Best's Credit Rating Effective Date
July 01, 2020

Best's Country Risk Reports Utilized
Ghana - CRT - 5
Sierra Leone - CRT - 5
Nigeria - CRT - 5

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Information

Best's Credit Rating Methodology

Understanding Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

WAICA Reinsurance Corporation PLC

AMB #: 071675

Best's Credit Ratings – for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
B+	**bbb-**
Good	**Good**
Outlook: **Stable**	Outlook: **Stable**
Action: **Assigned**	Action: **Assigned**

Assessment Descriptors

Balance Sheet Strength	**Very Strong**
Operating Performance	**Strong**
Business Profile	**Limited**
Enterprise Risk Management	**Marginal**

Rating Unit - Members

Rating Unit: WAICA Reinsurance Corp PLC | AMB #: 071675

AMB #	Rating Unit Members
094468	WAICA Reinsurance Corp PLC

Rating Rationale

Balance Sheet Strength: Very Strong

- Risk-adjusted capitalisation was comfortably at the strongest level at year-end 2019, as measured by Best's Capital Adequacy Ratio (BCAR). BCAR scores are expected to remain comfortably above the minimum required for the strongest assessment, supported by strong internal capital generation.
- Conservative investment strategy, with the majority of the portfolio held as cash and deposits.
- Low level of retrocession dependence.
- A partially offsetting factor is the exposure to the significant economic, political and financial system risks associated with the countries where the company operates, which include Nigeria, Ghana and Sierra Leone.

Operating Performance: Strong

- Track record of strong operating performance, demonstrated by a five-year (2015-2019) weighted average return on equity of 9.5%.
- Solid and stable technical performance with a five-year (2015-2019) weighted average combined ratio of 87.0%.
- Prospective earnings are expected to remain strong, underpinned by solid technical performance, and complemented by positive, albeit modest, investment returns, reflecting the low-yielding assets in which the company primarily invests.

Business Profile: Limited

- Regional composite reinsurer writing business across 58 countries; however, business remains geographically concentrated in property risks written in Nigeria and Ghana.
- Good long-term growth prospects; premium revenue is expected to continue to expand as the company's primary markets develop.
- Pricing sophistication and data quality remain limited, driven by the information available from cedants.

Enterprise Risk Management: Marginal

- Enterprise risk management (ERM) framework is considered to be evolving given the size and complexity of operations.
- Positive steps are being taken to improve and embed risk management throughout operations, and it is expected that the company will continue to develop its risk management process.
- Considerable challenges are represented by elevated economic, political, regulatory and legal risks in the company's core markets.

Outlook

- The stable outlooks are underpinned by the expectation that risk-adjusted capitalisation will remain at the strongest level, as measured by BCAR, supported by profitable growth and good retention of earnings. Whilst the company aims to diversify its reinsurance portfolio, concentration in Western Anglophone African markets exposed to a high level of economic, political and financial system risks, is expected to remain.

Rating Drivers

- Positive rating action could result from sustained profitable growth and increased diversification, whilst maintaining risk-adjusted capitalisation comfortably above the minimum required for the strongest assessment as measured by Best's Capital Adequacy Model.
- Positive or negative rating pressure could arise from a revision in AM Best's assessment of the economic, political or financial system risks in the company's core markets.
- Negative rating movement could result from a material deterioration in the risk-adjusted capitalisation of the company.
- Negative rating movement could result from a prolonged deterioration of the company's operating performance.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	**95.0**	**99.0**	**99.5**	**99.6**
BCAR Score	82.0	73.2	69.1	67.5

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	**2019 USD (000)**	**2018 USD (000)**	**2017 USD (000)**	**2016**	**2015**
Net Premiums Written:					
Life	1,426	1,211	1,277	...	...
Non-Life	60,573	52,241	50,886	...	...
Composite	61,999	53,452	52,163	...	...
Net Income	9,574	6,931	5,464	...	...
Total Assets	136,888	123,549	117,779	...	...
Total Capital and Surplus	89,370	85,957	81,619	...	...

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	**2019**	**2018**	**2017**	**2016**	**2015**	**Weighted 5-Year Average**
Profitability:						
Balance on Life Technical Account (USD 000)	-132	-87	-2,212	...	...	...
Balance on Non-Life Technical Account (USD 000)	5,127	3,132	8,278	...	...	...
Net Income Return on Revenue (%)	15.5	12.4	10.6	...	...	...
Net Income Return on Capital and Surplus (%)	10.9	8.3	...	...	...	...
Non-Life Combined Ratio (%)	91.0	93.9	82.8	...	...	...
Net Investment Yield (%)	4.0	4.1	...	...	...	...
Leverage:						
Net Premiums Written to Capital and Surplus (%)	69.4	62.2	63.9	...	...	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

The Best's Capital Adequacy Ratio (BCAR) scores presented under the "Best's Capital Adequacy Ratio Summary" section of this report are based on WAICA Reinsurance Corporation PLC's (WAICA Re) 2019 audited consolidated financial statements. The company has been publishing consolidated accounts since 2017, when its Kenyan subsidiary was set up. The five-year (2015-2019) average data and ratios disclosed in the narrative part of this report are based on consolidated data for the period of 2017-2019 and stand-alone data for the period of 2015-2016.

WAICA Re's balance sheet strength assessment of very strong is underpinned by the company's risk-adjusted capitalisation, as measured by BCAR, which was comfortably at the strongest level at year-end 2019. BCAR scores are expected to remain well above the minimum required for the strongest assessment, supported by solid internal capital generation. The balance sheet strength assessment factors in the company's conservative reserving approach and investment strategy, together with its low level of retrocession dependence. A partially offsetting factor is the company's exposure to the significant economic, political and financial system risks associated with the countries where WAICA Re operates, which include Nigeria, Ghana and Sierra Leone.

