

Research Update:

African Trade Insurance Agency 'A' Ratings Affirmed; Outlook Remains Stable

November 5, 2019

Overview

- Africa Trade Insurance maintains sound capitalization, with a robust liquid investment portfolio, offset by a still relatively small capital size in comparison to global peers.
- At the same time, the company maintains very robust capital and liquidity buffers with capital adequacy showing a significant excess at the 'AAA' level.
- We are affirming our 'A' issuer credit and financial strength ratings on ATI.
- The stable outlook reflects our expectation that over the next two years, ATI will prudently manage sovereign claims. Additionally, we expect ATI will continue consolidating its role and relevance on the continent and maintain its capital and liquidity position.

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Rating Action

On Nov. 5, 2019, S&P Global Ratings affirmed its 'A' issuer credit rating and financial strength rating on African Trade Insurance Agency (ATI). The outlook remains stable.

Outlook

The stable outlook reflects our expectation that over the next two years, ATI will manage sovereign claims within a 180-day recovery period threshold, as our criteria define it. Additionally, ATI will continue consolidating its role and relevance on the continent through steady progress expanding its shareholder base and underwriting activities.

We could raise the ratings if ATI significantly expands its shareholder base, supporting exceptional market penetration in the region, and maintains a solid record of preferred creditor treatment (PCT) combined with strengthening key managerial and risk functions to support its growth.

We could lower the ratings if evidence of weakening shareholder support were to emerge, such as a reemergence of diminishing preferred creditor status, indicated by sizable or prolonged sovereign claims from sovereign members. Furthermore, ATI's role and ability to fulfil its public policy mandate could be constrained by significant delays in membership growth and paid-in

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capital installments, which, if not compensated by a general capital increase, could weigh on the rating. Also, relaxing risk constraints, without a more robust risk management framework in place, to support the underwriting business could also lead to a downgrade.

Rationale

The affirmation follows the implementation of our revised insurance criteria (see "Insurers Rating Methodology," published July 1, 2019).

ATI maintains a strong enterprise risk profile. Following robust growth in 2018, ATI recorded gross written premiums of \$42.9 million at midyear 2019 (fiscal-year-end 2018 was \$66.1 million), compared with \$21.5 million during the same period in 2018, supported by organic growth of the portfolio. Resultantly, total gross exposure rose 23% to \$5.9 billion at midyear 2019 (fiscal-year-end 2018 \$4.8 billion), although net exposure grew to \$1.1 billion (fiscal-year-end 2018 \$1.0 billion). We expect ATI to continue expanding business volumes as the group widens its franchise across the region.

ATI has maintained overall levels of profitability, with a net profit of \$12.9 million at midyear 2019 (midyear 2018 \$5.3 million). The stronger levels of profitability have been supported by better underwriting profits and stable investment income. We expect ATI will maintain similar sound profitability for full-year 2019.

We consider ATI's capital levels to be robust. This is further supported by ATI's expansion and relevance in the region, which is bolstered by its shareholder support. The company's shareholder equity rose to \$287 million at midyear 2019 (year-end 2018 \$262 million), following the addition of India (injection of \$11.7 million)--the first non-African member country. Accordingly, given ATI's risk assumption, its capital adequacy remains above the 'AAA' confidence level, according to our capital model. That said, ATI's capital base is relatively small compared with global peers. This is also balanced by our view of ATI's evolving risk management framework as the entity expands and increases underlying risk exposure.

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

Ratings Score Snapshot

Issuer Credit Rating	A/Stable/--
SACP	a
Enterprise Risk Profile	Strong
Policy Importance	Strong
Governance and management	Adequate
Financial Risk Profile	Adequate
Extraordinary Support	0
Callable Capital	0
Group Support	0
Holistic Approach	0

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 | 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

- African Trade Insurance Agency 'A' Ratings Affirmed On Criteria Revision; Outlook Remains Stable, April 2, 2019

Ratings List

Ratings Affirmed

African Trade Insurance Agency

Sovereign Credit Rating	
Foreign Currency	A/Stable/--
Financial Enhancement Rating	
Local Currency	A/--/--
Financial Strength Rating	
Local Currency	A/Stable/--

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