S&P Global Ratings

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African Trade Insurance Agency

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African Trade Insurance Agency

Stand-alone credit profile	a	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	Strong	**Adequate**	Moderate	Weak	Very weak

Issuer credit rating
A/Stable/--

Outlook

Issuer Credit Rating
Foreign Currency
A/Stable/--

The stable outlook reflects S&P Global Ratings' expectation that, over the next two years, the African Trade Insurance Agency (ATI) will continue consolidating its role and relevance on the continent through steady progress expanding its shareholder base and through underwriting activities while strengthening key managerial and risk functions supporting its growth. Additionally, we believe ATI will manage sovereign claims within the 180-day recovery period, despite increased stress in the region.

We could lower the ratings if we were to see evidence of weakening shareholder support, such as a re-emergence of diminishing preferred creditor status, indicated by unrecoverable sovereign claims from sovereign members within our 180-day recovery period. We could also lower the ratings if sovereign members do not uphold the immunity and privileges granted to ATI as an MLI. Furthermore, if ATI relaxes its risk constraints, or there is a lag between the revamping of its enterprise risk management framework and its growing underwriting business, we could also lower the rating.

We believe the likelihood of an upgrade over the next two years is remote; although significant expansion in the shareholder base, supporting exceptional market penetration in the region, and a solid record of preferred creditor treatment (PCT), combined with the development of superior risk management capabilities, would point to strengthening credit fundamentals.

Rationale

Our ratings on ATI reflect its strong enterprise risk profile and adequate financial risk profile. Combined, these factors result in a stand-alone credit profile (SACP) assessment of 'a'. ATI does not benefit from any mechanism for extraordinary shareholder support; therefore, our ratings on the agency are the same as the SACP.

The past years have been characterized by increased market penetration and exceptional membership growth, cementing our view of ATI's strong policy importance. In the past three years alone seven new member countries have joined: Ethiopia, Côte d'Ivoire, South Sudan, Zimbabwe, Ghana, Nigeria, and Niger. Gross underwritten exposure grew by 35%, reaching $6.4 billion in 2019.

We expect that ATI will carefully manage its growth while adhering to conservative risk management and underwriting standards, although continued expansion into new markets and countries will require a more sophisticated and integrated enterprise risk management framework. That said, ATI hired a new Chief Risk Officer (CRO) in February 2020, among other key hires and functions. We expect that the agency will work to integrate risk functions and ensure that appropriate resources and structures are in place to support continued growth.

ATI's equity increased to $349 million, and the agency has demonstrated strong top-line growth, recording gross premiums of about $112 million in 2019 compared with $66 million in 2018. This was supported by organic growth of the portfolio as well as underwriting deals in new countries. Even amid weakening economic fundamentals in the region following the outbreak of COVID-19, we expect that ATI's members will uphold ATI's preferred creditor status, recovering any payouts on noncommercial claims. We expect commercial claims, at 1.8X as of 2019, to be counterbalanced by robust capitalization.

Environmental, Social, and Governance

Because it underwrites projects in Africa, ATI is exposed to indirect material natural disaster risk through its member countries. That said, much of its exposure is concentrated in Benin, Côte d'Ivoire, and Kenya, where climate effects have had less impact on the buildings and infrastructure. These countries made up 44% of gross exposure and 31% of net exposure (after reinsurance) in 2019. ATI's underwriting activities are in sectors that could carry higher risk: 43% of its gross exposure is in the financial and insurance sector; 22% in electricity, gas, and water supply; and 16% in construction.

Given its business model, ATI is less able to exercise oversight over the emerging environmental and social risks in the projects it underwrites. However, it has an in-house environmental, social, and governance (ESG) framework for assessing the risk it underwrites, which was approved by key partner institutions such as KfW Group and the European Investment Fund (EIB).

ATI has also built continuous monitoring provisions, particularly for higher-risk projects. ATI's environmental and social risk policies and functions are somewhat less well developed than those of other multilaterals. It plans to hire a dedicated ESG officer within the next 12 months. ATI has entered into several partnerships that incorporate oversight beyond its normal level and carry additional environmental and social requirements.

