

CREDIT RATING ANNOUNCEMENT

GCR affirms Centriq Insurance Company Limited's national scale financial strength rating of AA_(ZA); Outlook Stable

Rating action

Johannesburg, 29 August 2024 – GCR Ratings (GCR) has affirmed Centriq Insurance Company Limited's (Centriq) national scale financial strength rating of AA_(ZA) with a Stable Outlook.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
Centriq Insurance Company Limited	Financial strength	National	AA _(ZA)	Stable Outlook

Rating rationale

The rating reflects Centriq's consistently positive earnings, supporting sound liquidity and adequate capitalisation. Furthermore, new business generation continues to support a positive assessment of the insurer's business profile. The rating derives uplift from implied support from Santam Limited, given Centriq's strategic relevance, earnings history and operational integration.

Centriq has reflected a strong premium growth trend, registering a compound annual growth rate of about 19% between 2020 and 2023. After normalising for a large risk finance transaction in 2022, statutory gross premiums advanced by 9% to ZAR7.1Bn in the financial year ending 31 December 2023, supporting a relatively stable market share of about 5% (2022: 6%). Furthermore, the insurer is viewed to benefit from a favourable strategy and business model, being the second largest player in the cell captive space. The underlying premium base is well diversified, consisting of four material classes and reflecting lower exposure to catastrophe prone classes / segments affecting the broader industry. Centriq also has a good balance between risk finance and underwriting management agency (UMA) business and a fairly material contribution from affinity channels.

Centriq's earnings quality is credit positive, with its fee-centric business model and diversified earnings base supporting a sound and stable profit track record. Net after tax profits increased by 31% to ZAR181M in 2023, underpinning a strengthened return on promoter net premiums of just under 16%, versus the 8% to 12% range reported in the previous three years. We expect return on revenue to be maintained within a sound range of between 9% to 15% over the outlook horizon, while reflecting low volatility given limited participation on underwriting risk at the promoter level.

Centriq reflects sound solvency on a consolidated basis, with the unadjusted GCR capital adequacy ratio (CAR) registering at about 2x at 31 December 2023 (31 December 2022: 1.9x). However, our assessment considers a fungibility adjustment for surplus funds in the cells, which brings the ratio to an average of about

1.1x after factoring in various levels of stress. Solvency Capital Requirement (SCR) coverage was stable at 1.07x at 30 March 2024 (December 2023: 1.06x) and we expect this to continue to be managed at similar levels, as consistent earnings generation supports targeted shareholder returns. Most cells had surplus capital levels, and Centriq's exposure to undercapitalised cells remained very low, equating to only 1% of shareholders' funds at fiscal year-end 2023 (2022 and 2021: 2%).

Liquidity is sound, supported by conservative investment allocation and strong operational cash flow generation. After applying a conservative stress for the potential withdrawal of surplus funds, GCR's liquidity coverage ratio registered at a stable 1.2x at 31 December 2023 and is expected to be maintained at a similar level going forward, given consistency in the investment mix.

Outlook statement

GCR expects solid earnings generation and profit retention to support adequate risk adjusted capitalisation, and strong operational cash flow generation to maintain the liquidity coverage ratio above 1x. We do not expect a material change in the business profile over the outlook horizon, although a further strengthening in competitive position could follow over the longer term if the insurer continues its strong growth momentum.

Rating triggers

The rating could be upgraded if strengthened earnings are sustained and compare favourably with peers, supporting a higher liquidity coverage metric. Negative rating action could follow a material weakening in earnings that adversely impacts the overall financial profile.

Analytical contacts

Primary analyst Johannesburg, ZA	Susan Hawthorne SusanH@GCRratings.com	Deputy Sector Head: Insurance +27 11 784 1771
Committee chair Johannesburg, ZA	Sheri Morgan Morgan@GCRratings.com	Deputy Sector Head: Corporates +27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
 Criteria for Rating Insurance Companies, May 2024
 GCR Ratings Scales, Symbols & Definitions, May 2023
 GCR Country Risk Scores, August 2024
 GCR Insurance Sector Risk Scores, February 2023

Ratings history

Centriq Insurance Company Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	A _(ZA)	Stable Outlook	March 2006
Financial strength	Last	National	AA _(ZA)	Stable Outlook	August 2023

