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Prima Reinsurance PLC

Zambia Reinsurance Analysis **December 2014**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	A-$_{(ZM)}$	Stable	11/2015
Claims paying ability	International	B	Stable	11/2015

Financial data:

(US$'m Comparative)

	31/12/12	31/12/13
ZMW/US$ (avg)	5.16	5.35
ZMW/US$ (close)	5.20	5.50
Total assets	4.6	8.0
Total capital	2.4	6.8
Cash & equiv.	1.0	4.4
GWP	4.2	4.8
U/w result	0.6	0.6
NPAT	0.5	0.5
Op. cash flow	0.2	(0.3)
Market cap	n.a	
Market share*	51.3%	

*Based on the percentage contribution to domestic reinsurers' GWP

Rating history:

Initial rating (09/2009)
National scale: BBB+$_{(ZM)}$
Rating outlook: Positive
International scale: n.a.
Rating outlook: n.a.

Last rating (11/2013)
National scale: BBB$_{(ZM)}$
Rating outlook: Positive
International scale: B
Rating outlook: Stable

Related methodologies/research:

Criteria for rating insurance companies, July 2014

Prima Reinsurance PLC ("Prima Re") rating reports 2009-2013

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Summary rating rationale

The ratings are based on the following key factors:

- The upgrade reflects the notable strengthening in capitalisation and improvements in claims reserving metrics. Capital adequacy has been measured at very strong levels, supporting the rating. The reinsurer received a capital injection of ZMW19m in F13 from existing shareholders. In tandem with sound retained income, Prima Re's capital base increased to ZMW37m (FYE12: ZMW13m) resulting in the international solvency margin strengthening to 219% (F12: 79%). Similarly, corrective measures were taken to increase claims reserves following an independent evaluation. The OCR/NWP ratio improved to 19% in 3Q F14 (F13: 8%). GCR expects risk adjusted capitalisation and claims reserving metrics to remain at strengthened levels over the rating horizon.
- Liquidity metrics improved substantially on the back of cash proceeds from the rights issue. Cash covered net technical liabilities by a strong 2.8x at 3Q F14. Management has affirmed its intention to retain the exiting asset allocation strategy, supporting liquidity over the rating horizon.
- Prima Re has registered strong underwriting profitability, supported by low instances of high severity losses. The reinsurer's underwriting margin has averaged 25% over the review period, which is substantially higher than its domestic peer's average margin of 5%. GCR views Prima Re's earnings capacity to be moderately strong going forward, taking into account a likely rise in the average claims experience.
- Prima Re is one of two locally domiciled reinsurers in Zambia. However, the reinsurer's balance sheet size and premium levels in absolute terms are viewed to be comparatively limited in the context of the regional insurance market.
- Retrocession represents a moderately strong level rating factor. The programme is largely placed with retrocession counterparties with an intermediate aggregate level of rating strength. The net deductible per risk and event is viewed to be moderately conservative.
- The international rating is capped by the Zambian sovereign rating of B, as assets are locally domiciled, and the majority of revenue is locally derived.

Factors that could trigger a rating action may include

Positive change: The rating may be upgraded if the reinsurer's competitive positioning strengthens, coupled with strong underwriting disciplines. This would need to be accompanied by the maintenance of risk adjusted capitalisation and liquidity metrics at strong levels.

Negative change: The rating may be downgraded if the reinsurer registers sustained underwriting deficits and a weakening in risk adjusted capitalisation. Furthermore, material impairments deriving from a poorly performing debtors' book and/or high counterparty exposures may lead to negative rating action.

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Industry overview

Economic overview

Zambia's real GDP growth was estimated at 7.3% in 2013 (2012: 6.8%), on the back of strong copper production, robust agriculture volumes, and an expansionary fiscal policy. Year-on-year inflation was reported at 7.3% as at year end 2013, slightly ahead of the Bank of Zambia's ("BoZ") target of 7%, due to food price increases. Looking ahead, real GDP growth of 7.8% is forecast for 2014. The economy nonetheless remains particularly susceptible to exogenous shocks, due to its low levels of industrialisation and continued over-reliance on copper (which accounts for 80% of foreign exchange earnings). In this regard, a further deterioration in global economic conditions could pressure trade credit lines, while reducing demand for Zambian exports and lower copper prices. As such, local beneficiation, leading to more robust manufacturing output, as well as continued growth in agriculture and other sectors, will be necessary to ensure sustainable levels of economic activity in the long term.

Table 1: Macroeconomic indicators	2012	2013	2014f	2015f
Real GDP growth (annual % change)	6.8	7.3	7.8	8.0
Inflation (annual average %)	8.7	6.6	6.5	5.5
Current account balance (% of GDP)	1.5	(3.5)	(2.3)	(0.4)

Source: African Economic Outlook, 2014

Effective January 1, 2013 the BoZ rebased the local currency, introducing the new Zambian Kwacha (ZMW) at a rate of 1,000 old Kwacha to 1 new Kwacha. Until June 30, 2013 the old notes remained legal tender alongside the new Kwacha notes.

Industry overview

Table 2: Key industry data	
Regulatory authority:	PIA
Min. capital req. (non-life insurance):	ZMW1m
Min. capital req. (life assurance):	ZMW1m
Min. capital req. (reinsurer):	ZMW1m
# of registered non-life insurers in 2013 (2012):	15 (15)
# of registered life assurers in 2013 (2012):	8 (5)
# of registered reinsurers in 2013 (2012):	2 (2)
Market share of top 3 non-life insurers:	63% (69%)
Insurance penetration (% of GDP):	0.8%
Non-life industry GWP 2013:	ZMW1,077bn
Non-life GWP growth 2013 (2012):	5.7% (18.0%)
4-year CAGR:	11.7%
Non-life retention ratio 2013 (2012):	56.2% (54.3%)
5-year average:	55.8%
Non-life earned loss ratio 2013 (2012):	39% (45.5%)
5-year average:	41.8%
Non-life net commission ratio 2013 (2012):	3.4% (5.2%)
5-year average:	4.8%
Non-life management expense ratio 2013 (2012):	52.4% (52.1%)
5-year average:	51.5%
Non-life U/w margin 2013 (2012):	4.4% (-2.8%)
5-year average:	1.9%
Internat. solvency margin 2013, non-life (2012):	25% (20%)
Main non-life risk classes:% of GWP 2012 (2013: statistics unavailable):	Motor (-%); Fire (-%)

*2013 solvency metrics are based on a sample of 11 active insurers.

