

Bidvest Insurance Limited

South Africa Insurance Analysis

November 2015

Rating class	Rating scale	Rating	Rating outlook	Review date
Claims paying ability	National	A _(ZA)	Stable	November 2016

Financial data:

(USD'm Comparative)

	30/06/14	30/06/15#
R/USD (avg.)	10.38	11.45
R/USD (close)	10.59	12.29
Total assets	95.3	86.0
Total capital	45.5	39.7
Cash & equiv.	33.4	27.6
GWP	29.2	27.3
U/w result	3.6	4.8
NPAT	13.8	7.5
Op. cash flow	11.3	--
Market cap.		n.a.
Market share*		0.3%

*Estimate based on FSB statistics relating to total GWP in 2014.
#Sourced from management accounts.

Ratings history:

Initial / Last Rating (November 2015)

Claims paying ability: A_(ZA)

Rating outlook: Stable

Related methodologies/research:

Criteria for Rating Short Term Insurance Companies, updated July 2015

RSA Short Term Insurance Bulletin 2001-2014.

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Summary rating rationale

- The rating is underpinned by Bidvest Insurance Limited's ("Bidvest Insurance") strong nominal and risk adjusted capitalisation levels. Management has committed to maintaining a minimum SCR cover of 1.5x under Solvency Assessment and Management ("SAM"), implying sustained strong risk adjusted capital adequacy through the medium term expansionary phase.
- Despite the volatility associated with large listed equity holdings, GCR considers Bidvest Insurance's earnings capacity to be strong and sustainable over the rating horizon, underpinned by sound cross-cycle underwriting resilience.
- Bidvest Insurance's operations have been highly cash generative over the review period, having benefited from strong levels of net profitability and upfront collection of term policy premiums. This has underpinned sound liquidity levels (against near term policyholder liabilities), which are expected to be maintained within a strong range over the outlook horizon.
- Despite its motor orientated focus, the high degree of policyholder granularity and large component of non-comprehensive niche products imply limited earnings volatility and product risk.
- The insurer displays a high investment risk appetite, with listed shares corresponding to 110% of shareholders' funds at FYE15 (BYE16: approximately 128%). Note is, however, taken of the high degree of underwriting stability and strong risk adjusted capitalisation, which in GCR's view position the insurer to absorb a degree of potential market volatility.
- The reinsurance programme reflects a strong counterparty credit profile and limits net deductibles to conservative levels against capital.
- Bidvest Insurance's market share is very limited, which is a function of its historical focus on niche motor related products. Longer term growth is expected to be underpinned by strategic expansion into commercial and personal lines, coinciding with extension of the distribution network. This could contribute towards enhanced diversification and scale efficiencies.
- While the new strategy introduces an element of execution risk (particularly in light of intensive competition), note is taken of the insurer's conservative initial approach to growth in these lines, which will be heavily reinsured and underwritten selectively.
- GCR considers Bidvest Insurance to be strategically important to The Bidvest Group Limited ("Bidvest", "the group"), given the brand alignment and cross-synergies between the group's insurance and sales operations (dealerships and travel agencies), as well as the insurer's participation on a portion of the group's asset insurance covers.

Factors that could trigger a rating action may include

Positive change: The successful execution of expansion initiatives and potentially strengthened business profile (by way of both an increase in market share and enhanced earnings diversification) could translate into positive rating movement over the longer term.

Negative change: A sustained deterioration in capital adequacy or liquidity levels could place downward pressure on the rating.

Bidvest Insurance Limited

(R in Millions except as Noted)

