique National Institute of Statistics revealed that GDP at factor cost expanded by 3.8% in 2017, on the back of a recovery in agricultural production and mining activity (mainly coal). The debt-ridden nation has been facing challenges since 2015, having been impacted by lower commodity prices and adverse weather conditions, dampening agricultural production. Economic performance was further exacerbated by the discovery of secret loans advanced to three state-owned enterprises in 2016 and the ensuing withdrawal of donor-funded budgetary support, triggering a debt and currency crisis. According to the International Monetary Fund (IMF), real GDP growth is expected to remain weak, trending within the 2.2-2.5% range over the medium term, largely underpinned by the growth in coal mining and infrastructure investments.

The country's level of total public debt remained unsustainable in the context of a weak revenue base. Total nominal public debt (inclusive of the participation of ENH, a national hydrocarbon company, in the gas projects) as percentage of GDP stood at 112% in 2017 (2016: 128%) and is expected to remain above 100% through 2022, reaching a peak of 146% in the same year. Recent debt restructuring efforts by the Mozambican government through the Ministry of Finance (including plans for substantial write-downs, along with low interest rates till 2023) were met with stiff resistance from the Global Group of Mozambique Bondholders, further plunging the economy into an abyss of a debt crisis, given the continued incurrence of sovereign arrears.

The prevailing economic conditions have a negative bearing on credit growth, limiting access to funding required for the much-needed private sector investment to stimulate the economy. Due to very high real interest rates offered on government securities (a function of a tight monetary policy stance, coupled with plummeting inflation), banks are increasing their local currency reserves with the central bank through the purchase of instruments such as overnight reverse repos. While the massive increase in minimum capital requirements and solvency ratios for commercial banks by the Bank of Mozambique (BM) in 2017 is commended for strengthening the soundness of the financial services sector, this has constrained the banks capacity to advance credit. Furthermore, the pursuit of an overly loose fiscal policy in 2017 constrained the private sector's access to credit, as they grappled to match the higher rates offered on government securities.

The BM tightened monetary policy since October 2016, facilitating exchange rate appreciation and subsequent stabilisation, with the local currency closing at MZN58.97 to the USD in 2017 (2016: MZN71.73). The combined effects of higher interest rates and a strengthening local currency saw year on year inflation plummeting to 6.3% in January 2018, with the consumer price inflation anticipated to float within the targeted range of 5%-6% over the medium term.

As expected, the BM is now loosening its monetary policy grip, amid falling inflation, with the bank's Monetary Policy Committee cutting the Money Market and the Permanent Lending Facility rates by 150 and 100bps respectively on 11 April 2018. This would potentially increase the private sector's access to liquidity, and stimulate economic activity. Nonetheless, such a policy needs to be complemented by the adoption of resolute fiscal consolidation efforts to keep the level of public debt on a sustainable path – a policy that is highly unlikely given the potential for fiscal slippages emanating from weak state-owned enterprises. The development of a sustainable debt restructuring programme that appeals to bondholders without further jeopardising macroeconomic stability, coupled with increased transparency and accountability regarding how proceeds from these secret loans were used are also viewed as necessary ingredients towards resuscitating waning investor and donor confidence.

Corporate profile

Ownership and shareholding structure

ICE is a private insurance company, which is incorporated in Mozambique and registered with the relevant insurance regulatory body. The entity is in turn a wholly owned subsidiary of International and Commercial Insurance Holdings Limited ("ICE Holdings"), registered in the Isle of Man. ICE Holdings is ultimately owned by two family trusts (namely L&A Family Trust and RJL Trust), linked to entrepreneurs Robert and Andrew Lewis. In addition to the vested involvement of these two individuals (manifesting particularly in terms of their extensive technical expertise and business acumen), shareholder support (as evidenced by the recent capital injections) is implicitly factored in the rating.

Corporate governance

ICE Board of Directors ("BoD") comprises seven directors, two of whom including the chairman are independent members. The functions of the board are supported by several committees (including Audit & Risk, Investment and Human Resources Committees). These committees, as well as the BoD meet quarterly (or on an ad hoc basis as required). Overall, the independence of ICE's BoD is viewed as adequate.

