GCR RATINGS

Credit Rating Announcement

GCR affirms Genric Insurance Company Limited's South African financial strength rating of A-(ZA); Outlook revised to Positive on improving earnings generation

Rating action

Johannesburg, 23rd February 2021 - GCR Ratings ("GCR") has affirmed Genric Insurance Company Limited's ("Genric") national scale financial strength rating of A-(ZA); with a Positive Outlook.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
Genric Insurance Company Limited	Financial strength	National	A-(ZA)	Positive Outlook

Rating rationale

The Positive Outlook reflects Genric's improving earnings generation following a portfolio cleaning exercise and quality growth over the past three years. The upward trend in earnings has resulted in a strengthening in liquidity and risk adjusted capitalisation, with increased stability in metrics likely to be credit positive over the medium term. Nevertheless, the business profile remains comparatively weak balancing modest market position and good product diversification.

Genric's earnings capacity strengthened over the past two years, with the underwriting margin improving to 11.5% in FY21 (FY20: 5.2%), compared to levels of below 1% over the prior three years. The improvement was driven by improved quality of risks that are underwritten following the introduction of new products and the cancellation of non-performing accounts. While we expect the improvement in underwriting performance to continue over the medium term, management's ability to cement underwriting margins above the market average is a key rating consideration over the medium term. This is in view of potential for earnings volatility, given earnings moderation on the gross book to a gross underwriting margin of 3% (FY20: 10%, five-year average: 1%), albeit largely arising from the old book. Nonetheless, sound investment income amounting to R14m (FY20: R14m) moderates earnings volatility, resulting in a favourable review period return on revenue of 9%.

The insurer's liquidity profile has been maintained within a moderately strong range, supported by conservative allocation stance, increased operating cash flow generation and lower net technical obligations due to the insurer's lower premium retention levels compared to peers. Accordingly, cash and stressed financial assets covered net technical liabilities by 2.2x at FY21(FY20: 2.6x; FY19: 2.5x), while coverage of operational cost requirements was maintained at 10 months. The maintenance of liquidity metrics within the current range over the rating horizon is likely to be credit positive.

Genric's capital base grew 26% to R164m at FY21, underpinned by sound internal capital generation. As such, the insurer continued to maintain aggregate risk exposures within acceptable ranges. Accordingly, the regulatory Solvency Capital Requirement ("SCR") coverage equated to 1.5x (FY20: 1.4x). Looking ahead, the insurer is expected to maintain the SCR coverage ratio around 1.4x in line with management's internal target.

The rating takes into account the insurer's comparatively weaker business profile. Genric reflects a moderately weak market position, with weighted market and relative market shares of c. 0.4% and 0.3x in FY21 (FY20: 0.3% and 0.2x), respectively. However, strong growth recorded in ancillary lines of business during the review year and the introduction of new products positively impacted Genric's competitive position, albeit remaining limited. This notwithstanding, the business mix is viewed to be well diversified with four lines of business contributing materially to gross premiums, which is further buttressed by policyholder granularity given exposure to individual lines.

Outlook statement

The Positive Outlook captures prospects of a sustained improvement in the insurer's earnings, with potential to sustain liquidity coverage above 2x and the GCR Capital Adequacy Ratio ("GCR CAR") measuring in line with internal targets over the medium term, considering growth objectives. The business profile is expected to remain unchanged.

Rating triggers

An upward rating movement may follow a sustained improvement in earnings relative to the market, and/or increased prospects for the maintenance of liquidity metrics within the current range over the medium term, while risk adjusted capitalisation remains within a similar range. The Outlook may revert to Stable should earnings deteriorate, reducing risk adjusted capitalisation and/or liquidity.

Analytical contacts

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Related criteria and research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Insurance Companies, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, December 2021
GCR Insurance Sector Risk Scores, December 2021

Rating history

Genric Insurance Company Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	A-(ZA)	Stable Outlook	May 2015
Financial strength	Last	National	A-(ZA)	Stable Outlook	May 2021

Risk score summary

Rating components and factors	Risk score
Operating environment	**15.00**
Country risk score	7.00
Sector risk score	8.00
Business profile	**(3.00)**
Competitive position	(2.50)
Premium diversification	(0.50)
Management and governance	0.00
Financial profile	**0.75**
Earnings	0.00
Capitalisation	0.25
Liquidity	0.50
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total score	**12.75**

Glossary

Premium	The price of insurance protection for a specified risk for a specified period of time.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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.
Retention	The net amount of risk the ceding company keeps for its own account.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Short Term	Current; ordinarily less than one year.
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 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 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 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 the entity and other reliable third parties to accord the credit rating included:

- Audited financial results to 30 June 2021;
- Four years of comparative audited financial statements to 30 June
- Full year budgeted financial statements for 2022;
- Unaudited interim results to 31 December 2021;
- Reinsurance cover notes for 2022; and
- Other relevant documents.