The Zambian insurance industry is regulated by the Pensions and Insurance Authority ("PIA"), which enforces the tenets of the Insurance Act No. 27 of 1997 (amended in 2005). Composites were abolished in 2008, and the industry has since seen an influx of new entrants, with the number of participants rising to 23 by 2013. This has been largely attributed to low capitalisation requirements and to an extent, international players taking a position in the market in order to leverage affinity channels and to pre-empt regulatory changes requiring the exhaustion of local capacity before business is externalised. Currently, the market has 2 locally domiciled reinsurers (Prima Re and Zambian Re), which capture only a limited proportion of business underwritten, as large (especially mining, construction and agriculture) risks are mostly ceded to external reinsurers. Looking ahead, regulatory changes should enable short term reinsurers to also accept life business, providing local players with an opportunity to generate further growth impetus from the domestic market.

The proposed Insurance Bill (meant to improve PIA's industry oversight, engender appropriate capitalisation and risk management, as well as ensure further insurance penetration) is yet to be tabled before parliament. While indications are that it will only be tabled mid-2015, statutory instruments will be used to revise capitalisation requirements in the interim. It is expected that insurers will be required to have minimum capital of ZMW10m (ZMW20m for reinsurers). Representations are being made to stagger this increase over the medium term (2-5 years). The Bill also proposes capping foreign ownership at 70% (no limits currently). PIA is also planning to adopt a risk-based pricing and solvency regime, and to introduce uniformity in terms of reserving over the longer term. In the intervening period, the planned industry recapitalisation should improve local capacity and encourage underwriting discipline. Higher capital levels are expected to discourage further fragmentation, thereby reducing competitive pressures, undercutting as well as cash underwriting. Currently, solvency levels are maintained in line with statutory regulations. There is minimal actuarial verification of reserve adequacy in the non-life industry, although some players have begun to incorporate this in their risk frameworks.

In order to improve insurance penetration, the industry has commenced an awareness campaign that culminates in an annual insurance week (currently championed by the Insurers Association of Zambia). This, amongst other initiatives (such as the development of alternative distribution channels, including bancassurance and linkages with mobile companies), is expected to improve risk diversification. This is particularly important, given the industry's significant intermediary concentration, with over 50% of brokered premiums deriving from 2 multinationals, in a market with over 40 brokers. The stronger risk frameworks should also enable players to enhance their offering, particularly with regards to the liability classes and specialised corporate cover. Co-insurance is becoming increasingly popular.

Credit control remains a major challenge, with many insurers exhibiting large balances of long outstanding debtors. Payment plans are also common in the corporate and commercial space (personal lines are normally on cash & carry basis). With no regulatory guidance for debtors policies and provisioning, certain insurers have impaired up to 50% of their premium receivables in one year (industry average: 10% for F13). Bad debts comprised a high 22% of management costs in 2013, from just 3% previously (5-year average: 11%).

Competitive positioning

Corporate profile
Prima Re was incorporated in August 2006 and commenced operations in January 2007. The company listed via introduction in July 2013, and raised capital through a rights offer that concluded in October 2013. In this regard, previous plans to court a strategic investor were deferred.

Ownership structure
The shareholding structure has changed over the review period, with significant dilution evidenced, given that no single individual or institution accounts for more than 20% of the total. Traditionally, there were 16 shareholders, of which an executive director (29%) and a family member (13%) were the main owners. The balances of shares were held by Outnet Marketing Limited (18%) and the National Pension Scheme Authority (14%). In 2013, the number of shareholders increased substantially to 346, with the key shareholders including the National Pension Scheme Authority (14%), Saturnia Regna Pension Trust Fund (10%), management (10%), Madison Pension Trust Fund (9%) and KCM Pension Trust Scheme (7%).

Corporate governance

- **Board composition**

Prima Re's board consists of seven members comprising one executive and two independent (including the chairman). The remaining five members are non-executive.

- **Committees**

There are three committees which assist in attending to specific matters, namely:

Audit & risk
This committee is chaired by an independent non-executive director, with two other members. The primary role of the committee is to ensure the integrity of the financial reporting and review full year financial statements before they are presented to the board. The audit committee meets at least twice a year. The committee has oversight of the company's risk management policy and corporate social responsibility policy.

Remuneration
This committee is chaired by a non-executive director with two other non-executive members. The committee meets twice a year, with the main role of assessing and approving the remuneration strategy of the company.

Investment
The investment committee is chaired by a non-executive director, with two other non-executive members. The committee's main responsibility is to review, evaluate and approve investment transactions. The committee also has oversight of the company's investment policy.

Strategic overview
The reinsurer's medium strategic plan is aimed at growing the business, while maintaining profitability. Going forward, Prima Re expects to increase its geographic reach, to include 20 offshore markets by FYE15.

Operations
Prima Re adopted a number of changes to its operations, meant to enhance its risk framework and management oversight. An IT system was implemented in F13, and ran parallel to the manual processes until June (for continuity). According to management, this has driven improvements in pricing mechanisms, risk profiling and turnaround times across the underwriting cycle. Its adoption has not led to any redundancies, with the staff complement expected to rise to 15 (from 10 in F13), as scale is enhanced over the medium term.