Strategic overview

The attainment of scale, through consistently high premium growth targets remains the key strategic objective for ICE. Success in this regard hinges on the depth of technical knowledge and experience inherent in the management team (in particular market and risk-specific knowledge), which serves as a key competitive advantage for ICE in a skill-deprived insurance market. Paired with its demonstrated track record of successfully driving start-up insurance ventures, this provides a degree of comfort in management's ability to successfully execute the stated objectives over the medium term.

In a show of financial flexibility, ICE increased its capital by USD6.1m (converted using the average exchange rate of MZN66.0 to the USD, although the actual capital subscribed was USD6.4m and in hard currency) in December 2017, strengthening its balance sheet and enhancing its capacity to accept a larger quantum of risks. This will likely broaden its net risk base, which remained very limited given the high use of reinsurance protection in the operating model. That said, ICE's key objective is to become the second largest insurer in Mozambique in 2018, targeting GWP in excess of USD30m within the confines of its very conservative approach to accepting business.

The attainment of such targets seems plausible given the team's demonstrated capabilities to on-board new, large multinational accounts such as Vale, AB InBev, Sasol and many others in 2017. The acquisition of these large accounts played a pivotal role in the recent gains ICE made on the competitive position ladder. Nonetheless, the sustainability of the recent increase in market share is highly dependent upon ICE's aptitude to retain these large accounts.

With regards to operational targets, ICE intends to maintain its current operational structures, which are deemed adequate in view of the high premium growth targets under pursuit. As such, the 2017 staff compliment will be retained going forward, opting for the development of existing junior staff on the technical aspects of the business. Management indicated that there is potential for a step-up in the commission rates over the rating horizon and the medium term, which could alleviate some operational cost pressure going forward.

Financial reporting
A financial synopsis is reflected at the end of this report. The 2017 financial statements have been audited by Ernst & Young, with an unqualified opinion issued. The audit found that the insurer's asset allocation did not comply with regulatory guidelines with respect to assets covering technical provisions. However, it was also noted that the noncompliance was related to asset allocation, as opposed to the adequacy of reserving. In accordance with applicable regulatory prescripts, ICE's Board of Directors is required to present an adequate plan to redress asset allocation insufficiency within a period to be determined by the regulatory authorities. The potential financial impact of the finding is addressed in the asset management section.

To allow for consistency with previous reports, certain figures from the FY17 audited financial statements have been translated into USD, using a MZN/USD closing and average exchange rate of 58.97 and 66.10 respectively (FY16: 71.73 and 62.65 respectively).

Competitive position

Peer analysis
The table below compares ICE's key operating ratios and credit protection metrics with those of its peers, which are viewed to compete for similar risks.

Table 1: Peer group analysis* (Based on MZN)	**FY16**		**FY17**
	ICE	**Peer avg**	**ICE**
Operating ratios (%)			
GWP market share	5.4	--	12.9
GWP growth	767.3	2.5	166.2
Retention	20.2	59.0	6.7
NILR	36.0	63.1	29.5
Net comm exp (recovery) ratio	1.0	10.7	(5.3)
Operating exp. ratio	115.0	18.3	67.4
Total cost ratio	116.0	29.0	62.1
U/w margin	(52.0)	7.9	8.4
Credit protection			
Int. solvency margin (%)	112.6	176.2	582.6
Cash / tech liabs (x)	1.2	1.0	11.1
Cash cover (months)	69.2	32.2	268.7

*Peer group comprise other rated entities operating in the same market and exclude ICE.

Growth and market share
ICE's gross premium base advanced by 166% in FY17, outperforming the short term industry growth rate 10%. Accordingly, the insurer was the third largest player in the short term business, with a market share of 12.9% (FY16: 5.4%) in GWP terms (albeit remaining limited in NWP terms, given the high degree of reinsurance utilised in the operating model). This was largely attributable to the acquisition of a single large value policy during FY17, making sustainability of the recent market share gain highly sensitive to the continued renewal of the mega policy. Nonetheless, a further increase in market share over the medium term is expected, underpinned by the insurer's improved market acceptance and close ties with multinational brokers.

Profitability
The pursuit of an overly low retention strategy, coupled with a high operating cost base (typical of start-up business ventures), saw ICE posting weaker results relative to peers at underwriting level in FY16. However, growth in the NEP base (attributed to reserve releases), along with considerable commission recoveries in FY17 occasioned a performance turnaround, with the underwriting margin improving to 8% (peers FY16: 8%). Nonetheless, the insurer's ability to maintain profitability levels consistent with peer group performance is largely dependent upon the sustainability of these sources of underwriting profitability.

