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GIC Re South Africa Ltd.

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GIC Re South Africa Ltd.

Anchor	bb

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Modifiers	0

=

SACP	bb

Business Risk	**Weak**
Competitive position	Fair
IICRA	Moderately high
Financial Risk	**Fair**
Capital and earnings	Strong
Risk exposure	High
Funding structure	Neutral

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

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Support	**1**
Group support	1
Government support	0

=

BB+/Negative/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	**Key risks**
GIC Re South Africa receives regular operational and financial support from its parent when needed. Hence, its ratings benefit from one notch uplift.	Exposure to South Africa, and other African countries with weak economies, weighs negatively on GIC Re SA's revenues, earnings, and asset quality, in common with local peers.
'AAA' risk-based capital adequacy, thanks to capital support from the parent.	Significant volatility in top and bottom line, partly reflecting its small scale.

We expect General Insurance Corporation (GIC Re) of India will continue to support GIC Re SA. Our ratings on GIC Re SA benefit from one notch of uplift, reflecting the regular support it receives from parent GIC Re (not rated) including an unconditional guarantee. That said, GIC Re's weakened underwriting performance and the volatile capital markets brought about by the COVID-19 pandemic place pressure on its operating performance, and by extension its capitalization. The negative outlook on GIC Re SA therefore reflects the pressure on the parent's creditworthiness, as this could also affect our ratings on GIC Re SA.

S&P Global Ratings expects GIC Re SA will maintain capital adequacy in the excess of the 'AAA' range. GIC Re SA benefits from 'AAA' level risk-based capital (measured using our capital model). This is mostly due to capital support from its parent that has helped it achieve material premium growth levels. That said, GIC Re SA's absolute size of capital remains susceptible to a single large loss and is relatively small compared to larger, more diversified players. However, we recognise that the group makes use of a substantial level of reinsurance (around 73% of gross premium) to mitigate the potential volatility in its capital and earnings. GIC Re SA's premium for year-end March 2020 reduced materially following rapid growth between 2016-2019 from a very small base. This is mainly because the company's goal is to reduce reliance on capital support from its parent, and instead grow such that retained earnings are sufficient to support its capitalization. We expect GIC Re to provide capital support to GIC Re SA when needed.

Exposure to South Africa and other countries with weak economies places pressure on GIC Re SA's revenues, earnings, and asset quality, in common with local peers. GIC Re SA will continue to derive a significant portion of its business from South Africa (nearly 70% of gross premium) while increasing its exposure to the rest of the African continent. Weak economic conditions in its countries of operation mean GIC Re SA's asset quality, revenues, and earnings will be under pressure. This risk is mitigated by the company's 'AAA' level capital and the parental support notably through capital injection when needed and an unconditional guarantee for policyholders liability. In common with regional peers such as Africa Re, International General Insurance (IGI), and Saudi Re, GIC Re SA has limited exposure to COVID-19-related claims because pandemic risks are generally excluded from its policies.

Outlook: Negative

The negative outlook reflects that we could downgrade GIC Re SA if its parent's creditworthiness deteriorates.

Downside scenario

As well as due to worsening creditworthiness at GIC Re, we could also lower our rating on GIC Re SA if we lowered the ratings on South Africa. While remote, we might also downgrade GIC Re SA if its strategic importance to the group weakens substantially.

Upside scenario

We could revise the outlook to stable in the next 12 months if we see an improvement in GIC Re SA's parent's creditworthiness.

Key Assumptions

Macroeconomic Assumptions

Table 1

South Africa Economic Forecast Summary

	2021F	2020F	2019	2018	2017
Real GDP growth (%)	5.0	(8.2)	0.2	0.8	1.4
Inflation (annual average, %)	4.0	3.3	4.1	4.6	5.3
Unemployment rate (%)	30.8	33.8	28.7	27.1	27.5

F--S&P Global Ratings forecast. Source: S&P Global Economics, Oxford Economics.

Key Metrics

Table 2

GIC Re South Africa Ltd.--Key Metrics

	--Fiscal year ended March 31--				
(Mil. ZAR)	**2022f**	**2021f**	**2020#**	**2019**	**2018**
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Extremely Strong*
Gross premiums written (Mil. ZAR)	1,300	1,200	1,067	2,936	1,641
P/C: Net Combined ratio (%)	95.0	95.0	128.2	95.1	127.7

Table 2

GIC Re South Africa Ltd.--Key Metrics (cont.)					
	--Fiscal year ended March 31--				
(Mil. ZAR)	**2022f**	**2021f**	**2020#**	**2019**	**2018**
Net investment yield (%)	4.0	4.0	5.0	3.8	3.0
Net income (Mil. ZAR)	110	100	137	174	- 76
Return on equity (%)	8	8	10.7	18.1	- 16.9

ZAR--South African Rand; e--estimate; f--Forecast data reflects S&P Global Ratings' base-case assumption. *The assessment reflects the rating scores under the previous insurance criteria framework. #Numbers are based on unaudited financial statement for the fiscal year 2020.

