



## Credit Rating Announcement

GCR affirms Compass Insure's national scale financial strength rating of AA<sub>(ZA)</sub> ; Outlook Stable

### Rating Action

Johannesburg, 21 July 2020 - GCR Ratings ("GCR") has affirmed Compass Insurance Company Limited's ("Compass Insure") national scale financial strength rating of AA<sub>(ZA)</sub>, Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Compass Insurance Company Limited	Financial strength	National	AA <sub>(ZA)</sub>	Stable Outlook

The rating action follows a reduction in the South African country and insurance sector risk assessments.

The South African country risk score was lowered to 7.0 from 7.5 previously, in a market alert released on the 27<sup>th</sup> May 2020. Click [here](#) to access the link. On 4<sup>th</sup> June 2020, the South African Insurance sector risk score was also lowered to 8.0 from 8.75 previously. Click [here](#) to access link.

Combined, the above country and sector risk scores comprise the operating environment score, which is a key input into GCR's ratings.

### Rating Rationale

The national scale financial strength rating of Compass Insure reflects a strong financial profile, which is complemented by implicit group support from its parent, Hannover Re Africa Limited. These positives are, however, partially offset by a limited business profile, albeit with note taken of the high level of integration into the parent's business model.

Compass Insure's earnings are viewed to be healthy with the return on revenue registering at 25% for the period ending June 2020. Despite elevated exposure to high severity risks, GCR expects earnings to be resilient, supported by investment income and high reinsurance protection. In this respect, liquidity remained very strong in the face of COVID-19 pandemic associated risks, supported by strong cash generation from operations, due to competitive operating cost management as well as a favourable claims experience. Going forward, liquidity metrics are expected to remain very strong over the rating horizon, given a conservative investment strategy. Capitalisation was assessed within a strong range, with well contained underwriting and market risk exposures supporting healthy risk adjusted capitalisation. Although note is taken of the potential adverse impact of the COVID-19 pandemic on earnings, risk adjusted capitalisation is expected to be maintained at rating adequate levels with Regulatory Solvency Capital Requirement coverage projected above 1.2x.

The rating is constrained by the entity's limited business profile, reflecting a gross premium market share of approximately 1.1% and limited revenue on a net basis, as well as high product concentration to the property line of business. However, strong growth in ancillary lines of business recorded over the review period, together with the launch of new technology driven products positively impacted Compass Insure's competitive position. Furthermore, the insurer's competitive position is viewed in light of the large portion of captive revenue, as well as the well diversified spread of risk premiums across UMAs.

Compass Insure's rating derives upliftment from implied parental support from Hannover Reinsurance Group Africa (Pty) Limited, given its strategic integration and alignment with group risk and capital management frameworks.

## Outlook Statement

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The Stable Outlook reflects expectations of the financial profile to moderate slightly as a result of COVID-19 pandemic associated risks in FY20. However, GCR expects the financial profile to revert to the historical range in FY21. Underwriting profitability may moderate due to an increase in claims (in the worst case scenario) while investment income is expected to moderate slightly (due to softening interest rates), although a modest impact is expected on through-the-cycle earnings. Capital is likely to be affected by lower retained earnings in FY20, albeit with insurance risk capital requirements likely to moderate as well, underpinning GCR expectations for Regulatory Solvency Capital Requirement to be maintained above 1.2x.

## Rating triggers

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Positive rating action may stem from a strengthening in risk adjusted capitalisation while all other credit protection metrics remain within strong ranges. Conversely, downward rating pressure may arise from a weakening in liquidity below expectations and/or prolonged earnings strain.

## Analytical Contacts

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## Related Criteria and Research

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Criteria for the GCR Ratings Framework, May 2019  
Criteria for Rating Insurance Companies, May 2019  
GCR Ratings Scales, Symbols & Definitions, May 2019  
GCR Country Risk Scores, May 2020  
GCR Insurance Sector Risk Scores, June 2020

## Ratings History

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### Compass Insurance Company Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Financial Strength	Initial	National	A <sub>(ZA)</sub>	Stable	September 2004
	Last	National	AA <sub>(ZA)</sub>	Stable	March 2020

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## Risk Score Summary

Rating Components and Factors	Risk score
<b>Operating environment</b>	<b>15.00</b>
Country risk score	7.00
Sector risk score	8.00
<b>Business profile</b>	<b>(2.75)</b>
Competitive position	(1.75)
Premium diversification	(1.00)
Management and governance	0.00
<b>Financial profile</b>	<b>2.50</b>
Earnings	0.50
Capitalisation	0.50
Liquidity	1.50
<b>Comparative profile</b>	<b>2.00</b>
Group support	2.00
Government support	0.00
Peer analysis	0.00
<b>Total Score</b>	<b>16.75</b>

## Glossary

Premium	The price of insurance protection for a specified risk for a specified period of time.
Primary Market	The part of the capital markets that deals with the issuance of new securities.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Technical Liabilities	The sum of Net UPR and Net OCR IBNR.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.
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 RATINGS

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 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.

The credit rating has been disclosed to the rated entity. 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. The rated entity participated in the rating process via virtual 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 rated entity and other reliable third parties to accord the credit rating included:

- Draft financial statements to 31 December 2019;
- Four years of comparative audited financial statements to 31 December;
- Budgeted financial results to 31 December 2020;
- Management accounts to 30 June 2020;
- The current year reinsurance cover notes; and
- Other relevant information

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