Credit protection
ICE maintained competitive credit protection metrics in FY16, despite the international solvency margin trailing that of the peer group at 113% (peers: 176%). Nevertheless, the international solvency margin and other credit protection metrics strengthened substantially following a capital injection in FY17, and the subsequent investment of the proceeds in liquid instruments.

Earnings profile

Premium development

Table 2: Premium growth (USD'm)	FY17		FY18	
	Actual	Budget	2M FY18*	Budget
GWP	20.3	19.9	4.5	24.1
NWP	1.4	2.2	0.1	0.3
NPE	**1.7**	**2.5**	**0.2**	**0.5**
Key ratios (%)				
GWP growth**	152.3	146.6	33.2	18.5
Retention	6.7	10.9	1.3	1.3

*Two months to February 2018.
**Annualised for year to date results.

ICE's gross premium base grew robustly to USD20m in FY17 (FY16: USD8m), tracking budgeted expectations. Such strong growth stemmed from the acquisition of multinational clients such Vale, Sasol AB InBev, Heineken and other large accounts, given the insurer's close ties with large industry players and respected brokers in the local and international market. Premium growth is anticipated to moderate to 19% in FY18, with management underscoring ICE's conservative approach to accepting new business. Given the strategic focus on core lines such as fire and engineering, premium growth attainment is largely linked to the state of the underlying oil and gas and construction sectors. This exposes the revenue stream to economic sensitivities, whose performance remained centred around disciplined fiscal consolidation and diversification of the overall economy.

The NEP base, despite advancing to USD1.7m in FY17 (FY16:USD1.0m), remained constrained given the insurer's ultra-low premium retention stance in the core fire portfolio. The premium base is anticipated to recede to USD0.5m in FY18.

Diversification by line of business

Table 3: Earnings diversification (%)	GWP		NWP		Retention	
	FY16	FY17	FY16	FY17	FY16	FY17
Fire	48.6	75.4	12.8	(2.0)	5.3	(0.2)
Transport	4.1	1.7	12.9	8.5	63.5	34.0
Motor	8.9	3.2	44.2	47.1	100.0	100.0
Accident*	5.5	2.3	18.0	18.4	65.8	53.1
Liability	9.9	6.2	3.3	6.2	6.8	6.7
Miscellaneous**	23.0	11.2	8.9	21.7	7.8	13.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**20.2**	**6.7**

*Includes workmen's compensation.
**Includes engineering.

ICE's product mix is heavily biased towards fire on a gross basis, and concentrated around motor on a net basis. Accordingly, the fire line constituted a higher 75% of the gross premium base, while the motor portfolio accounted for a greater 47% of the net premium base in FY17 (FY16: 49% and 44% respectively). The fire portfolio grew remarkably to USD15m in FY17 (FY16: USD4.0m), driven by the acquisition of new, large multinational accounts. Premium volume from this portfolio is expected to reach USD20.7m in FY18, with a maximum retention set at 1.25%. Notwithstanding a USD0.1m reduction in the motor line in FY17, ICE's full premium retention strategy in the motor portfolio sustained its dominant position in the insurer's risk base. Citing profitability challenges and the associated looming trade war, as advised by management, ICE is no longer underwriting new motor and workmen's compensation business, potentially exposing the business mix to a higher degree of concentration going forward.

Given the higher level of domination the fire line commands in the insurer's business mix, a very conservative premium retention stance in this line (with a retention rate of -0.2%) in FY17, saw a moderation in ICE's overall premium retention rate to 7% (FY16: 20%). Management has budgeted for a further reduction in the premium retention rate to 1% in FY18, consistent with ICE's reinsurance treaty arrangements and risk tolerance levels.

Distribution channel diversification

The distribution channel spread remained heavily skewed towards the commercial segment (contributing 99.7% of GWP in FY17), given the insurer's strong focus on higher value risk. Nonetheless, premiums garnered through brokers reduced to 35% of GWP in FY17 (FY16: 74%), impacted by the termination of a client brokerage arrangement, with the client opting instead to deal with ICE directly. The client accounts for a substantial portion of the overall premium volume. Accordingly, the on-boarding of this large account on direct sales basis resulted in this channel dominating the insurer's distribution mix, constituting 62% of the FY17 gross premium base (FY: 26%). Consequently, a reduction in broker concentration was evident, with the five largest brokers contributing a lower 36% of the gross premium spread in FY17 (FY16: 72%). On the other hand, the portfolio mix was exposed to a greater level of policyholder concentration, with the single largest policyholder accounting for 51% of the gross premium spread in FY17 (FY16: 31%). Going forward, the distribution channel mix is expected to remain relatively unchanged, despite a potential reduction in the proportion placed by brokers.