Risk framework
In 2013, the reinsurer engaged AON (SA) to provide guidance on the risk framework. However, due to the operational challenges associated with working with an offshore partner, KPMG Zambia replaced AON (SA). In this regard, risk registers have been identified by class and area of operation. This relationship is instrumental in the documentation of a more comprehensive enterprise risk management ("ERM") framework to be fully implemented over the medium term.

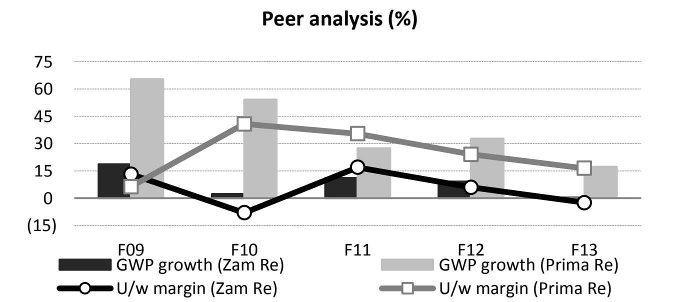
Prima Re also engaged an actuary (Actuarial Services East Africa) to assess reserve adequacy. In the report, the actuary cited various limitations to the assessment, notably Prima Re's short track record and its limited business volumes (in comparison to regional players that participate in the market). As such, relying on industry information and employing a combination of the b*asic chain ladder and the Bornhuetter-Ferguson ("B-F") methods*, the actuary affirmed that loss ratios have been unsustainably low and erratic historically. As the book seasons, loss ratios are expected to stabilise at higher levels. A catastrophe reserve was recommended for claims in excess of ZMW1m. Although these amendments were adopted in the second half of F13, major changes in loss ratios will only accrue over time.

Peer group analysis: market positioning
Domestic short term insurers have historically relied on offshore reinsurers, and as such, the two local players have, on average, secured around 10% of business ceded over the 5-year period under review. Insurers also have to cede a respective 10% and 5% to ZEP Re and Africa Re. For the most part, brokers secure corporate and commercial cover offshore, and then have local players front the risks. This is mainly a factor of regulatory deficiencies, limited local capacity, and international brokers' established linkages with external reinsurers. Offshore reinsurers' proven track record of underwriting large risks, technical expertise and more comprehensive risk frameworks also serve as key competitive advantages. In this regard, local players largely participate on these risks on a follow basis, with mega risks mainly covered on the basis of facultative arrangements. Positively, both Zambia Re and Prima Re have reported rising lead participation on local treaty programmes in recent years.

Peer group analysis: growth and profitability

Table 3: Peer analysis (ZMW'm)	Prima Re		Zambian Re	
	F12	F13	F12	F13
GWP	**21.7**	**25.5**	**24.1**	**24.2**
NWP	15.9	17.0	18.0	16.7
U/w result	**3.3**	**3.4**	**1.0**	**(0.4)**
Net income after tax	2.5	2.9	0.7	(0.0)
Capital	**12.6**	**37.2**	**8.8**	**8.7**
Ratios (%):				
GWP growth	32.6	17.2	9.1	0.4
Retention	73.2	66.9	74.9	68.8
Earned loss	22.6	24.9	43.0	43.5
Net comm.	22.3	25.5	26.4	29.6
Mgmt. expense	31.1	33.2	24.9	29.4
U/w margin	24.0	16.4	5.8	(2.5)
Solvency	79.4	218.5	49.0	52.3
Cash cover (months)	21.3	56.2	9.5	11.2

Table X compares the Prima Re's key performance and credit protection metrics with those of its domestic peer.



Prima Re's gross premium growth rate has consistently trended above that of Zambian Re. The reinsurer's compound annual growth rate ("CAGR") has average 32% over the review period compared to Zambian Re's average of 6%. As such, Prima Re's gross premium base has exceeded that of Zambia Re in F13 compared to a 25:75 split in F08. Going forward, Prima Re expects premiums to continue growing to ZMW38m by FYE15, supported by increasing penetration into offshore markets.

Similarly, Prima Re's underwriting profitability has trended well above that of Zambian Re, largely as a function of the lower loss ratio. The reinsurer's underwriting margin has average 25% over the review period, which is well above Zambian Re's average of 5%. GCR views Prima Re's earnings capacity to be moderately strong going forward, taking into account a likely rise in the average claims experience.

Earnings diversification

Geographic diversification

The domestic market represents Prima Re's main source of business, representing 65% in F13 (F12: 75%, F11: 85%), albeit it reducing as a proportion of gross premiums. The reinsurer continued to extend its geographical reach, including increasing its presence in Sudan, Ethiopia, Botswana, Rwanda and Uganda in addition to its traditional SADC market. Premiums were derived from 16 offshore markets (F12: 9, F11: 5), where Prima Re participates on a follow basis.

Table 4: Business procurement (%)	F10	F11	F12	F13
Facultative	64.4	47.6	51.7	48.8
Treaty	35.6	52.4	48.3	51.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

Premiums from local treaties continue to rise, reducing the reinsurer's reliance on facultative business as the premium base grows. While the facultative business facilitates more selective risk participation, increased treaty volumes are viewed positively, as they are supportive of top line stability.

Product distribution diversification

Table 5: Business source (%)	F10	F11	F12	F13
Brokers	25.4	41.0	43.8	47.3
Direct sales	74.6	59.0	56.2	52.7
Total	**100.0**	**100.0**	**100.0**	**100.0**

While the reinsurer procures a sizeable proportion of business directly, broker relationships have become increasingly strategic, accounting for 47% of gross premiums in F13 (F12: 44%). Going forward, GCR expects this trend to become more firmly entrenched, as foreign premiums and treaty participation increase.

The top five cedants accounted for a lower 42% of gross premiums in F13 (F12: 57%), with the single largest cedant representing 13% (F12: 12%). Management expect this trend to continue over the medium term.

