

ISSUER COMMENT

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The African Trade Insurance Agency

Ghana membership is credit positive for The African Trade Insurance Agency

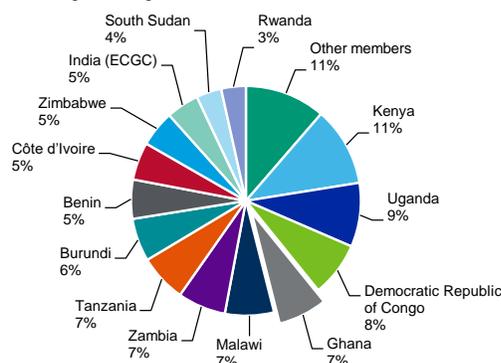
On 26 September, [The African Trade Insurance Agency](#) (ATI, insurance financial strength A3 stable) announced that [Ghana](#) (B3 stable) had become a full member of ATI. This is credit positive for ATI because it will increase ATI's capital base and portfolio diversification, add a key African economy to its membership and enhance its market position and relevance as a provider of investment protection for investors in Africa. The membership is facilitated by the German development bank [Kreditanstalt fuer Wiederaufbau](#) (KfW, Aaa stable), which will provide the financing necessary for Ghana to join ATI, highlighting the development bank's continuing support of ATI's mandate.

ATI is owned and governed by its members, predominantly a number of African sovereign states, which as of 30 June 2019 had contributed \$248.8 million in capital. With the addition of Ghana's €16 million (\$17.5 million) contribution, member capital would increase to approximately \$266.4 million, with Ghana accounting for about 7% of ATI's member capital on a pro forma basis. The addition of Ghana will increase the diversification of risks in ATI's guaranteed portfolio, which currently only has moderate exposure to West Africa.

Exhibit 1

The addition of Ghana further increases diversification of ATI's membership and guaranteed portfolio

Pro forma member contributions by country



Sources: Company reports and Moody's Investors Service

In addition to increased diversification and scale, Ghana's membership will mean that ATI will benefit from preferred creditor status (PCS) on guarantees it provides to government-related counterparties in Ghana. Currently, ATI does not benefit from PCS on business written in Ghana. This PCS, which each member state must enact into local law, gives ATI priority

above other creditors and requires the related sovereign to reimburse ATI for any claims paid on behalf of that sovereign or its related sub-sovereign entities.

As a key West African economy, Ghana's membership in ATI will strengthen ATI's market position and reputation as an important enabler of foreign investment in Africa. Its greater scale and reach across the continent enhances its suitability as a partner with global commercial and development finance institutions that require investment protection in Africa, and strengthens its access to reinsurance because it offers reinsurers a platform to originate business in more African countries. In addition to Ghana, ATI expects that [Nigeria](#) (B2 stable) will complete its membership application by the end of 2019, adding the largest African economy to its membership base, and further enhancing scale, diversification and market position.

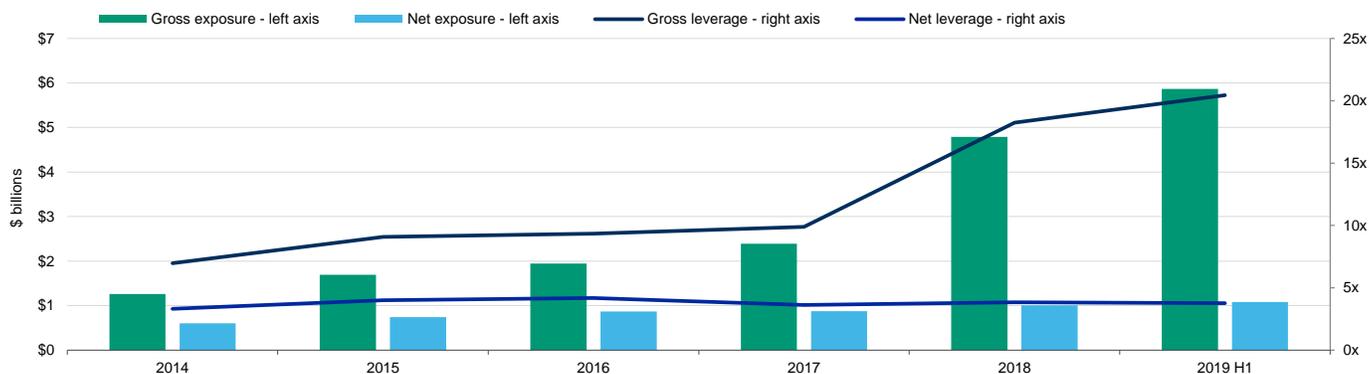
Additionally, ATI's improved standing will strengthen its negotiations with member states in the event it needs to enforce its PCS rights on member states that do not reimburse ATI for PCS covered losses in a timely manner. This is because the pressure on individual member countries to comply with their obligations increases to the extent that more key African countries are members and have an interest in ATI being reimbursed for losses incurred.

ATI transfers a significant amount of the risk it underwrites to reinsurers to supplement its own capital and allow it to guarantee larger deals than would be possible based on its own balance sheet. At 30 June 2019, ATI had gross guarantee exposures outstanding of approximately \$5.9 billion, or 24x its shareholder's equity (\$286.8 million at 30 June 2019, primarily composed of members' capital and retained earnings), although its exposure net of reinsurance was around 3.8x its member capital.

As shown in Exhibit 2, ATI has used its strong relationships with reinsurers to increase its gross leverage significantly over the past two years, while maintaining relatively conservative net exposure leverage. Based on a similar level of leverage going forward, we estimate that Ghana's contribution will enable ATI to increase its gross exposures by approximately \$400 million to \$6.3 billion. However, ATI's gross exposure has the potential to grow even more, depending on how it structures the reinsurance protection on new transactions.

Exhibit 2

ATI leverages reinsurance supply to increase gross exposure while maintaining modest net exposure



Sources: Company reports and Moody's Investors Service

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