Earnings capacity

Claims experience

Net claims (inclusive of unallocated other net technical reserves) remained relatively stable at USD0.5m in FY17 (FY16: USD0.4m), underpinned by reinsurance recoveries given the substantial utilisation of reinsurance protection in the operating model. However, gross claims exceeded the insurer's predefined risk tolerance limits, and a discontinuation of contributing lines (motor and workmen's compensation) ensued in July FY17. This, coupled with a higher NEP base, saw a moderation in the net claims ratio to 30% in FY17 (FY16: 36%). Furthermore, due to the lumpy nature of business that ICE underwrites, claims experience per line of business evidenced greater volatility across the entire portfolio. Management plans to further lower the loss ratio to 14% in FY18, given the withdrawal of unprofitable lines and the adoption of strict underwriting criteria.

Net commissions

Table 4: Net commissions	FY16	FY17	BGT18
Net comm. expense / (recovery) (USD'm)	0.0	(0.1)	(1.1)
Net comm. expense (recovery) ratio (%)	1.0	(5.3)	(208.2)

Increased fire cessions resulted in acquisition cost reprieve for ICE in FY17, positively impacting on its underwriting performance. Accordingly, net commission recovery equated to USD0.1m, translating to a net commission recovery ratio of 5% (FY16: net commission expense ratio of 1%). Nevertheless, the ongoing oscillations in the NEP base (a function of a very conservative retention strategy given the portfolio's inherent bias towards large value risks) threatens the sustainability of commission recovery contribution to the insurer's profitability going forward.

Operating expenses

Table 5: Operating expenses	FY16	FY17	BGT18
Operating expenses (USD'm)	1.2	1.2	1.4
Operating expense ratio (%)	115.0	67.4	264.4

The insurer's overall operating expenses remained unchanged at USD1.2m in FY17. Nevertheless, ICE's constrained NEP base limited the insurer's ability to capture scale efficiencies. In this respect, the operating expense ratio remained susceptible to fluctuations in the NEP base, equating to 67% in FY17 (FY16: 115%). ICE will continue to retain low risk on its net account, budgeting for an operating expense ratio of 264% in FY18. The maintenance of an efficient and sustainable operating cost structure is viewed positively by GCR.

Underwriting profitability

Following two consecutive years of underwriting deficits, ICE's underwriting performance progressed into the positive territory, recording a surplus of USD0.1m in FY17 (BGT17: USD0.9m). This was largely a function of reserve releases along with higher commission recoveries. The withdrawal of unprofitable business lines is anticipated to enhance underwriting profitability, with management aiming to double the underwriting surplus to USD0.2m in FY18. GCR positively considers the recent underwriting performance progression in light of the entity's start-up phase, notwithstanding the overarching view that such performance should be derived from sustainable sources. High commission recoveries are expected to sustain earnings capacity over the rating horizon, while the realisation of scale efficiencies (given the prospect for growth in the NEP base due to increased capital) is viewed as a source of potential earnings strength over the medium term.

Net profitability

Table 6: Financial performance (USD'm)	FY17		FY18	
	Actual	Budget	2M FY18*	Budget
NPE	**1.7**	**2.5**	**0.2**	**0.5**
Claims	(0.5)	(1.0)	(0.0)	(0.1)
Commission	0.1	0.8	0.1	1.1
Operating expenses	(1.2)	(1.2)	(0.3)	(1.4)
U/w result	**0.1**	**1.0**	**(0.1)**	**0.2**
Realised investment inc.	0.0	0.0	0.1	0.4
Other income/(exp)	(0.0)	0.6	0.4	0.0
Tax	0.0	(0.3)	0.0	0.0
NPAT	**0.2**	**1.5**	**0.4**	**0.6**
Total capital	*8.9*	10.2	9.4	*9.5*
Key ratios (%)				
Net incurred loss ratio	29.5	42.0	4.2	13.9
Net comm. recovery ratio	5.3	33.9	42.7	208.2
Operating expense ratio	67.4	50.0	185.4	264.4
U/w margin	8.4	41.8	(46.9)	30.0
Op. margin	9.2	42.9	16.0	107.4

*Two months to February 2018.