Year ended : 30 June	2011	2012	2013	2014	2015#	
Income Statement						
Gross written premium (GWP)	158.9	193.1	200.2	303.2	312.7	
Reinsurance premiums	0.0	0.0	0.0	(0.3)	(3.8)	
Net written premium (NWP)	158.9	193.1	200.2	303.0	308.9	
(Increase) / Decrease in insurance funds	(21.0)	(39.8)	(25.7)	(58.1)	(13.2)	
Net premiums earned	137.9	153.3	174.4	244.9	295.7	
Claims incurred	(80.0)	(74.6)	(83.9)	(113.5)	(125.9)	
Commission	(14.1)	(17.2)	(20.6)	(39.5)	(48.4)	
Management expenses	(11.9)	(11.8)	(42.1)	(54.1)	(67.0)	
Underwriting profit / (loss)	31.9	49.6	27.8	37.9	54.4	
Realised investment income	24.1	25.9	71.4	74.1	62.4	
Unrealised investment income	37.8	41.2	24.3	67.6	(5.1)	
Other income / (expenses)	0.0	0.0	0.0	0.0	0.0	
Taxation	(17.6)	(29.2)	(25.9)	(36.7)	(25.8)	
Net income after tax	76.2	87.5	97.6	142.9	85.8	
Other comprehensive income	0.0	0.0	0.0	0.0	0.0	
Comprehensive income	76.2	87.5	97.6	142.9	85.8	
Dividends in respect of financial year	(5.8)	(29.5)	(29.5)	(55.3)	(79.2)	
Balance Sheet						
Total capital	248.8	326.1	394.2	481.8	488.5	
Net UPR	200.8	240.6	266.3	324.4	337.5	
Net OCR & IBNR	69.7	78.8	91.2	141.9	167.0	
Other liabilities	11.8	23.4	53.5	60.9	64.3	
Total capital & liabilities	531.0	668.8	805.2	1,008.9	1,057.2	
Fixed assets	0.0	0.0	0.0	0.0	0.0	
Investments	329.6	405.3	478.1	587.7	644.8	
Cash and equivalents	179.6	251.3	293.5	353.4	339.1	
Other current assets	21.8	12.2	33.6	67.9	73.3	
Total assets	531.0	668.8	805.2	1,008.9	1,057.2	
Cash Flow Statement						
Cash generated by operations	58.8	98.5	65.9	146.6	--	
Cash flow from investment income	19.6	26.1	30.1	34.9	--	
Working capital decrease / (increase)	(3.1)	3.1	1.8	(45.9)	--	
Tax paid	(13.6)	(11.3)	(18.4)	(18.2)	--	
Cash available from operating activities	61.7	116.4	79.4	117.5	--	
Dividends paid	(5.8)	(10.2)	(29.5)	(55.3)	--	
Cash flow from operating activities	55.9	106.2	49.9	62.2	--	
Cash flow from investing activities	(76.4)	(34.7)	(7.2)	(2.7)	--	
Cash flow from financing activities	1.0	0.2	(0.5)	0.4	--	
Net cash inflow / (outflow)	(19.6)	71.7	42.2	59.8	--	
Key Ratios						
Solvency / Liquidity						
International solvency margin	%	156.5	168.8	196.9	159.0	158.1
Net UPR / NWP	%	126.3	124.6	133.0	107.1	109.3
Net OCR & IBNR / NWP	%	43.9	40.8	45.5	46.8	54.1
Claims cash coverage	months	26.9	40.4	42.0	37.4	32.3
Cash / Technical liabilities	x	0.7	0.8	0.8	0.8	0.7
Efficiency / Growth						
GWP growth	%	--	21.5	3.6	51.5	3.1
Retention rate	%	100.0	100.0	100.0	99.9	98.8
Earned loss ratio	%	58.0	48.7	48.1	46.3	42.6
Commissions / Earned premiums	%	10.2	11.2	11.8	16.1	16.4
Management expenses / Earned premiums	%	8.6	7.7	24.1	22.1	22.7
Underwriting result / Earned premiums	%	23.1	32.4	16.0	15.5	18.4
Combined ratio	%	76.9	67.6	84.0	84.5	81.6
Operating margin	%	40.6	49.3	56.9	45.7	39.5
Profitability						
Investment yield	%	--	11.5	13.4	16.6	6.0
Return On average Equity (ROaE)	%	--	30.5	27.1	32.6	17.7

#Unaudited management accounts.

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

Budget	Financial plan that serves as an estimate of future cost, revenues or both.
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.
Credit Rating Agency	An entity that provides credit rating services.
Deductible	The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Execution Risk	The risk that a company's business plans will not be successful when they are put into action.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Interest	Money paid for the use of money.
Investment Risk	The risk of a decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
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.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Personal Lines	Types of insurance, such as auto or home insurance, for individuals or families rather than for businesses or organisations.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Policyholder	The person in actual possession of an insurance policy.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Rating Outlook	A rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Reinsurance	The practice whereby one party, called the Reinsurer, in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance, which it has issued.
Securities	Various instruments used in the capital market to raise funds.
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 to be eligible to transact insurance business and meet liabilities.
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.

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

SALIENT POINTS 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; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Bidvest Insurance Limited participated in the rating process via 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 Bidvest Insurance Limited with no contestation of the rating.

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

- Unaudited management accounts to 30 June 2015
- Four years of audited comparative numbers to 30 June
- Budgeted financial statements to 30 June 2016
- The 2015/2016 reinsurance programme summary
- Other relevant 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.

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