For example, ATI recently launched a liquidity facility for renewable energy, cofinanced with the KfW Group, to support energy power producers that use renewable technology. The Africa Energy Guarantee Facility, a risk-sharing platform launched with the EIB, provides up to $1 billion in reinsurance capacity for sustainable projects and requires that projects comply with the EU's sustainable energy criteria. Nonetheless, these products are of limited size. ATI's governance and management assessment has a neutral effect on the rating. Although governance is limited by the concentration in African member countries that have lower governance rankings, on average, we view the management and financial risk frameworks as robust. That said, given ATI's fast growing portfolio and expanding reach, its risk management capabilities will need to become more sophisticated. In February 2020, ATI hired a full-time CRO.

Enterprise Risk Profile: Growing Membership Base And Increased Market Penetration Support Strong Policy Importance

- ATI has experienced exceptional growth in terms of shareholder membership and underwriting deals and continues to receive the strong support of other MLIs and development agencies, which in our view underpins its strong policy importance.
- We expect ATI's growth trajectory will be balanced by the implementation of a more robust and integrated enterprise risk management framework, supporting the conservative management of the institution.

Policy importance

ATI was established by treaty in 2001 with the support of the World Bank. Its mission is to provide political risk (noncommercial) and export credit guarantee (commercial) insurance to support trade and investments in its African nation-state members, with the aim of reducing the risks and cost of doing business in Africa. The agency has also recently introduced commercial surety bonds to its product mix. In line with similar multilateral institutions, it is exempt from corporate income taxation.

ATI has a key competitive advantage, which limits the ability of private credit insurers to fulfil its role in the region given the preferred creditor status afforded by member governments. ATI's statutes affirm the obligation of member governments to reimburse the institution for noncommercial claims. This has eased competitive pressures and allows ATI to enter into reinsurance arrangements with other international credit risk and political risk insurers.

Its fast-growing membership base in recent years and market penetration, combined with key support from other MLIs and development agencies, supports our view of ATI's policy importance.

ATI has grown its shareholder base from seven initial member countries to the current 17. During 2019, the agency received paid-in capital from new members Chubb Ltd., India/the Export Credit Guarantee Corp., Ghana, and Nigeria, as well as capital increases from Côte d'Ivoire and Madagascar for a total of $62 million. Chubb, the world's largest global property and casualty insurer, made a $10 million equity investment in ATI. In fact, the pace of membership expansion has accelerated, with seven new member countries joining the institution in the past three years alone. This in our view speaks to a growing role for ATI's business model, especially in light of the renewed focus on the private-sector development model and mobilization to bridge the infrastructure financing gap in support of the U.N.'s Sustainable Development Goals 2030 Agenda (see "It's Time For A Change: MLIs And Mobilization Of The Private Sector," published Sept. 21, 2018).

ATI's strength and relationship with shareholders, evidenced by the growth in new members, is a key to the 'A' rating.

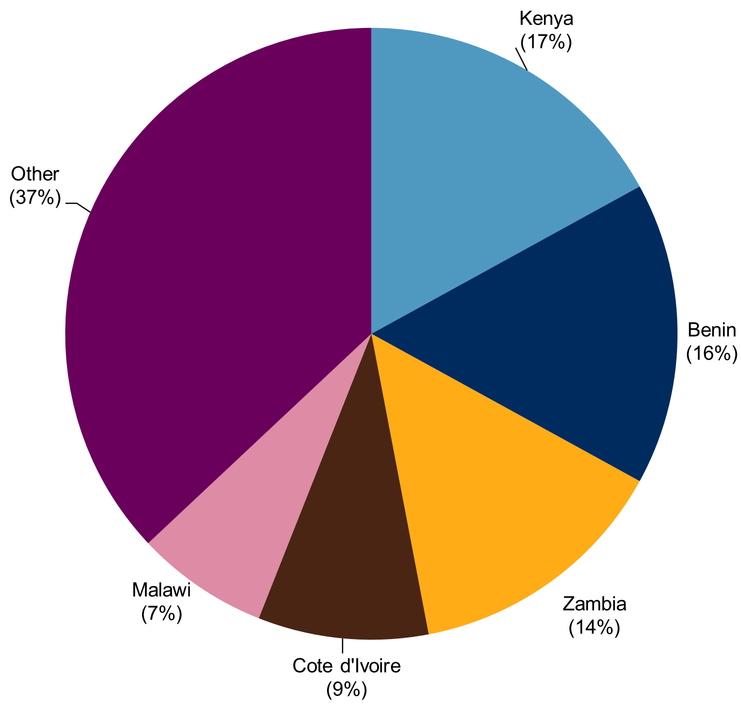
That said, on May 20, 2019, George Otieno (then CEO) filed a constitutional petition against ATI challenging the expiration of his fixed-term contract of employment in the Employment & Labour Relations Court at Nairobi. While we expect that the Kenyan government and its court system will ultimately uphold ATI's right to immunity from legal jurisdiction (including personnel matters), any unfavorable outcome could weigh on our assessment of ATI.

