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CREDIT RATING ANNOUNCEMENT

GCR upgrades Western National Insurance Company Limited's rating to A_(ZA); Outlook Stable.

Johannesburg, 29 May 2017 -- Global Credit Ratings has today upgraded the national scale claims paying ability rating assigned to Western National Insurance Company Limited to A_(ZA) from A_{-(ZA)}, with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating to Western National Insurance Company Limited ("Western National SA") based on the following key criteria:

The rating upgrade reflects Western National SA's improved level of earnings capacity and consistently strong credit profile. Stronger earnings capacity was largely supported by strengthened levels of underwriting profitability and sound investment income. In this respect, the three year aggregated underwriting margin equated to 7% (FY17: 10%; FY16: 6%), while return on equity averaged 20% (FY17: 25%; FY16: 18%). In GCR's view, earnings capacity is likely to remain within a similar range over the rating horizon, supported by the competitive cost structure, and provided the insurer maintains strengthened claims management processes and strict underwriting disciplines.

Risk adjusted capitalisation remained at strong levels over the last three years, supported by the capital base catering for the quantum of insurance risk and limited market exposure. Capital growth was buoyed by sound internal capital generation, as well as capital injections to support the insurer's medium term growth strategy. In GCR's view, capital commitments made by the ultimate shareholders to meet growth related requirements afford the insurer a degree of financial flexibility. As such, GCR expects the insurer to remain sufficiently capitalised relative to expected solvency assessment and management ("SAM") parameters, supported by the explicit capital management strategy in place, with the insurer targeting SCR cover of 1.3x.

Key liquidity measures remained at strong levels, with cash covering net technical liabilities by a strong 1.7x at FY17 (FY16: 1.5x), and the claims cash cover ratio remaining relatively stable at 9 months. GCR expects liquidity metrics to remain within a strong range, underpinned by sound operating cash flow generation and conservative asset allocation.

The reinsurance panel reflects strong aggregated credit strength. Furthermore, the highest net retention per risk and event are limited to levels viewed to be conservative relative to capital.

Western National SA's gross premium base increased to R868m in FY17 (FY16: R776m), from R309m at the start of the review period. As such, the insurer's share of total short term insurance industry premiums equated to 0.7% in FY17, compared to 0.4% at the start of the review period. In this respect, GCR positively views the progress that management has made in terms of attaining set growth targets, given the strong competitive dynamics in the intermediated segment.

The insurer's business model centres on providing intermediated commercial motor and property business. As such, the business mix is heavily reliant on motor and property, with these two classes together accounting for 84% of gross premiums in FY17. Similarly, the risk base mirrors the business mix, with property and motor together representing 86% of net written premiums. Nevertheless, product risk, which evidenced an improvement over the last three years, is viewed to be moderately low.

The rating may be upgraded if the insurer's business profile strengthens (by way of increased market share with enhanced earnings diversification). This would need to be supported by key credit protection measures registering within strong ranges. Conversely a downgrade could result from a persistent deterioration in the underwriting result coupled with capital adequacy and/or liquidity contracting below adequate levels on a sustained basis.

NATIONAL SCALE RATINGS HISTORY

Initial rating (April 2015)
Claims paying ability: A_{-(ZA)}
Outlook: Stable

Last rating (May 2016)
Claims paying ability: A_{-(ZA)}
Outlook: Stable



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ANALYTICAL CONTACTS

Primary Analyst

Yvonne Mujuru
Sector Head: Insurance Ratings
(011) 784 - 1771
ymujuru@globalratings.net

Secondary Analyst

Munyaradzi Mushure
Credit Analyst
(011) 784 - 1771
munyaradzim@globalratings.net

Committee Chairperson

Marc Chadwick
Sector Head: Insurance Ratings
(011) 784 - 1771
chadwick@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated July 2016
Western National Insurance Company Limited rating reports, 2015-2016

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Western National Insurance Company Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating has been disclosed to Western National Insurance Company Limited with no contestation of the rating.

The information received from Western National Insurance Company Limited and other reliable third parties to accord the credit rating included:

- The 2016 audited annual financial statements
- 4 years of comparative audited numbers
- Unaudited draft accounts for 2017
- Budgeted financial statements for 2018
- The current year reinsurance cover notes
- Other related documents.

The rating above was solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the rating.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY

Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Enterprise Risk Management	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For an insurer, its exposure may also relate to the risk related to policies issued.
International Scale Rating ("ISR")	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Intermediary	A third party in the sale and administration of insurance products.
Interest	Money paid for the use of money.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
Liquidity	The speed at which assets can be converted to cash. The ability of an insurer to convert its assets into cash to pay claims if necessary. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
National Scale Rating ("NSR")	National Scale credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss.
Policyholder	The person in actual possession of an insurance policy.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Short Term	Current; ordinarily less than one year.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Statutory	Required by or having to do with law or statute.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.

For a more detailed glossary of terms, please click [here](#)

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