



Credit Rating Announcement

GCR reviews the rating of International Commercial & Engineering Seguros under the new criteria

Rating Action

Johannesburg, 16th July 2019 - GCR Ratings ("GCR") has reviewed the rating of International Commercial & Engineering Seguros under the recently released Criteria for Rating Insurance Companies, May 2019.

International Commercial & Engineering Seguros's ("ICE") national scale financial strength rating (formally claims paying ability rating) has been affirmed at A-(MZ) / Stable Outlook.

GCR announced that it had released a new criterion for rating insurance companies in May 2019. Consequently, the ratings were placed 'Under Criteria Observation'.

GCR finalised the review under the new methodology. As a result, the rating for ICE has been revised in line with the new methodology and subsequently removed from 'Under Criteria Observation'.

Rating Rationale

ICE's financial strength national scale rating is underpinned by very strong risk adjusted capitalisation and liquidity. This in turn is supported by the insurer's large capital base relative to its modest exposures to insurance and market sensitivities as well as a conservatively invested asset portfolio. However, the overall financial profile is moderated by weak and volatile earnings attributed to fluctuations in the earned premium base along with an elevated operating cost structure. Despite operating in the top tier short term insurance market in Mozambique, ICE's market position is considered very limited on a net basis given the insurer's high utilisation of reinsurance protection and its competitive strength is yet to be reflected in its financial performance.

The Stable Outlook reflects the insurer's ability to withstand the adverse impact of weak earnings on its capital and liquidity positions over the rating horizon.

Rating triggers

Positive: Positive rating action could result from a sustained improvement in earnings 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: Downward rating action could result from a protracted reduction in earnings, risk adjusted capitalisation and/or business profile.

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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 Scale, Symbols & Definitions, May 2019
 GCR Country Risk Scores, June 2019
 GCR Insurance Sector Risk Score, July 2019

Ratings History

International Commercial & Engineering Seguros

Rating class	Review	Rating scale	Rating class	Outlook/Watch	Date
Claims paying ability	Initial	National	BBB+(MZ)	Stable	April 2015
	Last	National	A-(MZ)	Stable	April 2018

RISK SCORE SUMMARY

Risk score

Operating environment	3
Country risk score	1
Sector risk score	2
Business profile	-1
Competitive position	-1
Premium diversification	0
Management and governance	0
Financial profile	2
Earnings	-2
Capitalisation	2
Liquidity	2
Comparative profile	1
Group support	0
Government support floor	0
Peer analysis	0
Total Score	4
National Scale Rating	A-(MZ)

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.

SALIENT POINTS OF ACCORDED RATING

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; 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.

The credit rating has been disclosed to International Commercial & Engineering Seguros. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

International Commercial & Engineering Seguros participated in the rating process via face-to-face 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 International Commercial & Engineering Seguros and other reliable third parties to accord the credit rating included:

- Audited financial statements as at 31 December 2018;
- Three years of comparative audited financial statements to 31 December;
- Full year budgeted financial statements to 31 December;
- Unaudited interim results to 30 June 2019;
- Reinsurance cover for 2019;
- Other relevant documents

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