Net profit after tax increased to USD168,800 in FY17 (FY16: USD36,800), supported by the recent improvement in underwriting performance. In this respect, the return on average equity and the investment yield edged higher at 3.2% and 0.2% (FY16: 2.9% and 0.1%) respectively. ICE targets a higher NPAT of USD566,200 in FY18. However, the achievement of such a target will be contingent upon the manifestation of targeted lower claims incidence, and as such, a degree of execution risk is inherent in short term profit projections.

Reinsurance

With the operational focus centering on the pursuit of high value commercial risks, reinsurance support is considered paramount in providing underwriting capacity, maintaining shareholder risk appetite within tolerance levels and thus successfully executing ICE's business strategy.

Reinsurance structure

There were some changes to the 2018 reinsurance programme, with the fire and engineering surplus treaty now providing capacity to a maximum value of USD4m (2017: USD9m), subject to a net retention of USD1m. The quota share was dropped, with the ultimate net buy-down facilitated through a surplus and XOL treaty, limiting the insurer's net exposure per risk and event to USD0.25m. Growth in the capital base (due to a capital injection) in FY17 saw a moderation in the maximum XoL net retention as a percentage of capital to 2.8% (FY16: 6.3%).

Given the strong representation of high value fire and engineering risks, facultative reinsurance is extensively utilised, accounting for approximately 92% of reinsurance cessions in FY17. Management has, however, confirmed that facultative reinsurance is to be used solely for capacity building, with no risks in excess of treaty limits to be retained for ICE's account.

Reinsurance counterparties

Participating reinsurance counterparties are qualitatively sound, comprising highly rated international reinsurers and affiliate reinsurer, One Re. Swiss Re leads the treaty programme (accounting for a 30% share), followed by Arab Re (20%). One Re and ZEP Re have a 10% surplus treaty share, with the balance of 5% placed with Moz Re. Participation on XOL is led by Swiss Re (35%), with the remainder taken up by Africa Re (25%), Arab Re, One Re (15% each), ZEP Re and Moz Re (5% each).

Asset management

Asset allocation

Table 7: Asset allocation	FY16		FY17	
	USD'm	%	USD'm	%
Cash on hand	1.8	100.0	3.0	23.6
Short term deposits	0.0	0.0	8.7	67.7
Treasury bills	0.0	0.0	0.9	7.1
Cash and equivalents	***1.8***	***100.0***	***12.7***	***98.4***
Listed shares – ordinary	0.0	0.0	0.2	1.6
Non-cash investments	***0.0***	***0.0***	***0.2***	***1.6***
Total investments	**1.8**	**100.0**	**12.9**	**100.0**

ICE's asset allocation strategy remained very conservative, despite recent attempts to equitise the asset portfolio. Overall portfolio value stood at USD12.9m at FY17 (FY16: USD1.8m), following the placement of capital injection proceeds in short term deposits, equities and government securities. Notwithstanding the relatively high returns on Treasury bills, the high level of risk inherent in these instruments will likely see ICE reducing exposure to these securities in FY18.

Cash and equivalents
Cash and equivalents amounted to USD12.7m at FY17 (FY16: USD1.8m), constituting 98% of the total portfolio (FY16: 100%). Consequently, short term deposits dominated cash and equivalents, with the majority of these instruments (82%) denominated in USD. Treasury bills valued at USD0.9m were purchased in FY17, providing some level of diversification in the insurer's liquid asset pool. Exposure to short term deposits in FY17 remained in excess of the prescribed regulatory ceiling relating to holdings required for funding technical provisions. In this regard, management indicated that they will stick to their current allocations as the bulk of their policies are denominated in USD.

Liquidity
Liquidity is viewed to be strong, supported by a very conservative asset allocation, along with enhanced cash flow generation. In this respect, liquidity metrics measured within a strong range, with cash coverage of average monthly claims and net technical provisions equating to a review period peak of 301 months and 11.1x respectively (FY16: 60 months and 1.2x respectively). Liquidity metrics are expected to trend within a similar range over the rating horizon.