While ATI was founded with the technical and financial support of the World Bank and the International Development Association (IDA), other institutions have also provided support by extending financing to ATI new member states. More recently, The African Development Bank (AfDB) Board provided a $14.2 million loan to support Nigeria's membership with ATI, although it is targeting an eventual $50 million shareholding. KfW provided $17.6 million for Ghana to become a full member and provided a $6.5 million grant for capital increases of Côte d'Ivoire and a $5.9 million grant for capital increases of Madagascar. The incorporation of Niger in March 2020 was supported by a concessional financing facility by the EIB, which will also extend to other prospective members Cameroon and Niger. The EIB has provided an additional $25 million in grants to fund the shareholding of Cameroon and Togo, representing $12.5 million in equity investment for each country.

This has facilitated the expansion of ATI into new markets and countries, as well as deals alongside other MLIs and institutional investors. Gross exposure increased by 35% to $6.4 billion in 2019, although net exposure grew by a significantly smaller 7% to $1.1 billion. Approximately 74% of gross exposure is noncommercial, of which the vast bulk (around 70%) covers sovereign nonpayment risk, and the remainder includes political risk insurance and underwriting at the subsovereign level. The remaining 26% of gross exposure is commercial risk. Net exposure to commercial risk was $446 million as of year-end 2019. Event-risk losses derived from noncommercial business are fully recoverable from the respective member state causing the loss, which is at the core of our PCT assessment. Commercial risk event losses are for ATI's own account.

Chart 1

MLI Five Largest Countries Purpose-Related Exposures
As A Percentage Of Gross Purpose-Related Assets Plus Guarantees



Source: S&P Global Ratings.

ATI has generally been able to demonstrate PCT and fully recover sovereign obligation claims from its respective member states. However, during 2016 and 2017, ATI experienced growing sovereign claims that were not recovered within the 180-day recovery period we consider in our revised criteria. As of today, these have all been recovered, including an outstanding claim from the government of Tanzania of US$4.2 million, which was deducted from the country's capital contributions and has now been reinstated. Our calculated PCT arrears ratio is 6.5%, which reflects the reimbursement delays that occurred within our 10-year lookback period.

ATI has been proactive in reinforcing its preferred creditor status through a series of measures. Mandatory notifications and the elimination of objection requests for political risk insurance (PRI) transactions were introduced, as well as a sanctions regime involving interest charges on payment delays that exceed 180 days. Furthermore, ATI has worked to strengthen strategic partnerships with members, hiring a full-time membership liaison officer and engaging ministers of finance. We therefore expect that ATI will manage recoveries on sovereign claims and maintain a stable PCT ratio--crucial to its business and competitive advantage over other insurers in the region.