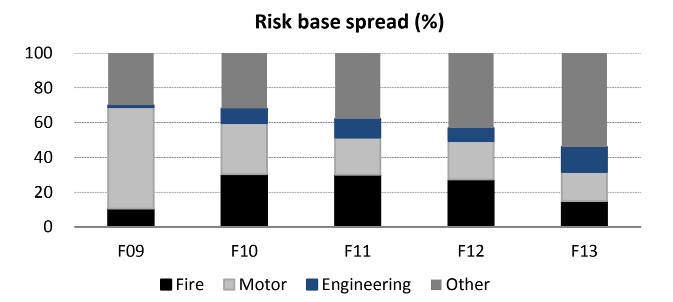
Earnings diversification by line of business

Table 6: Earnings diversification (%)	GWP		NWP		Retention	
	F12	F13	F12	F13	F12	F13
Fire	30.0	21.9	27.3	14.7	66.6	45.0
Marine	3.2	2.9	2.9	2.6	66.9	59.4
Motor	18.2	13.5	22.0	16.9	88.6	83.8
Engineering	8.9	17.6	7.5	14.4	61.8	54.8
Miscellaneous*	39.7	44.2	40.3	51.4	74.2	77.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**73.2**	**66.9**

*Includes liability, accident, bonds and fidelity guarantee

The reinsurer's gross premium portfolio is well diversified, with four lines of business accounting for more than 10% of the total.

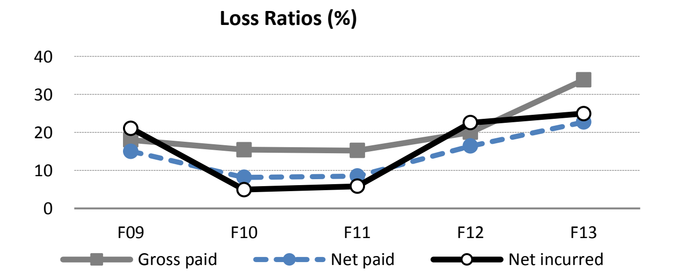
- *Miscellaneous*: Miscellaneous business experienced substantially growth in F13 supported by significant contribution from a bond treaty from a local cedant. As such, miscellaneous represented a higher 44% of gross premiums in F13 (F12: 40%). Going forward management expect this line of business to continue to grow supported by bonds associated with large infrastructure projects.
- *Fire*: The gross premiums for fire contracted by 15%, to ZMW6m in F13 as a result of reduced appetite for mining risks and local cedants increasing capacities. As a result, fire accounted for a lower 22% of gross premiums in F13 (F12: 30%).
- *Engineering:* The gross premiums for engineering increased to ZMW5m in F13 (F12: 2m) on the back of growth in construction projects in Zambia and Ethiopia and Mozambique. These projects are expected to continue growing the reinsurer's premium base as Prima Re increases acceptances and treaty shares.
- *Motor:* Motor accounted for a lower 14% of the overall portfolio in F13 (F12: 18%) due to rates pressure on both commercial and private vehicles. Management expects to maintain a sizeable local market presence, although premium pressure is likely to persist as cedants increase their retention.



Similarly on a net premium basis, the reinsurer's portfolio is well spread, with four lines of business representing more than 10%. Miscellaneous business is the highest contributor to the risk premium base, representing a higher 51% net premiums in F13 (F12: 40%), given the higher retention rate of 68% (F12: 57%). The second largest contributor to the risk premium base is motor, albeit accounting for a lower 17% of net premiums in F13 (F12: 22%). The reinsurer's overall net retention rate decreased to 67% in F13 (F12: 73%). Going forward, management expect the retention rate to increase to 73% in F14, roughly aligned with the review period average of 72%. The risk base spread is likely to remain unchanged over the medium term.

Profitability

Claims experience



Prima Re's gross paid loss ratio increased to 34% in F13 (F12: 20%), which is higher than the review period average of 21%.

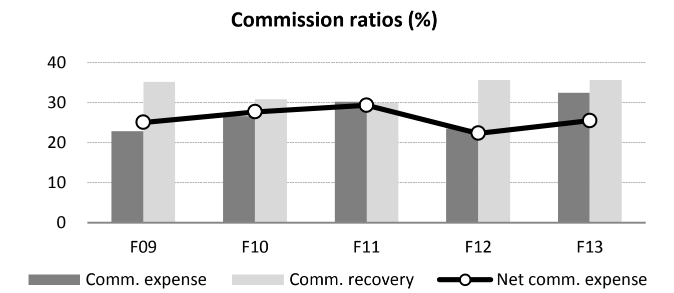
On a net basis, the earned loss ratio equated to a higher 25% in F13 (F12: 23%), albeit remaining relatively benign compared to the majority of underlying non-life ratios and those of regional peers. The rate of increase is indicative of volatility deriving from Prima Re's rapidly rising risk threshold. Going forward, GCR expects the loss ratios to increase and eventually stabilize at higher levels.

Table 7: Contribution to change in loss ratio (%)	F09	F10	F11	F12	F13
Previous ratio	**0.0**	**21.1**	**4.9**	**5.8**	**22.6**
Fire	(7.4)	12.8	(0.3)	(1.6)	5.3
Marine	0.0	0.0	0.0	1.1	0.5
Motor	4.8	3.0	(9.2)	4.3	6.5
Engineering	2.4	(4.5)	2.9	2.8	(0.6)
Miscellaneous	21.4	(27.4)	7.4	10.0	(9.4)
Total change	***21.1***	***(16.1)***	***0.9***	***16.8***	***2.4***
Current ratio	**21.1**	**4.9**	**5.8**	**22.6**	**24.9**

- *Fire*: The net incurred loss ratio for fire increased significantly to 60% in F13 (F12: 12%) due to four major facultative claims and poor treaty returns. Going forward management expect the loss ratio moderate to 30%-35%. This expectation is premised on corrective measures that have been taken, including non-renewal of certain poorly performing portfolios and improving risk selection processes.
- *Motor*: Motor's net incurred loss ratio increased substantially to 56% in F13 (F12: 15%), which is well above the review period average of 19%, as a result of losses associated with certain bus companies.
- *Miscellaneous*: The net incurred loss ratio for this class of business improved substantially to 4% in F13 (F12: 30%).

