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## CREDIT RATING ANNOUNCEMENT

### **GCR affirms Star Assurance Company Limited's rating of A<sub>(GH)</sub>; Outlook Stable.**

Johannesburg, 07 August 2018 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Star Assurance Company Limited of A<sub>(GH)</sub>, with the outlook accorded as Stable. The rating is valid until August 2019.

#### **SUMMARY RATING RATIONALE**

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

Star's capitalisation strengthened, following an injection of GHS90m in FY17, on the back of a rights issue. As such, shareholder's funds amounted to GHS203m at FY17 (FY16: GHS87m). Accordingly, risk adjusted capital adequacy registered at very strong levels, further supported by well contained underwriting and market risk exposures. In this respect, the international solvency margin equated to a high 242% at FY17 (FY16: 115%). Risk adjusted capitalisation is likely to remain within a very strong range over the outlook horizon, supported by full profit retention and relatively stable risk components. Furthermore, the panel of reinsurers reflect a strong level of aggregated credit strength, with maximum net deductibles per risk and event limited to conservative levels relative to capital

The insurer's liquidity profile is viewed to be very strong. This is a function of strong cash flows, coupled with conservative asset allocation. Accordingly, key liquidity metrics remained at very strong levels, with cash coverage of average monthly claims equating to a review period high of 96 months in FY17 (FY16: 48 months), while the net technical provisions measured at a higher 3.5x at FY17 (FY16: 2.0x). The high proportion of cash instruments within the investment portfolio is expected to conserve liquidity strength going forward. Banking counterparty diversification is viewed to be moderately strong, with funds spread across more than ten financial institutions.

Star reflects a strong business profile supported by well-diversified earnings, in tandem with very strong competitive positioning. The insurer had an estimated share of 11% of total short term insurance industry premiums in FY17 (FY16: 12%), supported by an established brand and a widening distribution network. GCR expects the business profile to remain within a similar range over the medium term.

Earnings capacity is constrained by volatile underwriting deficits, offsetting strong investment returns (albeit characterised by variability). In this respect, the five year underwriting margin equated to -11% (FY17: -3%; FY16: -16%). Nevertheless, the operating margin equated to 38% in FY17 (FY16: 27%; review period: 22 %). GCR expects earnings capacity to register within a similar range over the rating horizon.

Positive rating action may stem from maintenance of capitalisation at strengthened levels. Furthermore, the rating may be upgraded following a demonstrated turnaround in earnings capacity. Conversely, negative rating action may follow material deterioration in earnings capacity, impacting significantly on capitalisation.

#### **NATIONAL SCALE RATINGS HISTORY**

Initial rating (September 2009)

Claims paying ability: A<sub>(GH)</sub>

Outlook: Stable

Last rating (September 2017)

Claims paying ability: A<sub>(GH)</sub>

Outlook: Stable



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## APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated May 2018

Star Assurance Company Limited rating reports, 2009-2017

## RATING LIMITATIONS AND DISCLAIMERS

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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.

Star Assurance 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 Star Assurance Company Limited with no contestation of the rating.

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

- The audited annual financial statements to 31 December 2017
- Unaudited year to date results to 31 March 2018
- Budgeted financial statements to 31 December 2018
- Financial Condition Report at 31 December 2017
- 2018 reinsurance cover notes
- Other related 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.

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

Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
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.
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.
Execution Risk	The risk that a company's business plans will not be successful when they are put into action.
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 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.
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.
Operating Margin	Measures the efficiency of profit generation from investments and underwriting.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Policyholder	The person in actual possession of an insurance policy.
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.
Reserve	An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

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



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