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Research Update:

African Trade Insurance Agency Ratings Affirmed At 'A'; Outlook Remains Negative

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Overview

- Despite strong growth in insurance activity and exposures during 2016, African Trade Insurance Agency's (ATI's) capital position remains strong, in part supported by new subscriptions of capital. Equally, ATI maintains strong liquidity. Both of these factors reinforce its strong financial profile.
- However, member state sovereign and subsovereign payment delays incurred over 2015 remain outstanding, and new arrears, although very small, have accumulated over 2016, which signals a weakening in ATI's preferred creditor status.
- We are affirming our 'A' long-term rating on ATI.
- The negative outlook indicates that we may lower the ratings in the next six months if material progress toward curing the current outstanding payments is not made, or if further late payments occur, as this could signify a growing track record of diminishing preferred creditor status.

Rating Action

On Aug. 29, 2017, S&P Global Ratings affirmed its 'A' rating on multilateral lending institution (MLI) African Trade Insurance Agency (ATI). The outlook remains negative.

Rationale

The negative outlook reflects what we view as a continued weakening of ATI's preferred creditor status, albeit marginal. Payments from an entity in Kenya and the government of Malawi remain outstanding, and payments from Tanzania and Zambia have accrued more recently. Importantly, in our opinion, the amounts overdue from Tanzania and Zambia are minimal, totaling \$6.65 million. Furthermore, ATI has received commitments to repay from most of the overdue parties.

The ratings reflect our view of ATI's strong business profile and adequate financial 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 we equalize our ratings on the agency with its SACP.

ATI was established in 2001 to support trade and investments in African member-state nations through offering political risk and export credit guarantee insurance. The agency has also recently begun to offer commercial surety bond insurance. It currently has 21 paid-up shareholders, including 13 African states. Combined with capital increases from existing members and new members such as Zimbabwe and Ethiopia, ATI's paid-in capital could increase to at least \$230 million by 2018.

Over the medium term, ATI's membership may be significantly boosted by members of the Economic Community of West African States, which could lift its paid-in capital

above \$250 million, a threshold that currently constrains our capital and earnings assessment, which derives in part from the criteria we use to rate insurance companies.

In recognition of ATI's role as a catalyst in African economies, several MLIs, such as the World Bank and African Development Bank, provide unsecured concessional loans to eligible low-income African states to finance their acquisition of ATI shares. ATI announced in 2016 that it will begin covering transactions in Ethiopia and Zimbabwe.

We assess ATI's business profile as strong, based on our view of ATI's role, public policy mandate, and the strength and stability of its relationship with shareholders. We view the agency's governance as prudent and transparent. ATI is currently reinforcing its underwriting standards and risk management with an international consultancy enabled by a grant from the European Investment Bank. We believe that this will maintain the institution's risk management as it expands into new activities and countries.

Since the second quarter of 2014, ATI has struggled to obtain full repayment on a claim in its host country, Kenya. ATI's management has suggested potential fraud as the reason for the delayed payment, and this issue is currently under investigation. The government of Malawi is also in commercial arrears to ATI. The amounts concerned are small compared with ATI's capital base, and ATI's statutes permit losses from sovereign exposure to be written off eventually from the individual shareholder's equity in the agency. We have nonetheless lowered our expectations regarding ATI's preferred creditor status as a result of these incidents. We note that MLIs have relatively few opportunities to demonstrate that they will be treated differently from commercial creditors. Therefore, such examples can take on broader significance.

ATI's business profile also reflects the diversification and level of institutional development of its shareholder base, its control by the members using its services, and the expertise of its management. ATI does not currently pay dividends, but may review this policy to help shareholders service loans related to their ATI share acquisitions.

We assess ATI's financial profile as adequate, reflecting its strong capital and earnings, intermediate risk position, and adequate funding and liquidity. ATI has demonstrated strong top-line growth, with gross premiums of \$29.5 million in 2016 compared with \$23.3 million in 2015, an increase of 27%. The growth in business was driven by an increase in the single-obligor credit insurance line. ATI's net income was \$2.4 million in 2016.

Outlook

The negative outlook indicates that we may lower the ratings in the next six months if material progress toward curing the current outstanding payments is not made, or if further late payments occur, as this could signify a growing track-record of diminishing preferred creditor status. We would likely view any further delay by the

Kenyan or Malawi governments in settling their arrears, or further material arrears from other shareholders, as a sign of weakened shareholder support. We could also lower the ratings if ATI's financial profile deteriorates, for example due to operating losses.

On the upside, expanded shareholder membership, combined with substantial capital injections and ATI's total adjusted capital increasing sustainably beyond \$250 million, could lead to a positive rating action.

Related Criteria And Research

Related Criteria

- Criteria - Insurance - Specialty: Trade Credit Insurance Capital Requirements Under Standard & Poor's Capital Adequacy Model - December 06, 2013
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology - November 26, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings List

	Rating	
	To	From
African Trade Insurance Agency		
Issuer Credit Rating		
Foreign Currency	A/Negative/--	A/Negative/--
Financial Strength Rating		
Local Currency	A/Negative/--	A/Negative/--

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