Table 8: Performance by class (%)	Net incurred loss		Net comm ratio		Tech. margin	
	F12	**F13**	**F12**	**F13**	**F12**	**F13**
Fire	11.7	60.3	22.2	23.2	66.1	16.5
Marine	54.6	65.7	143.2	24.8	(97.8)	9.5
Motor	14.7	55.6	25.8	19.7	59.5	24.6
Engineering	33.5	20.7	26.4	23.8	40.1	55.5
Miscellaneous	30.4	3.8	12.6	28.5	57.0	67.6
Total	**22.6**	**24.9**	**22.3**	**25.5**	**55.1**	**49.6**

Commission



The commission expense ratio increased to 32% in F13 (F12: 24%), which is well above the review period average of 27%. This is largely due higher commissions charged by brokers and the growth in intermediary sourced business. The commission recovery rate remained unchanged at 36% in F13. As a result, the net commission ratio increased to 26% (F12: 22%), although remaining aligned with the review period average of 26%. Going forward, management expect the net commission ratio to remain around 25% in F15, given the strategic importance of brokers going forward.

Management expenses

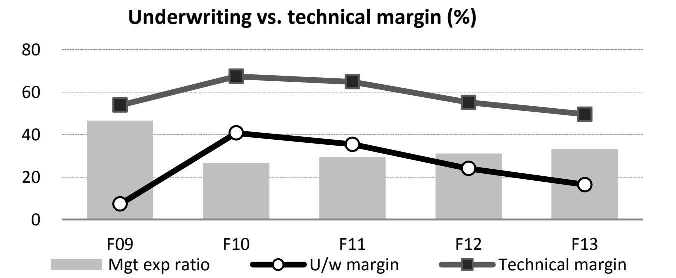
Table 9: Performance by class	Mgmt expense ratio		Delivery cost		U/w margin	
	F12	**F13**	**F12**	**F13**	**F12**	**F13**
Fire	30.9	60.6	53.1	83.8	35.2	(44.1)
Marine	46.7	26.0	189.9	50.8	(144.5)	(16.5)
Motor	29.0	39.6	54.7	59.4	30.6	(15.0)
Engineering	25.7	38.1	52.1	61.9	14.3	17.4
Miscellaneous	33.1	22.1	45.6	50.7	23.9	45.5
Total	**31.1**	**33.2**	**53.4**	**58.6**	**24.0**	**16.4**

Management expenses increased to ZMW7m in F13 (F12: ZMW4m) largely due to costs associated with listing and rights offer, as well as the purchase of new software. As such, the management expenses equated to a higher 33% of net earned premiums in F13 (F12: 31%). Going forward, management expenses are expected to continuing growing to ZMW10m in F15 as a result of intensified marketing drive and staff training.

The increase in both the management expense ratio and the net commission ratio resulted in delivery costs registering higher at 59% of net earned premiums in F13 (F12: 53%).

Underwriting margin analysis

The reinsurer has registered strong technical profitability over the review period. As a result, the underwriting margin remained strong at 16% in F13 (F12: 24%), albeit lower than the review period average of 25%. GCR views Prima Re's earnings capacity to be moderately strong going forward, taking into account a likely rise in the average claims experience.



Financial performance analysis

A 5-year summary analysis of Prima Re's financial position and performance, together with key ratios, is presented at the end of this report. Following the rebasing of the currency in 2013, the figures at the back of the report was adjusted according for comparison. The reinsurer's 2013 financial statements were audited by Grant Thornton, and an unqualified audit opinion was issued.

Table 10: Financial performance (ZMW'm)	F13		F14	
	Actual	Budget	Actual YTD*	Budget
GWP	25.5	29.5	26.5	33.1
NWP	17.0	21.4	17.2	24.0
NPE	**20.6**	**17.4**	**15.7**	**25.6**
Claims	(5.1)	(1.9)	(5.1)	(9.1)
Commission	(5.2)	(4.1)	(4.2)	(4.2)
Mgmt expenses	(6.8)	(7.2)	(5.9)	(8.0)
U/w result	**3.4**	**4.2**	**0.5**	**4.3**
Investment income**	0.9	0.0	3.5	1.8
Other income/(exp)	0.0	1.1	0.0	0.0
Tax	(1.4)	(2.1)	(1.5)	(2.5)
Net income after tax	**2.9**	**3.2**	**2.5**	**3.7**
Unrealised movements	0.3	0.0	0.0	0.0
Dividend	0.0	(0.8)	(1.8)	0.0
Retained earnings	**3.2**	**2.4**	**0.7**	**3.7**
Total capital	*37.2*	*22.1*	*38.0*	*42.5*
Key ratios (%)				
GWP growth***	17.2	36.0	39.0	30.1
Retention	66.9	72.5	64.8	72.5
Earned loss ratio	24.9	11.1	32.7	35.5
Commission ratio	25.5	23.4	26.6	16.3
Mgmt expense ratio	33.2	41.3	37.3	31.3
U/w margin	16.4	24.3	3.4	16.9
Op. margin	21.0	24.3	25.4	24.1
RoR (net)	11.4	10.8	9.6	11.2
Solvency	218.5	103.0	165.6	176.9

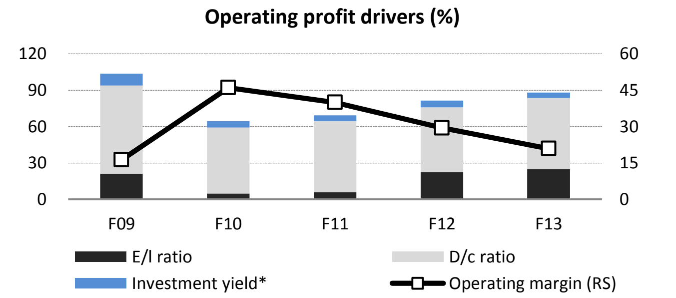
*9 months to September 2014

**Excludes unrealised movements.

Net operating result

Investment income registered a 27% increase, to ZMW0.9m in F13. Nevertheless, the investment yield reduced to 6% in F13 (F12: 12%) due to the significantly higher investment portfolio. Investment income as a proportion of net earned premium equated to an unchanged 5% in F13. In conjunction with the underwriting result achieved, this saw the operating margin equate to a lower 21% in F13 (F12: 30%). Investment returns represented 22% of operating profits in F13 (F12: 18%), relative to a review period average contribution of 25%.