Business Risk Profile: Weak

GIC Re SA was incorporated in 2014 and started its operation in January 2015, with a mandate to write reinsurance business across most of the African continent. Over the past five years, the company has gained some market traction in South Africa and expanded its franchise across the African continent, mostly driven by operational and financial support from its parent--a well-known brand across Africa. Furthermore, the company's premium income is dominated by the property business (45% of GWP) followed by motor insurance (25%), which we expect to remain same.

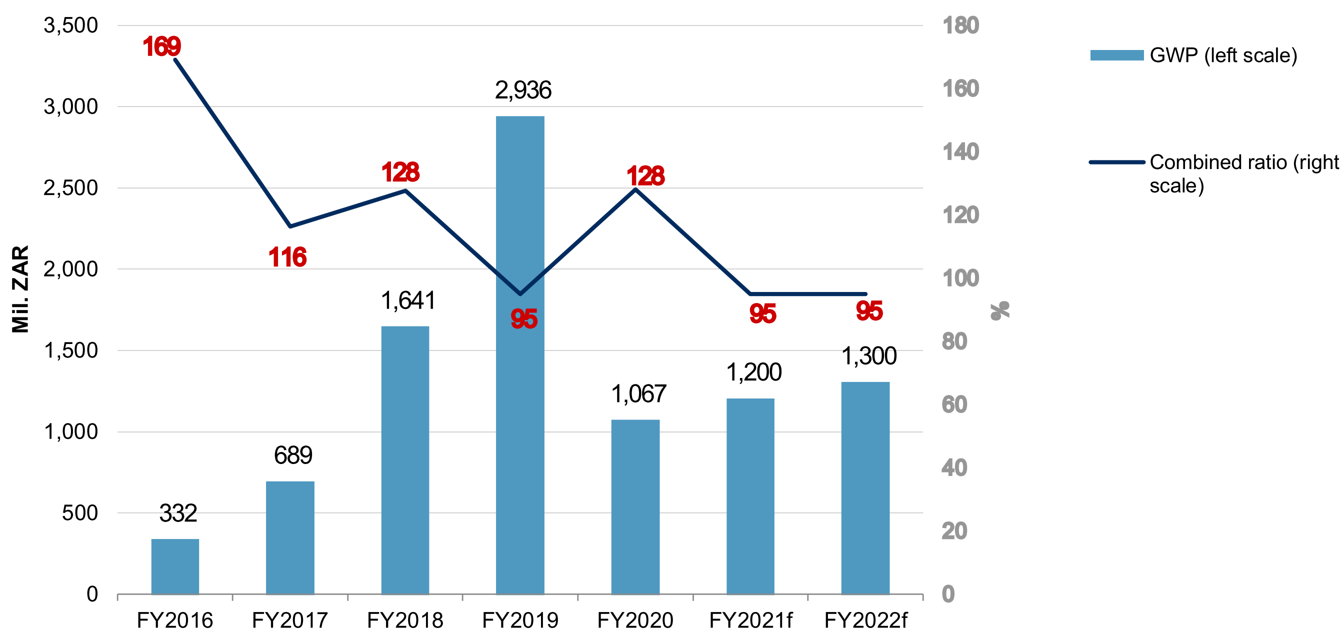
In the first four years of underwriting (2016-2019), gross premiums written (GPW) increased very rapidly reaching South Africa Rand (ZAR) 3 billion in the fiscal year 2019 (a three years average growth rate of 108% albeit from a low base). The group's key goal in its early stages was primarily focused on top line, reflecting its parent's expectations. GIC Re SA received required levels of capital to support the material increase in premium. Furthermore, the group makes significant use of reinsurance to reduce potential volatility in capital and earnings.

GIC Re SA has lowered its growth targets over the past 12 months in line with its parent's expectations. This is because its key goal is to manage its capital through retained earnings rather than relying on its parent. With this new strategy and a material reduction in pipeline premium, GIC Re SA experienced a material decline in its GPW by 64% to ZAR1.1 billion ($60 million) for year-end March 2020. We expect premium to grow at moderate rate of 5% over fiscal year 2021-2022, bearing in mind the slowdown in economic activity and the company's lower growth target.