Equities
Efforts to comply with local regulations governing specific asset allocation holdings required to fund technical obligations prompted the insurer to equitise the portfolio with a 0.05% exposure to Cervejas de Moçambique, S.A, a brewing company operating in Mozambique and a subsidiary of Anheuser-Busch InBev SAB Group Holdings limited. Nevertheless, the investment portfolio was 18.6% underinvested in equities relative to the local regulatory ceiling of 20% of the insurer's gross technical obligations. No further equity investment is expected over the rating horizon.

Conversion risk
Given the focus on multinational insurance risks (with the associated policies typically underwritten in USD), cash reserves are predominantly held in USD, with domestic currency reserves originating from a limited number of local commercial risks. With most claims correspondingly settled in USD, operational currency risk is naturally mitigated. As such, conversion risk is limited to the translation of USD denominated assets and liabilities into local currency balances for regulatory purposes.

Premium receivables
Premiums receivables stood at MZN261m at FY17 (FY16: MZN285m), with a large portion (77%) due from brokers. Notwithstanding a slight moderation in the premium receivables balance in FY17, GCR noted a deterioration in the insurer's debtor's book, with receivables in excess of 180 days increasing to MZN67m from MZN17m in FY16. This was attributable to ICE's exposure to accounts with longer payment arrangements. Management seeks to redress the outstanding debtors' problem through the issuance of policies on a cash and carry basis. Further to this, a new regulation requiring the payment of premiums before cover is expected in the near term.

Capitalisation

Capital generation
Given that ICE is still a start-up company, its ability to generate internal capital is limited as the business absorbs losses associated with high levels of cash burn that characterise these early stage business ventures. Accordingly, the insurer's capital base has been largely supported by capital injections, with USD1.1m and USD6.1m pumped into the business in FY16 and FY17 respectively. In this regard, ICE's capital base equated to USD8.9m at FY17 (FY16: USD1.9m). The insurer's ability to sustain positive after tax operating profits (given the recent migration past the break-even underwriting result), along with the pursuance of a full profit retention strategy is viewed positively towards building a sustainable capital base over the medium term horizon.

Capital adequacy
ICE's risk adjusted capitalisation is assessed at very strong levels, buoyed by the USD6.1m capital injection in FY17, coupled with modest exposure to insurance and market risks. In this regard, and against the backdrop of a very limited risk base, the adjusted international solvency margin rose to an excess of 500% in FY17 (FY16: 84%). Looking ahead, risk

adjusted capitalisation is projected to remain within a very strong range over the rating horizon, supported by a very strong capital base, and limited exposure to insurance and market risks. GCR, however, notes the potential for a moderation over the medium term given the insurer's predisposition to profit retention shocks.

Reserving

In terms of reserving, local regulations stipulate a minimum IBNR provision at 3.5% of the current year's net premiums earned. Reserves for outstanding claims are raised on an ad-hoc basis (premised on historic claims patterns and management's experience). As a percentage of NWP, the outstanding claims and unearned premium reserve equated to a lower 43% and 40% (FY16: 49% and 43%) respectively.

International Commercial & Engineering Seguros

(USD in millions except as noted)