Net profit result



Net income after tax was ZMW2.9m in F13, representing a 16% growth. The return on equity was lower at 12% (F12: 22%), comparing lower than the review period average return (22%).

Retrocession

Retrocession counterparties

Table 11: Retrocession counterparties	Prop	Non-prop CAT	Non-prop non-CAT	Total
Africa Re	25.0	--	25.0	16.0
Kenya Re	20.0	--	20.0	13.0
East Africa Re ("EA Re")	20.0	--	20.0	13.0
Ghana Re	10.0	--	10.0	12.0
Tan Re	10.0	10.0	10.0	12.0
Arig Re	15.0	--	15.0	10.0
FM Re	--	40.0	--	9.0
Continental Re	--	20.0	--	5.0
Other	--	30.0	--	11.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

The majority of the retrocession arrangements are placed with counterparties with an intermediate aggregate level of rating strength. Nonetheless, note is taken of the prominence of smaller following counterparties.

Africa Re leads on the reinsurer's primary surplus and XoL treaties, with a 25% share. Kenya Re and EA Re each have 20% participation, with the balance split amongst Ghana Re, Tan Re and ARIG Re. FM Re leads on the automatic facultative ("auto-fac") cover with a 40% share (20% on the bond surplus and CAT treaties), with the remainder taken up by eight counterparties. While following (and fac) counterparts have weak rating, according to management, they have historically demonstrated a timely turnaround on claims. With the exception of fac participants, retrocessionaires are vetted by Prima Re's reinsurance brokers, although the final decision is internal.

Retrocession structure

The reinsurer continued to enhance the capacity of its retrocession programme across the board for 2014, in line with its growth strategy. The reinsurer utilises an auto fac treaty to provide additional capacity across the board. The capacity for fire was increased to US$28.5m and US$18.5m for engineering. Changes have also been made to improve the programme's cost effectiveness and to ensure sufficient protection from capital erosion. The maximum per risk net retention amounts to ZMW350,000, while the CAT layer reduces the largest net exposure per event to ZMW2.2m (6% of FYE13 capital). According to management, fac acceptances fall within treaty limits.

Table 12: Retrocession matrix	Retention		Capacity	
	2013	2014	2013	2014
Auto fac (US$'m)				
Fire	--	8.5	--	28.5
Engineering	--	8.5	--	18.5
Marine	--	1.5	--	2.0
Other	--	8.5	--	9.0
Surplus (lines) (ZWM'000s)				
Bonds (19)	1,000	1,000	19,000	20,000
Marine (15)	250	500	3,750	8,000
Fire & Eng. (20)	750	0.0	15,000	0.0
Non-marine (30)	750	1,500	24,000	46,500
XoL (layers) (ZWM'000s)				
Non-marine (2)	250	350	500	1,500
Non-marine CAT (1)	500	2,200	1,000	27,500

Retrocession result

Table 13: Retro. account ZMW'm)	F09	F10	F11	F12	F13
Premium ceded	(2.1)	(3.5)	(4.9)	(5.8)	(8.4)
Claims recovered	0.8	1.2	1.6	1.7	5.1
Commission recovered	0.7	1.1	1.5	2.1	3.0
Net result-cash basis	**(0.6)**	**(1.3)**	**(1.9)**	**(2.1)**	**(0.3)**

While the reinsurer's retention has been aggressive over the review period, retrocessions have evidenced a 5-year CAGR of 41%, rising to ZMW8m in F13 (F12: ZMW5m), on the back of a rapid scaling up of operations. On cash basis, claims recoveries rose by 200% in F13, equating to a higher 61% of the year's cessions (F12: 29%). The commission recovery rate remained unchanged at 36%. As a result, the transfer to retrocessionaires equated to a reduced ZMW0.3m (FYE12: 2m).

Asset management

Investment strategy

Over the review period, Prima Re has on average held the majority of the investment portfolio in liquid assets (87%), while financial assets have accounted for 13%. The reinsurer is in the process of formalizing an investment strategy to be implemented in F15, in line with the ERM framework. According to management, the investment strategy will largely focus on maintaining liquid assets.

Table 14: Investments	FYE12		FYE13		3Q F14	
	ZMW'm	%	ZMW'm	%	ZMW'm	%
Cash on hand	0.3	5.3	1.2	4.7	0.5	2.3
Short term deposits	5.1	84.8	22.9	92.8	19.3	90.6
Cash and	***5.4***	***90.1***	***24.1***	***97.5***	***19.8***	***92.9***
Listed shares	0.6	9.9	0.6	2.5	1.5	7.1
Non-cash	***0.6***	***9.9***	***0.6***	***2.5***	***1.5***	***7.1***
Total investments	**6.0**	**100.0**	**24.7**	**100.0**	**21.3**	**100.0**

Liquidity

Cash and equivalents increased to ZMW24m in F13 (F12: ZMW5m), on the back of cash proceeds from the rights issue. As such, liquidity metrics substantially improved, with cash covering net technical liabilities by a strong 2.8x in 3Q F14. Similarly, the claims cash coverage equated to a high 46 months at 3Q F14. GCR expects liquidity metrics to remain at sound levels over the rating horizon supported by the moderately conservative investment strategy.

