

CREDIT RATING ANNOUNCEMENT

GCR affirms Infiniti Insurance Limited's national scale financial strength rating of A-(ZA); Outlook Stable

Rating action

Johannesburg, 24 July 2024 – GCR Ratings (GCR) has affirmed Infiniti Insurance Limited's (Infiniti) national scale financial strength rating of A-(ZA) with a Stable Outlook.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
Infiniti Insurance Limited	Financial strength	National	A-(ZA)	Stable Outlook

Rating rationale

The rating for Infiniti reflects strong liquidity and adequate risk adjusted capitalisation. Underwriting profitability has moderated over the past two years, but net earnings remained sufficient to support relative stability in credit protection metrics. The business profile is modest, given the insurer's limited market share.

Infiniti's market share continued to register at just under 1% in the financial year ending 31 March 2024 and is likely to remain relatively limited over the short to medium term. However, the business mix is fairly diversified, with three lines of business typically contributing materially to gross premiums. Furthermore, earnings diversification stems from a wide distribution network, supported by underwriting management agencies (UMAs) that facilitate participation in specialist business, such as aviation, marine and liability.

Underwriting performance has come under pressure over the past two years, having been partly impacted by high weather-related claims, in line with industry experience. This caused the claims ratio to register at an elevated 57% in fiscal 2023 and 2024, against an average of about 51% historically. The insurer consequently registered a relatively thin underwriting profit of ZAR20m for the year, translating into a combined ratio of 98% (2023: 99%; 2022: 96%). Total income was further impacted by weaker investment market returns, resulting in the insurer posting a modest net profit of ZAR19m in fiscal 2024, and return on revenue reducing to 2% (2023: 11%). Going forward, we expect a gradual improvement in underwriting profitability on the back of premium pricing adjustments and management of under-performing books of business. We therefore expect the combined ratio to register between 95% and 97%, aligning more closely with peer averages. Cross cycle net earnings nevertheless remain sensitive to investment market volatility, given a comparatively high equity investment mandate.

Risk adjusted capitalisation has reduced towards the insurer's targeted Solvency Capital Requirement (SCR) coverage range of between 1.2x to 1.3x following large dividend distributions. This caused the GCR capital adequacy ratio (CAR) to remain suppressed at between 0.8x and 1x over the past three years. Going forward,

we expect the SCR coverage to stabilise and reflect a similar buffer above the minimum regulatory requirement of 1x, in line with the insurer's capital management strategy.

Liquidity remained rating positive, although the coverage metric moderated on the back of lower net earnings and a ZAR80m dividend distribution. The GCR liquidity coverage ratio decreased to about 1.5x at fiscal year-end 2024 (2023: 1.7x) but is expected to rebound in line with improved operational cash flow generation and a lower dividend payout ratio. There is a level of volatility associated with the insurer's asset allocation, which is mainly in foreign and local equities, but we also recognise the liquid nature of the investments as the portfolio is comprised predominantly of tradeable assets. This, coupled with the investment mandate allowing for cash drawdowns from the portfolio on demand, offers Infiniti a high level of liquidity support.

Outlook statement

The Stable Outlook reflects expectation of a recovery in underwriting performance in the next 12 to 18 months, while capitalisation and liquidity are expected to remain within the current ranges. We do not expect any material changes in the business profile.

Rating triggers

A rating upgrade could result from a sustained strengthening in underwriting profitability to more competitive levels, reflected in a combined ratio in the 90% to 95% range and improved stability in net earnings. Conversely, downward rating pressure may arise from persistent earnings moderation or high dividends that impact risk adjusted capitalisation and liquidity, with GCR coverage metrics reducing below 1x and 1.5x respectively.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Insurance Companies, May 2024
GCR Ratings Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, July 2024
GCR Insurance Sector Risk Scores, February 2023

Ratings history

Infiniti Insurance Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Claims paying ability	Initial	National	A-(ZA)	Stable Outlook	December 2010
Financial strength	Last	National	A-(ZA)	Stable Outlook	July 2023

Risk score summary

Rating Components & Factors	Score
Operating environment	14.50
Country risk score	7.00
Sector risk score	7.50
Business profile	(2.50)
Competitive position	(2.50)
Sustainability	0.00
Financial profile	0.25
Earnings	(0.25)
Capitalisation	(0.25)
Liquidity	0.75
Comparative profile	0.00
Group support	0.00
Peer comparison	0.00
Total Risk Score	12.25

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
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.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Combined Ratio	Measures the ability to conserve profits through the expense line.
Coverage	The scope of the protection provided under a contract of insurance.

Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Diversification	Spreading risk by constructing a portfolio that contains different exposures 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.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Equity Investment	An instrument that signifies an ownership position of shares of stock in a company that is either listed or traded on a stock exchange (also known as a counter) or are unlisted.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Income	Money received, especially on a regular basis, for work or through investments.
Liability	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. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. 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.
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
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.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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.
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.
Upgrade	The rating has been raised on its specific scale.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process 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; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to the rated entity. The rating above was solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited financial statements to 31 March 2023;
- Four years of comparative audited financial statements to 31 December;
- Unaudited management accounts to 31 March 2024
- Budgeted financial statements to 31 March 2025;
- Other relevant documents.

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