

GCR affirms Compass Insurance Company Limited's rating of AA-(ZA); Outlook Stable.

Johannesburg, 27 March 2017 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Compass Insurance Company Limited of AA-(ZA), with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating to Compass Insurance Company Limited ("Compass") based on the following key criteria:

Compass's very strong liquidity levels are viewed to be a key rating strength. On a conservative basis (excluding government securities and net of funds withheld), claims cash cover has exceeded 30 months over the past two years, while cash cover of net technical liabilities stood at 2.9x and 3.1x at FY15 and FY16 respectively. GCR expects liquidity metrics to remain very strong over the rating horizon, given the conservative investment strategy and capacity for strong operational cash flow generation.

Compass has evidenced a strengthened level of earnings capacity over the last two years, following cancellation of underperforming books of business and the effective implementation of operational systems and processes. The net profit margin averaged a robust 43% in FY15 and FY16. Despite potential for year on year fluctuations (mainly owing to discontinued portfolios that are in runoff), the relative stability in aggregate loss experience for continuing lines of business, together with a competitive total expense structure, are expected to sustain underwriting profitability over the rating horizon. Furthermore, overall earnings generation is supplemented by realised investment income and dividend income.

The strengthening in net profitability has supported sound internal capital generation in recent years, with capital accumulation being sufficient to cater for the level of underwriting and market risk carried by the insurer. Risk adjusted capitalisation is expected to be maintained at adequate to strong levels going forward, given the alignment of capital management with the international group's Solvency II framework. Capital adequacy is further supported by the strong reinsurance counterparties and reasonably conservative risk and event net deductibles.

Given the consolidation in the UMA base in earlier review years, the insurer holds a modest market share of around 1% of overall industry gross premiums. Note is, however, taken of the strong growth in continuing lines of business over the past two years, which is indicative of organic growth prospects and potential for a strengthening in the company's competitive profile over the medium to longer term. Furthermore, the rating considers the relatively contained product risk and net premium diversification across underlying lines of business.

The insurer's rating is supported by its strategic importance to the Hannover Reinsurance Group Africa (Proprietary) Limited ("Hannover Re Group Africa"), given the strategic integration and alignment with group risk and capital management frameworks.

Positive rating movement could follow a strengthening in competitive positioning, while maintaining the enhanced level of earnings capacity and current balance sheet strength. In contrast, a severe and prolonged weakening in risk adjusted capitalisation and/or liquidity levels, or a reassessment of the insurer's strategic importance to Hannover Re Group Africa, could prompt negative rating action.



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NATIONAL SCALE RATINGS HISTORY

Initial rating (September 2004)

Claims paying ability: A_(ZA)

Outlook: Stable

Last rating (March 2016)

Claims paying ability: AA_{-(ZA)}

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated July 2016

Compass rating reports, 2004 - 2016

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating 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.

Compass Insurance Company Limited 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 Compass Insurance Company Limited with no contestation of the rating.

The information received from Compass Insurance Company Limited and other reliable third parties to accord the credit rating included:

- The latest audited financial statements to 31 December 2016
- Four years of comparative audited financial statements to 31 December
- Full year budgeted financial statements to 31 December 2017
- Quantitative statutory return to 31 December 2016
- The current reinsurance cover notes
- 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.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY

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.
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.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Deductible	The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.
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.
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.
Financial Flexibility	The company's ability to access additional sources of capital funding.
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.
Investment Income	The income generated by a company's portfolio of investments.
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.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
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.
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.
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.
Stop Loss	Any provision in a policy designed to cut off an insurer's losses at a given point. In effect, a stop loss agreement guarantees the loss ratio of the insurer.
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.

For a detailed glossary of terms please click [here](#)

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