Listed shares

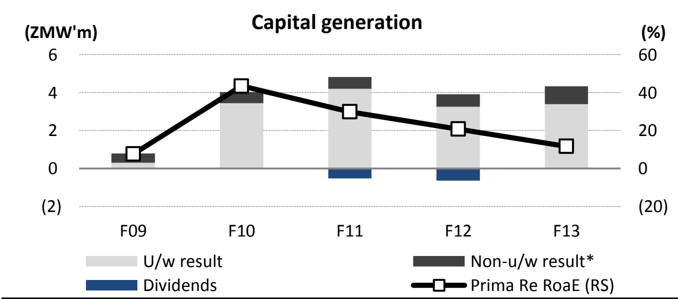
The listed equities pertained to two counters in F13, namely Investrust Bank PLC and CEC. The value of listed shares remained unchanged at ZMW0.6m in F13. The reinsurer also purchased shares in Madison Financial Services and Lafarge in F14. As such, the value of listed shares was ZMW1.5m in 3Q F14, representing 4% of capital.

Receivables

Premium receivables amounted to an unchanged ZMW10m in F13, of which ZMW3m was in excess of 180 days (mainly legacy debtors). According to management, the slow cash conversion is partially due to credit policies extended on corporate accounts. Credit controls were tightened in F13, in an effort to improve collections of long outstanding debtors. The reinsurer also adopted offsetting arrangements. As such, receivables amounted to 30% of total assets in F13, lower than the review period high of 50% in F12. The average premium debtors' days, however, remained elevated at 142 days from a review period low of 65 days in F09. As such, the moderately large quantum of receivables introduces a risk to capital.

Capitalisation

Capital generation



Cumulative net income after tax has totalled ZMW11m over the review period, all generated through realised earnings. An average of 11% has been distributed as dividends over the review period. The reinsurer received a capital injection of ZMW19m in F13 from existing shareholders. In tandem with sound retained income, Prima Re's capital base increased to ZMW37m (FYE12:ZMW13m). Dividend moratoriums may be re-introduced, depending on changes to capitalisation regulations in the medium term. GCR expects risk adjusted capitalisation to remain at sound levels over the rating horizon.

Solvency

As a result, the international solvency margin strengthened notably to 219% (F12: 79%), well above the review period average of 108%. Adjusted for premium debtors in excess of 180 days, the international solvency margin moderates to 201% in F13 (F12: 61%), albeit remaining strong.

Table 15: Statutory solvency (ZMW'm)	F10	F11	F12	F13
Total admissible assets	12.0	18.1	22.3	43.2
Less admissible liabilities	(5.8)	(7.0)	(9.2)	(5.8)
Excess / (deficit)	**6.2**	**11.1**	**13.1**	**37.4**
Statutory solvency margin (%)	107.6	160.6	142.8	643.1

Prima Re's statutory solvency margin strengthened to 643% after easing to 143% in F12. The statutory solvency eased in F12 largely due to the rapid appreciation in admissible assets, underpinned by an escalation in premium receivables (42% of the balance sheet; FYE11: 36%) and fixed capital formation. Nevertheless, excess assets remained well above an internal comfort level of cover of admissible liabilities of 70%, and a statutory minimum of 10% over the review period.

Reserving

Table 16: Reserving (%)	F09	F10	F11	F12	F13
UPR/NWP	50.4	43.5	31.9	37.6	14.1
(OCR + IBNR) / NWP	12.8	5.7	1.8	6.6	8.0

The UPR equated to a lower 14% of NWP in F13 (F12: 38%). Claims reserves corresponded to a higher 8% of NWP in F13 (F12: 7%), albeit remaining low. The year to date figures in 3Q F14, show an improvement, with the UPR equating to a higher 23% of NWP and the OCR/NWP ratio registering at a review period high of 19%. As such, GCR expects claims reserving metrics to remain at strengthened levels over the rating horizon.

International rating considerations

Prima Re's shareholders are all locally domiciled. As such, the international scale rating is capped by the sovereign rating accorded to Zambia (B: Fitch; B1: Moody's). The social security authority's shareholding represents a government interest, although at 14%, this is insufficient to warrant a notching up to the sovereign rating. While the diverse shareholding evidenced after the rights issue is viewed positively, the improvement does not currently place upward pressure on the international rating.

Asset conversion, currency and counterparty risk

Table X: Cash matrix	FYE12		FYE13		3Q F14	
	ZMW'm	%	ZMW'm	%	ZMW	%
Banc ABC	2.2	41.3	8.4	34.8	7.4	37.6
Madison	2.6	48.8	4.3	17.8	3.9	19.5
Investrust	0.2	4.0	6.0	24.8	5.2	26.4
Stanbic	--	--	3.0	12.4	2.9	14.7
Other	0.3	5.9	2.4	10.3	0.4	1.8
Total	**5.4**	**100.0**	**24.1**	**100.0**	19.8	100.0

The reinsurer has made good progress in increasing the diversification of banking counterparties over the past 21 months. In this regard, cash is currently spread across 5 entities, with no single bank holding more than 40%. The top two financial institutions represented a lower 64% of total cash holdings at 3Q F14 (FYE12: 90%). Single counterparty exposures do persist, although note is taken of the inherent diversification limitations within the local market.

While the reinsurer does not hold any of its investments or other assets offshore, it derives a moderate proportion of business from external cedents, and historically underwrote a fair proportion of local business in US$. US$ premiums have since declined from highs of over 50% reported in previous years. This has moderately reduced foreign exchange exposure inherent in the significant premium to claims mismatch evidenced in previous years. Despite these considerations, hard currency balances are positively viewed as a preserve of value.