On the performance side, GIC Re has historically reported large technical losses, with its combined ratio remaining more than 100% (except for fiscal year 2019; see chart 2). However, for year-end March 2019, GIC Re SA's underwriting performance improved with a significant reduction in the loss ratio to 72% (2018: 102%), which led to a decline in the combined ratio to 95%. This was due to better underwriting results, following the large catastrophe losses in prior periods, as well as reserve releases. However, for year-end March 2020, GIC Re SA has reported a material increase in the combined ratio of 128%, due to one-off reserve strengthening related to prior years and the lower premium base. Overall, its underwriting performance was volatile in the past compared with peers; however, it is expected to improve over 2021-2022 (see charts 1 and 2). We expect the combined ratio over the fiscal year 2021-2022 will remain around 95%, reflecting the benefit of a more selective underwriting approach over the past two years.

Chart 1

Historically Volatile Technical Performance Expected To Improve



Source: S&P Global Ratings. GWP--Gross written premium. ZAR--South African rand.

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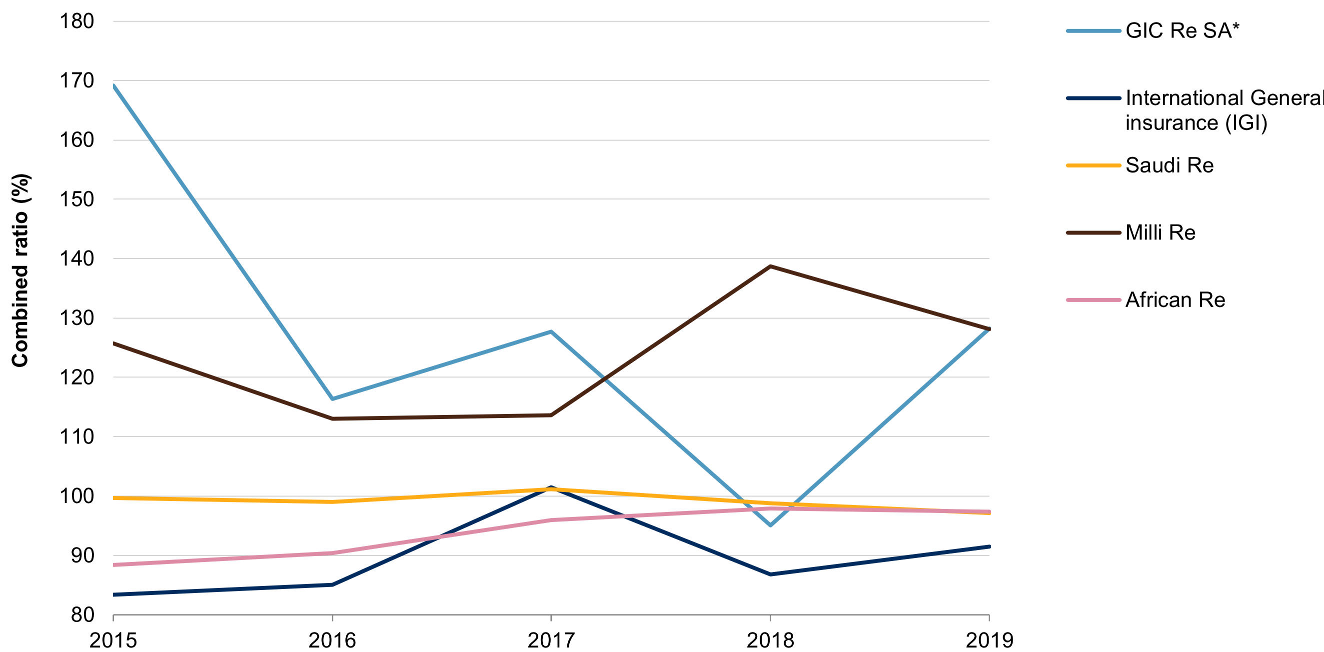
Chart 2

Volatile Operating Underwriting Performance Compared To Peers



*Year end for GIC Re SA is March. For instance, 2015 is March-2016, while for peers its Dec-2015. GIC Re SA's combined ratio for 2019 is based on unaudited financials. Source: S&P Global Ratings.

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Over the past two years (2019-2020), the company reported a higher net profit of ZAR173 million and ZAR136 million, compared to total losses of ZAR110 million in the previous three years (2016-2018). This higher profit was mainly supported by the foreign exchange gains, reflecting the depreciation of the South African Rand (ZAR) against various other countries.

