

Research Update:

African Trade Insurance Agency 'A' Rating Remains On CreditWatch Negative On Pending Unrecovered Sovereign Claim

February 24, 2021

Overview

- While we understand that the government of Zambia has reimbursed African Trade Insurance Agency (ATI) for its outstanding sovereign claim of \$5.1 million on Feb. 19, 2021--within our 180-day reimbursement period--which anchors our preferred creditor treatment assessment, there remains a \$5 million outstanding sovereign claim due on Feb. 28, 2021.
- We think the government of Zambia has demonstrated its willingness to uphold its preferred creditor treatment with ATI, but it's still uncertain whether the sovereign can reimburse the claim within our 180-day-reimbursement period amid significant debt distress.
- We are therefore maintaining our 'A' issuer credit rating on ATI on CreditWatch negative.
- The CreditWatch negative indicates the risk of a downgrade if the sovereign claim from the government of Zambia is not reimbursed within our 180-day reimbursement period.

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Rating Action

On Feb. 24, 2021, S&P Global Ratings maintained its 'A' issuer credit rating on African Trade Insurance Agency (ATI) on CreditWatch with negative implications.

Rationale

The Zambian Ministry of Finance, via the Central Bank of Zambia, made a payment to ATI on Feb. 19, 2021, for \$5 million on a sovereign claim paid out to policyholders in August 2020. This reimbursement was made within 180 days, which is the threshold we consider to determine whether an arrears event has occurred. This direct cash transfer of \$5 million and the decision to refund an ATI dividend anchor our preferred creditor treatment assessment.

That said, an additional \$5.1 million noncommercial claim payout on Zambia remains outstanding. It was paid on Sept. 1, 2020, and, according to our criteria, would constitute an arrears event if the

agency does not get reimbursed by Feb. 28, 2021. The CreditWatch negative reflects the risk that ATI may not be reimbursed the remaining \$5.1 million within our 180-day time frame.

On Oct. 21, 2020, we lowered our foreign currency ratings on Zambia to 'SD' (selective default) following the suspension of debt service payments to external creditors, given liquidity difficulties compounded by the COVID-19 pandemic. While the sovereign is in discussions with the IMF and has engaged in the G20 Common Framework for Debt Treatment beyond the Debt Service Suspension Initiative (DSSI), we expect the sovereign to continue facing cash flow pressures in the near term, which creates a risk of an untimely reimbursement to ATI.

While ATI's participation agreement with each member state stipulates a 360-day recovery period for noncommercial claims, following an uptick of unrecovered sovereign claims in 2016 and 2017, the agency took proactive steps to reinforce its preferred creditor status. This included mandatory notifications and the elimination of objection requests for political risk insurance transactions, as well as a sanctions regime involving interest charges on payment delays that exceed 180 days.

ATI's capitalization remains robust, with equity having increased to \$410 million in 2020 (based on unaudited figures) and the agency demonstrating strong top-line growth, recording gross premiums of \$125.2 million (\$112 million in 2019). This has been supported by organic portfolio growth as well as underwriting deals in new countries. Weakening economic fundamentals in the region amid COVID-19 could create additional vulnerabilities for ATI's preferred creditor status. That said, outside of Zambia, ATI does not have any other sovereign claims outstanding.

In our view, the agency has a strong role and public policy mandate. In the past years, it has increased its market presence and grown membership. In the past two years alone, there have been seven new member countries, and gross underwritten exposure reached \$6.3 billion in 2020.

We expect ATI will maintain a balanced growth strategy, with strong reinsurance usage and 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.

CreditWatch

The CreditWatch negative reflects the risk of a deterioration of the agency's PCT because of the Zambian government's potential inability to reimburse ATI's remaining subrogated claim of \$5.1 million within the 180-day reimbursement period. We could lower the ratings within the next three months if an arrears event occurs, which could result in up to a two-notch downgrade if we believe it will become a protracted arrears.

On the other hand, we could remove the rating from CreditWatch if the Zambian government reimburses ATI's outstanding claim.

Ratings Score Snapshot

Issuer credit rating: A/Watch Neg/--

SACP: a

Enterprise risk profile: Strong

- Policy importance: Strong
- Governance and management expertise: Adequate

Financial risk profile: Adequate

- Capital adequacy: N/A
- Funding and liquidity: N/A

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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- S&P Global Ratings Definitions, Jan. 5, 2021
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 20, 2020
- Supranationals Special Edition 2020, Oct. 20, 2020

Ratings List

Ratings Affirmed

African Trade Insurance Agency

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

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