Prima Reinsurance PLC

(ZMW in millions except as noted)*

Year ended : 31 December		2009	2010	2011	2012	2013
Income Statement						
Gross written premiums (GWP)		**8.3**	**12.9**	**16.4**	**21.7**	**25.5**
Reinsurance premiums		(2.1)	(3.5)	(4.9)	(5.8)	(8.4)
Net written premiums (NWP)		**6.3**	**9.4**	**11.4**	**15.9**	**17.0**
(Increase) / Decrease in insurance funds		(1.6)	(0.9)	0.4	(2.3)	3.6
Net premiums earned		**4.7**	**8.5**	**11.9**	**13.6**	**20.6**
Claims incurred		(1.0)	(0.4)	(0.7)	(3.1)	(5.1)
Commission (net)		(1.2)	(2.3)	(3.5)	(3.0)	(5.2)
Management expenses		(2.2)	(2.3)	(3.5)	(4.2)	(6.8)
Underwriting profit / (loss)		**0.3**	**3.4**	**4.2**	**3.3**	**3.4**
Investment income		0.5	0.4	0.5	0.7	0.9
Other income / (expenses)		0.0	0.0	0.0	0.0	0.0
Taxation		(0.5)	(1.5)	(2.2)	(1.5)	(1.4)
Net income after tax		**0.3**	**2.4**	**2.6**	**2.5**	**2.9**
Net exchange gains / (losses)		0.0	0.1	0.1	(0.1)	0.0
Other unrealised gains/ (losses)		(0.0)	0.3	0.3	0.2	0.3
Total comprehensive income		**0.3**	**2.8**	**3.0**	**2.6**	**3.2**
Dividends paid in respect of financial year		0.0	0.0	(0.5)	(0.7)	0.0
Cash Flow Statement						
Cash generated by operations		**0.4**	**3.9**	**4.8**	**4.0**	**4.7**
Cash flow from investment income		0.4	0.4	0.4	0.3	0.6
Working capital decrease / (increase)		0.0	(1.3)	(2.1)	(0.4)	(6.0)
Tax paid		(0.2)	(0.5)	(1.2)	(2.3)	(1.1)
Cash available from operating activities		**0.6**	**2.5**	**1.9**	**1.7**	**(1.8)**
Dividends paid		0.0	0.0	(0.5)	(0.7)	0.0
Cash flow from operating activities		**0.6**	**2.5**	**1.4**	**1.0**	**(1.8)**
Cash flow from investing activities		**(1.3)**	**(0.3)**	**(2.3)**	**(1.0)**	**(0.9)**
Cash flow from financing activities		**(0.1)**	**0.0**	**0.0**	**0.0**	**21.4**
Net cash inflow / (outflow)		**(0.7)**	**2.2**	**(0.9)**	**0.1**	**18.6**
Balance Sheet						
Shareholders interest		**4.4**	**7.2**	**10.7**	**12.6**	**37.2**
Insurance funds		3.2	4.1	3.6	6.0	2.4
Net outstanding claims		0.8	0.5	0.2	1.0	1.4
Other liabilities		1.2	2.5	4.5	4.1	2.9
Total capital & liabilities		**9.6**	**14.3**	**19.0**	**23.7**	**43.8**
Fixed assets		1.0	1.4	4.2	5.7	6.0
Investments		0.8	1.0	1.4	0.6	0.6
Cash and short term deposits		4.0	6.3	5.4	5.4	24.1
Other current assets		3.8	5.6	8.0	12.0	13.2
Total assets		**9.6**	**14.3**	**19.0**	**23.7**	**43.8**
Key Ratios						
Solvency / Liquidity						
Shareholders' funds / NWP	%	69.9	76.8	93.4	79.4	218.5
Adjusted international solvency°	%	65.1	34.2	66.5	61.2	201.4
Claims cash coverage	months	48.7	180.3	93.6	21.3	56.2
Cash : Technical liabilities	x	1.0	1.4	1.4	0.8	6.4
Net outstanding claims / NWP	%	12.8	5.7	1.8	6.6	8.0
Insurance funds / NWP	%	50.4	43.5	31.9	37.6	14.1
Avg. premium debtors days	days	65.3	84.9	123.3	142.0	142.4
Net profitability						
Operating margin	%	16.3	46.0	40.0	29.5	21.0
ROaE (before exchange gains / losses)	%	7.2	41.2	28.9	21.5	11.7
ROaE (after exchange gains / losses)	%	7.6	43.4	29.9	20.7	11.7
Investment yield (including unrealised gains / losses)	%	9.4	7.4	7.7	11.5	6.1
Investment yield (excluding unrealised gains / losses)	%	9.8	9.6	8.9	10.2	6.1
Underwriting profitability						
GWP growth	%	65.4	54.2	27.4	32.6	17.2
Premium retention rate	%	75.4	72.8	69.8	73.2	66.9
Earned loss ratio	%	21.1	4.9	5.8	22.6	24.9
Commissions / Earned premiums	%	25.0	27.7	29.3	22.3	25.5
Management expenses / Earned premiums	%	47.6	26.6	29.5	31.1	33.2
Underwriting result / Earned premiums	%	6.3	40.8	35.4	24.0	16.4
	%	93.7	59.2	64.6	76.0	83.6
Operating						
Effective tax rate	%	60.1	38.8	45.5	37.5	32.7
Dividend cover	x	n.a.	n.a.	5.0	3.8	n.a.

* The numbers for 2009-2012 were adjusted following the January 2013 rebasing of the currency. The currency is now ZMW, from ZMW previously.

° Excludes debtors outstanding in excess of 180 days.

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SALIENT POINTS 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.

Prima Reinsurance PLC 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 ratings have been disclosed to Prima Reinsurance PLC with no contestation of the rating.

The information received from Prima Reinsurance PLC and other reliable third parties to accord the credit rating included the 2013 audited annual financial statements (plus four years of comparative numbers), full year detailed budget financial statements for 2014, unaudited year to date management accounts to September 2014, the current year retrocession cover notes, and other related documents.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.