Year ended : 31 December		2015	2016	2017	Budget 2018
Income Statement					
Gross written premium (GWP)		1.5	8.1	20.3	24.1
Reinsurance cession		(1.2)	(6.4)	(19.0)	(23.8)
Net written premium (NWP)		**0.3**	**1.6**	**1.4**	**0.3**
Net UPR movement		(0.3)	(0.6)	0.4	0.2
Net earned premiums (NEP)		**(0.0)**	**1.0**	**1.7**	**0.5**
Net claims incurred		(0.3)	(0.4)	(0.5)	(0.1)
Net commission expenses		(0.2)	(0.0)	0.1	1.1
Operating expenses		(1.3)	(1.2)	(1.2)	(1.4)
Underwriting result		**(1.7)**	**(0.5)**	**0.1**	**0.2**
Realised investment income		0.1	0.0	0.0	0.4
Taxation		0.0	(0.0)	0.0	0.0
Net income after tax		**(0.9)**	**0.0**	**0.2**	**0.6**
Other comprehensive income		0.0	0.0	0.0	0.0
Total comprehensive income		**(0.9)**	**0.0**	**0.2**	**0.6**
Balance Sheet					
Shareholders interest		**0.9**	**1.6**	**8.9**	**10.0**
Net UPR		0.3	0.7	0.6	0.6
Net OCR		0.2	0.8	0.6	0.2
Other liabilities		1.4	5.9	22.0	12.4
Total capital & liabilities		**2.8**	**9.0**	**32.1**	**23.1**
Fixed assets		0.1	0.1	0.1	0.1
Investments		0.0	0.0	0.2	0.2
Cash and equivalents		1.0	1.8	12.7	12.7
Other assets		1.6	7.0	19.1	10.1
Total assets		**2.8**	**9.0**	**32.1**	**23.1**
Cash Flow Statement					
Cash generated by operations		(0.3)	(1.0)	0.2	n.a.
Working capital decrease / (increase)		(0.2)	2.1	3.3	n.a.
Cash flow from operating activities		**(0.6)**	**1.0**	**3.5**	**n.a.**
Cash flow from investing activities		**(0.6)**	**(1.0)**	**(7.6)**	**n.a.**
Cash flow from financing activities		**2.1**	**1.1**	**6.1**	**n.a.**
Net cash inflow / (outflow)		**0.9**	**1.1**	**2.0**	n.a.
Key Ratios					
Solvency / Liquidity					
Adjusted international solvency margin*	%	297.5	83.6	569.7	n.a.
International solvency margin	%	297.5	98.3	653.1	n.a.
Net UPR / NWP	%	83.4	42.9	40.2	182.1
Net OCR & IBNR / NWP	%	53.7	49.2	43.3	51.4
Claims cash coverage	mths	48.2	60.4	301.2	n.a.
Cash / Technical liabilities	x	2.4	1.2	11.1	18.0
Underwriting account					
GWP growth rate	%	n.a.	433.5	152.3	18.5
Retention rate	%	20.4	20.2	6.7	1.3
Net incurred loss ratio	%	n.a.	36.0	29.5	13.9
Net commission ratio	%	n.a.	1.0	(5.3)	(208.2)
Management expense ratio	%	n.a.	115.0	67.4	264.4
Underwriting margin	%	n.a.	(52.0)	8.4	30.0
Combined ratio	%	n.a.	152.0	91.6	70.0
		n.a.			
Profitability		n.a.			
Operating margin	%	n.a.	(51.9)	9.2	107.4
Investment yield (excluding unrealised gains / losses)	%	n.a.	0.1	0.2	3.2
Investment yield (including unrealised gains / losses)	%	n.a.	0.1	0.2	3.2
ROaE (excluding unrealised gains / losses)	%	n.a.	2.9	3.2	6.0
ROaE (including unrealised gains / losses)	%	n.a.	2.9	3.2	6.0

*Excludes debtors aged over 180 days.

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.
Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
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.
Captive Insurance Company	A company owned solely or in large part by one or more non- insurance entities for the primary purpose of providing insurance coverage to the owner or owners.
Cash	Funds that can be readily spent or used to meet current obligations.
Catastrophe	An event, which causes a loss of extraordinary magnitude.
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.
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.
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.
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.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
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.
Facultative	Facultative reinsurance means reinsurance of individual risks by offer and acceptance wherein the reinsurer retains the "faculty" to accept or reject each risk offered.
Financial Flexibility	The company's ability to access additional sources of capital funding.
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.
Income Statement	A summary of all the expenditure and income of a company over a set period.
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.
Interest	Money paid for the use of money.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
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.
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.
Loss	The happening of the event for which insurance pays.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
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.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Personal Lines	Types of insurance, such as auto or home insurance, for individuals or families rather than for businesses or organisations.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Policyholder	The person in actual possession of an insurance policy.
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.
Preference Share	Preference or preferred shares entitle a holder to a first claim on any dividend paid by the company before payment is made on ordinary shares. Such dividends are normally linked to an interest rate and not determined by company profits. Preference shares are normally repayable at par value in the event of liquidation. They do not usually carry voting or pre-emptive rights. Preference shares can be redeemable or perpetual.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Reinstatement	The resumption of coverage under a policy, which has lapsed.
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.

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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 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.

International Commercial & Engineering Seguros 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 International Commercial & Engineering Seguros with no contestation of the rating.

The information received from International Commercial & Engineering Seguros and other reliable third parties to accord the credit rating included:

- The audited financial statements to 31 December 2017
- Two year of comparative audited financial statements to 31 December
- Full year budgeted financial statements to 31 December 2018
- Unaudited interim results to 28 February 2018
- 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.

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