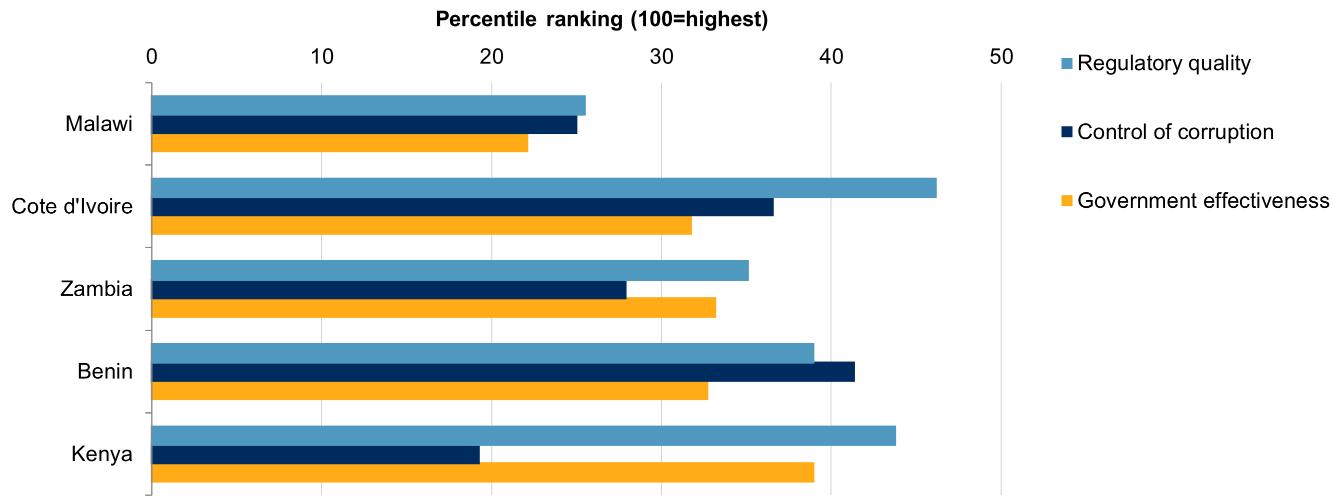
Governance and management expertise

We view the shareholder structure, with the majority of voting shares from African member countries where underwriting activities are carried out, as potentially vulnerable to agency risk. Furthermore, ATI's shareholders, on average, have lower ranking in terms of World Bank indicators on governance effectiveness compared with other MLI peers. As of Dec. 31, 2019, the largest shareholders were: Kenya (9.3%); Uganda (7.5%); Côte d'Ivoire (6.6%); and the Democratic Republic of Congo (6.4%). Although no single shareholder is dominant, we consider that a majority of shareholding from countries with lower governance standards could create risks to the institution in crisis situations.

While ATI does have private-sector shareholders, which could dilute its developmental mandate, these are limited. Other nonsovereign shareholders typically have a developmental mandate that carries over to ATI. For instance, the AfDB is the largest nonsovereign shareholder, with 4.9% of the shares.

Chart 2

Five Largest Shareholders
Selected World Bank Governance Indicators



Source: S&P Global Ratings.

We view ATI's management as appropriately skilled and having a sufficient track record in operating the business at its current volumes. The management team is small, and some key-man risks exist, but these are commensurate with an entity of this size.

ATI continues to hire key personnel to support its risk-management capabilities in line with its growth trajectory. ATI recently hired a claims and recovery officer and is looking to hire more personnel in this area. In February 2020, ATI appointed Deepak Dave as CRO. As the legal dispute with the previous CEO continues, ATI is expecting to appoint a new CEO by mid-2020, with John Lentaigne as acting CEO. We expect ATI to continue building its resources, including key staff members, which we view as critical to ATI's ability to appropriately manage its growing business.

We view controls within ATI's risk management framework as sufficient and appropriate for its key underwriting and investment risks, considering of the size of the entity. ATI has been reinforcing its underwriting standards and risk management with an international consultancy enabled by a grant from the EIB. However, considering the strong growth reported by the entity in recent periods, we recognize that the MLI needs to continue enhancing the enterprise wide risk management framework and strengthening risk controls. Both the board and management continue to support the integration and enhancements to its credit risk framework. More recently, the maximum net exposure is practically managed to remain well below 5x equity from the current formally approved 6x to 8x band. We expect that this will be officially sanctioned by mid-2020 as part of the overall ERM updates. ATI's current net exposure position is at 3.1x as of fiscal-year-end 2019, versus 3.8x at fiscal-year-end 2018.

ATI does not typically pay dividends, but in 2018 it issued its first dividend payment to shareholders, which was maintained in 2019. ATI has indicated that this policy will help shareholders service loans related to their ATI share acquisitions, although a number of countries have chosen to re-invest their dividend. The idea underlying this payment is to offset the interest charged on loans granted by IDA. Dividend policy in the agency's agreement requires that all liabilities must be provisioned before any distribution is made.

Financial Risk Profile: Robust Capitalization, Although Higher Claims Could Emerge

- Capitalization is robust, although increased claim payouts stemming from rising economic risks in the region can weigh on earnings.
- ATI maintains robust liquidity.

We assess ATI's financial profile as adequate, which is mapped from strong under our insurance criteria, reflecting its strong capital and earnings, moderate risk exposure, and exceptional liquidity.

ATI's equity increased to $349 million, and the agency has demonstrated strong top-line growth, recording gross premiums of about $112 million in 2019 compared with $66 million in 2018. This was supported by organic growth of the portfolio as well as underwriting deals in new countries. ATI posted net profit close to US$28 million in 2019, which represents a 134% increase over 2018.