Financial Risk Profile: Fair

The company's 'AAA' risk-based capital will continue (as measured by our capital model) thanks to the capital injections by its parent, GIC Re group, as seen over the past four years. GIC Re SA's robust capital partly mitigates the potential volatility from its asset risk driven by the quality of available assets in South Africa. The average credit quality of GIC Re SA's asset portfolio is within the 'BB' range because a significant majority of its assets are held as bank deposits (in local banks) and local currency sovereign bonds. GIC Re SA's absolute size of capital (less than $100 million at March 31, 2020) remains susceptible to a single large loss and is relatively small compared to larger, more diversified players. We recognise that GIC Re SA makes use of a substantial level of reinsurance (around 73% of gross premium) to mitigate the potential volatility in its capital and earnings. From a regulatory perspective, the solvency ratio as at June 2020 is around 1.9x (March 2020: 1.3x) and we expect the company to maintain thiscomfortably above 1.5x over the next two years.

GIC Re SA, in our view, is exposed to foreign currency mismatches on its balance sheet, with long positions in U.S. dollars. This is mainly due to its exposure to Africa emerging-market and investments denominated in U.S. dollars. Although the company actively manages U.S. dollar exposure mismatch risk, this has translated into bottom-line volatility, given the fluctuations in the South African rand in previous years (as explained above).

Other Key Credit Considerations

Governance

GIC Re SA benefits from having an experienced management team with appropriate insurance expertise. Most of senior management has been working for GIC Re group for many years. GIC Re provides regular operational support. Over the past 12 months there have been various management changes including the appointment of a new MD and CEO following the retirement of the previous one at the end of May 2020. GIC Re SA does not yet have a seasoned business profile bearing in mind it has seen significant decrease in its top line following a few years of rapid increase in premium levels, as mentioned above. We expect the company to have a more stable growth strategy given that it will no longer receive material capital from the parent to support rapid growth.

Liquidity

GIC Re SA has robust liquidity given its large allocations in bank deposits, and considering the relatively short tail of much of its liability portfolio. Its liquidity is further supported by the parent's capital infusion. At March 2020, liquid assets covered net technical reserves (after reinsurance) by more than 5x.

Factors specific to the subsidiaries, and ratings above the sovereign

We believe that GIC Re will continue to support GIC Re SA operationally and financially when needed. We expect the GIC Re group to support GIC Re SA with access to capital and liquidity during a severe stress scenario, including a default scenario of South Africa. We therefore rate GIC Re SA above South Africa's foreign currency ratings.

Ratings Score Snapshot

Rating Score Snapshot	
Business Risk Profile	**Weak**
Competitive position	Fair
IICRA	Moderately High Risk
Financial Risk Profile	**Fair**
Capital and earnings	Strong
Risk exposure	High
Funding structure	Neutral
Anchor*	bb

Rating Score Snapshot (cont.)	
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	**1**
Group Support	1
Government Support	0
Financial Strength Rating	**BB+**
National Scale Rating	**zaAAA**

*This is influenced by our view of GIC Re South Africa Ltd's robust capital and market position when compared with peers within the market.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

Credit Metric History

(Mil. ZAR)	--Fiscal year ended March 31--	
	2020#	**2019**
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	2,999	2,689
Total shareholder equity	1,351	1,214
Gross premium written	1,067	2,936
Net premium written	282	799
Net premium earned	408	776
Reinsurance utilization (%)	73.5	72.8
EBIT	221	228
Net income (attributable to all shareholders)	137	174
Return on revenue (%)	5.5	13.5
Return on shareholders' equity (%)	10.7	18.1

Credit Metric History (cont.)

(Mil. ZAR)	--Fiscal year ended March 31--	
	2020#	**2019**
P/C: Net combined ratio (%)	128.2	95.1
P/C: Net expense ratio (%)	39.2	22.7
Net investment yield (%)	5.0	3.8
Net investment yield including investment gains/(losses) (%)	11.7	9.2

P/C--Property/Casualty; ZAR--South African Rand #Numbers are based on unaudited financial statement for the fiscal year 2020.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	**Fair**	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	**bb/bb-**	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of November 5, 2020)*

Operating Company Covered By This Report	
GIC Re South Africa Ltd.	
Financial Strength Rating	
Local Currency	BB+/Negative/--
Issuer Credit Rating	
Local Currency	BB+/Negative/--
South Africa National Scale	zaAAA/--/--
Domicile	South Africa

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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