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CREDIT RATING ANNOUNCEMENT

GCR affirms Renasa Insurance Company Limited's rating of A_(ZA); Outlook Stable.

Johannesburg, 06 December 2017 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Renasa Insurance Company Limited of A_(ZA), with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

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

Renasa's risk adjusted capitalisation remained within a moderately strong range at FY17, as evidenced by an interim statutory capital adequacy ratio of 1.5x (FY16: 1.4x; FY15: 1.1x), in line with management's target range of between 1.3x and 1.5x. This was supported by sound internal capital generation, and a capital injection in FY16. Capitalisation is likely to remain moderately strong on an interim basis over the short term, with management actively engaged in capital management.

Key liquidity measures remained very strong, as evidenced by cash coverage of net technical liabilities of 5.9x at FY17 (FY16: 5.2x), while claims cash coverage registered at 16 months (FY16: 13 months). GCR expects the insurer's liquidity metrics to remain within a very strong range over the rating horizon, supported by sound operating cash flow generation and conservative asset allocation.

Renasa's reinsurance structure facilitates the insurer's business model, offering high levels of capacity, coupled with profit support. Counterparty credit risk arising from high reinsurance cessions is mitigated by a strong reinsurance panel and conservative risk and event retention levels, representing a rating strength.

Earnings capacity is viewed to be intermediate, given the thin (albeit relatively stable) underwriting margins and modest investment income. The five year underwriting margin equated to a thin -1% (FY17: -3%; FY16: 1%). Similarly, the ROaE averaged 5% over the review period. In GCR's view, earnings capacity is likely to remain at similar levels over the outlook horizon.

The insurer's business profile is intermediate, underpinned by its modest competitive position. In this respect, Renasa's share of total short term industry gross premiums registered at 1.1% in FY17. This is partly offset by the insurer's fairly well spread earnings profile and relatively low product risk. Going forward, GCR expects Renasa's market share to remain comparatively stable, in view of management's relatively controlled growth plan, and supported by the insurer's increasing brand recognition in the intermediated space.

Upward movement of the rating could develop on the back of a sustained improvement in profitability, notable strengthening in risk adjusted capitalisation and/or an enhanced business profile. Conversely, negative rating action may occur if Renasa were to fail to manage its risk adjusted capital adequacy at a level commensurate with the rating, or from sustained poor underwriting performance.

NATIONAL SCALE RATINGS HISTORY

Initial rating (September 2006)

Claims paying ability: BBB_(ZA)

Outlook: Stable

Last rating (December 2016)

Claims paying ability: A_(ZA)

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated July 2017.

Renasa rating reports, 2006-2016.

RSA Short Term Insurance Bulletins, 2001-2016.

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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.

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

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

- Audited financial results to 30 June 2017
- Four years of comparative numbers to June
- Unaudited year to date results to 30 September 2017
- Budgeted financial statements to June 2018
- Current reinsurance cover notes
- Statutory returns at 30 June 2017
- Other non-public statistical information

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

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.
Claim	A request for payment of a loss, which may come under the terms of an insurance 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.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Enterprise Risk Management	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.
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.
International Scale Rating ("ISR")	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.
Intermediary	A third party in the sale and administration of insurance products.
Interest	Money paid for the use of money.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
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.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
National Scale Rating ("NSR")	National Scale credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss.
Policyholder	The person in actual possession of an insurance policy.
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
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Short Term	Current; ordinarily less than one year.
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.
Statutory	Required by or having to do with law or statute.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
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.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.

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

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