Given the negative economic impact of COVID-19 in the region, we expect an increase in claims payout to just above 40% in 2020, which as of 2019 stood at 16.2% of net premiums earned, and could weigh on earnings. The largest sovereign exposures are in Benin, Côte d'Ivoire, and Zambia. Some exposures in Zambia are currently problematic, although ATI typically manages these positions to avoid a claims payout. If a claim were to be paid, we would expect preferred creditor status to be upheld. We believe noncommercial claims will also increase, although ATI is robustly capitalized to absorb this risk.

Both commercial and noncommercial risks are protected in part by appropriate reinsurance, both treaty and facultative, with net exposure at $1.1 billion in 2019.

We view ATI's liquidity as robust. In our view, liquid assets will remain generously in excess of the likely and stressed claim outflow.

Extraordinary Shareholder Support

We give no credit for extraordinary shareholder support, because all capital is paid in.

ATI Selected Indicators (In 000s US$)

Summary Balance Sheet (US$)	2019	2018	2017	2016	2015
Assets					
Bonds	238,642	212,324	196,253	139,794	126,382
Cash deposits	81,189	81,625	55,040	73,246	54,353
Other investments	79,296	11,439	20,380	9,495	18,695
Total invested assets	399,127	305,388	271,673	222,535	199,430
Other assets	3,503	114,058	58,932	72,084	35,364
Total assets	599,349	419,446	330,605	294,619	234,794
Liabilities					
Technical reserves	175,180	112,283	61,054	63,818	31,698
Other liabilities	74,744	44,891	27,387	22,517	16,923
Total liabilities	249,924	157,174	88,441	86,335	48,621
Shareholder equity					
Common equity	299,302	237,110	226,452	202,482	181,881
Retained profit balance sheet	50,123	25,162	15,712	5,802	3,392
Other capital	-	-	-	-	900
Total shareholder equity	349,425	262,272	242,164	208,284	186,173
Selected indicators (US$)					
Gross exposure	6,449,273	4,786,842	2,391,438	1,945,681	1,690,910
Net exposure	1,073,640	1,006,804	877,999	870,485	744,268
Total assets	599,349	305,388	271,673	222,535	199,430
Total shareholder equity	349,425	262,272	242,164	208,284	186,173
Gross premiums written	111,936	66,154	44,792	29,545	23,256
Net premiums written	18,107	11,718	14,056	12,779	10,162
Net premiums earned	18,107	12,806	13,868	11,587	8,671
Reinsurance utilization (%)	84	82	69	57	56
EBIT	28,534	12,029	10,001	2,496	4,746
Net income (attributable to all shareholders)	27,943	11,927	9,910	2,410	4,663
Return on revenue (%)	110	63.4	51.8	16.8	41.1
Return on shareholders' equity (reported) (%)	9	4.7	4.4	1.2	2.5
P/C: net combined ratio (%)	N.M.	51.0	63.9	85.2	74.2
P/C: net expense ratio (%)	N.M.	10.7	30.1	35.2	50.6
Net investment yield (%)	1.9	1.9	1.4	1.3	1.3
Liquidity ratio from capital model (%)	291	277	259	200	179
Commercial exposures (%)	74	N.A	N.A	N.A	N.A
Noncommerical exposure (%)	26	N.A	N.A	N.A	N.A

N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Enterprise Risk Profile	Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak

Policy Importance	Very strong	**Strong**	Adequate	Moderate	Weak

Governance and Management	Strong	**Adequate**	Weak

Financial Risk Profile	Extremely strong	Very strong	Strong	**Adequate**	Moderate	Weak	Very weak

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Understanding S&P Global Ratings' Rating Definitions, June 3, 2009

Related Research

- ESG Industry Report Card: Supranationals, Feb. 11, 2020
- Supranationals Special Edition 2019: Report Says MLIs Are Focusing On Sustainable Development Goals, Oct. 25, 2019

- Supranationals Special Edition 2019: Comparative Data For Multilateral Lending Institutions, Oct. 17, 2019
- Introduction To Supranationals Special Edition 2019, Oct. 17, 2019

Ratings Detail (As Of April 28, 2020)*		
African Trade Insurance Agency		
Financial Strength Rating		
Local Currency		A/Stable/--
Issuer Credit Rating		
Foreign Currency		A/Stable/--
Financial Enhancement Rating		
Local Currency		A/--/--
Issuer Credit Ratings History		
14-Mar-2018	*Foreign Currency*	A/Stable/--
25-Aug-2016		A/Negative/--
17-Apr-2008		A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.