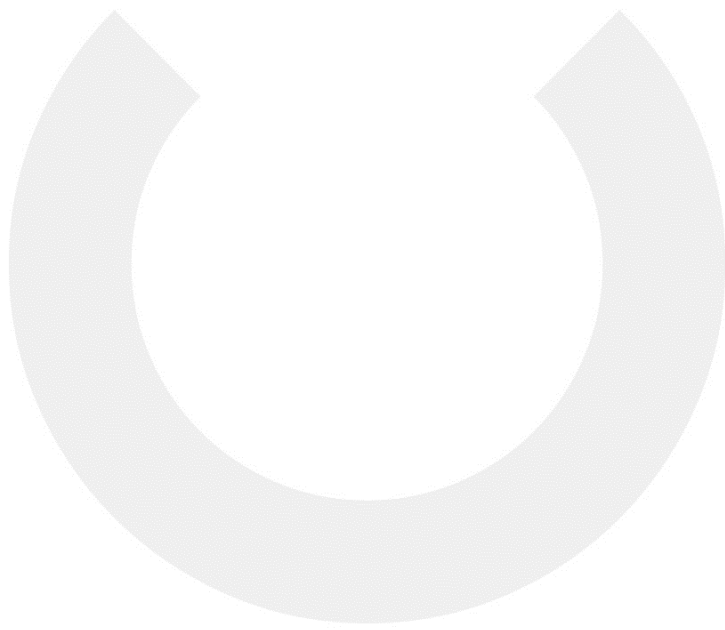
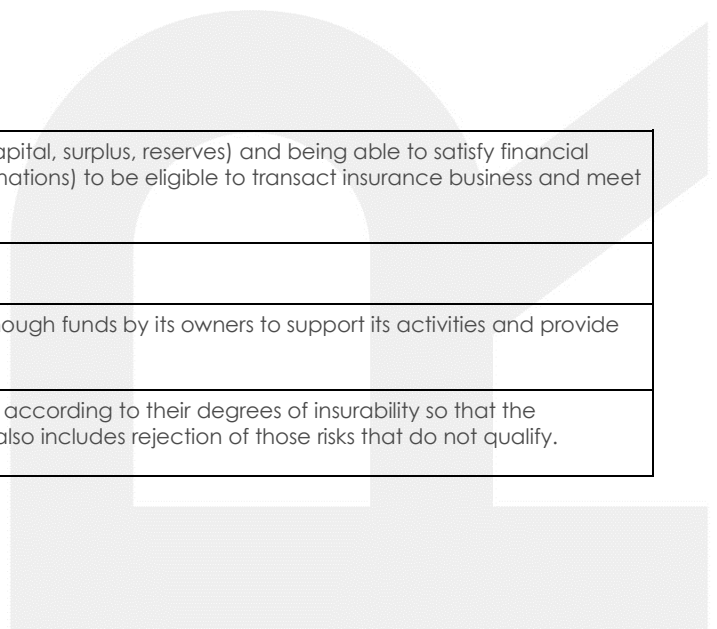
Risk score summary

Rating Components & Factors	Score
Operating environment	14.50
Country risk score	7.00
Sector risk score	7.50
Business profile	0.25
Competitive position	0.25
Sustainability	0.00
Financial profile	(0.25)
Earnings	0.50
Capitalisation	(0.75)
Liquidity	0.00
Comparative profile	2.00
Group support	2.00
Peer comparison	0.00
Total Risk Score	16.50

Glossary

Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
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.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Catastrophe	An event, which causes a loss of extraordinary magnitude.
Compound Annual Growth Rate	The year on year percentage growth rate of an investment over a given period of time. It is found by calculating:
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. 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.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.

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.
Undercapitalised	Term used when a business is not supplied with enough funds by its owners to support its activities and provide for any needed expansion.
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 was based solely on the merits of the 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.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and 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 ratings included:

- Audited financial statements to 31 December 2023;
- Four years of comparative audited financial statements to 31 December 2022;
- Annual and quarterly statutory returns to 31 December 2023 and 30 June 2024;
- Year to date management accounts to 30 June 2024;
- Budgeted financial statements to 31 December 2024;
- Other relevant documents.

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