Capitalisation

WAICA Re's risk-adjusted capitalisation is expected to remain at the strongest level in the medium term, with good earnings retention supporting the company's strategic initiatives. This is in line with the company's recent experience, with capital and surplus having more than doubled over the period of 2015-2019, in line with the net written premiums (NWP) growth of 92.6% over the same period.

Balance Sheet Strength (Continued...)

WAICA Re's financial flexibility is enhanced by its supportive shareholders, as demonstrated by capital raises made in 2016 and 2017, for USD 14.2 million and USD 10.5 million, respectively. However, the company's access to developed capital markets is limited.

WAICA Re manages its capital adequacy according to Sierra Leone's regulatory solvency requirements, according to which eligible assets should exceed liabilities by at least 10% of NWP. Based on this calculation, the company's solvency margin was 146% as at year-end 2019. The company also monitors its capital adequacy targeting a ratio of shareholders' funds / NWP of at least 150%; this ratio stood at 159% as at year-end 2019.

A partially offsetting factor to the balance sheet strength is WAICA Re's high proportion of insurance-related receivables relative to its premium base. Nonetheless, following the implementation of measures aiming at mitigating credit risk, such as stricter impairment policy and 90 days premium payment warranty, the ratio of receivables to gross written premiums (GWP) decreased to 45.2% in 2019 from 54.6% in 2017.

Capital Generation Analysis	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016	2015
Beginning Capital and Surplus	85,957	81,619	62,947	...	...
Net Income	9,574	6,932	5,464	...	...
Currency Exchange Gains (Losses)	-3,955	-525	-65	...	...
Change in Equalisation and Other Reserves	...	518	2,756	...	...
Net Change in Paid-In Capital and Surplus	...	...	10,525	...	...
Stockholder Dividends	-2,500	-2,500	...	...	...
Other Changes in Capital and Surplus	294	-87	-8	...	...
Net Change in Capital and Surplus	3,413	4,338	18,672	...	...
Ending Capital and Surplus	89,370	85,957	81,619	...	...
Net Change in Capital and Surplus (%)	4.0	5.3	29.7	...	...

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2019	2018	2017	2016	2015
Liquid Assets to Total Liabilities	167.4	195.9	158.0	...	...
Total Investments to Total Liabilities	187.4	222.1	212.6	...	...

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

WAICA Re's investment portfolio is considered to be conservative, with investments split as follows at year-end 2019: cash and deposits (87.4%), fixed income securities (1.9%), investment properties (10.5%) and loans (0.2%).

There is no significant concentration of cash and deposits within a single bank, with each counterpart accounting for less than 10% of cash and deposits.

Despite a conservative asset allocation, the company is exposed to the elevated economic, political and financial system risks associated with the region in which it operates that heightens credit risk and can lead to volatility in investment valuations.

As a result of the investment allocation, liquidity levels are high, with cash and deposits covering net technical provisions by 244.5% at year-end 2019.

In order to mitigate the risk of currency depreciation associated with the main countries of operation, which could erode shareholders' equity, about 90% of investments are held in US dollars, euros or pounds sterling. Amounts in local currencies are maintained mainly to meet local regulatory requirements and match current liabilities.

Balance Sheet Strength (Continued...)

Composition of Cash and Invested Assets	2019	2018	2017	2016	2015
Total Cash and Invested Assets (USD 000)	89,067	83,493	76,859	...	...
Cash (%)	87.4	86.2	72.3	...	...
Bonds (%)	1.9	2.0	2.0	...	...
Real Estate, Mortgages and Loans (%)	10.7	11.7	12.0	...	...
Other Invested Assets (%)	...	...	13.7	...	...
Total Cash and Unaffiliated Invested Assets (%)	100.0	99.9	100.0	...	...
Investments in Affiliates (%)	...	0.1	...	...	...
Total Cash and Invested Assets (%)	100.0	100.0	100.0	...	...

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

WAICA Re's booked reserves are prescribed by regulatory requirements. The company also gets its reserves reviewed by external actuarial consultants. As at year-end 2019, the reserves booked by the company amounted to USD 36.2 million, exceeding the external valuation of USD 24.4 million by 48.4%.

Operating Performance

WAICA Re has a track record of strong operating performance, as demonstrated by a five-year (2015-2019) weighted average combined ratio and return on equity of 87.0% and 9.5%, respectively. The five-year (2015-2019) average data and ratios disclosed in the narrative part of this report are based on consolidated data for the period of 2017-2019 and stand-alone data for the period of 2015-2016.

WAICA Re reported a net profit of USD 9.6 million in 2019, which is an increase of 39.1% compared to the USD 6.9 million reported in 2018. This was supported by solid technical results of USD 5.0 million (2018: USD 3.0 million). Technical results in recent years have been driven by the company's conservative underwriting strategy. This can be evidenced by a solid five-year (2015-2019) average loss ratio of 31.2%. The five-year (2015-2019) operating expense ratio is 55.8%, and although higher than that of regional peers, it is in line with WAICA Re's expectations given the company's developing structure and expanding footprint.

Underwriting profits are well diversified by lines of business. Apart from marine and aviation, all lines of business have contributed positively to technical profits in 2019 and 2018. Life business has been a very modest contributor to the company's revenues in recent years.

WAICA Re reported USD 3.4 million of net investment income in 2019 (2018: USD 3.2 million). Investment income is largely derived from fixed income instruments (i.e., deposits and bonds), and it is expected to remain stable during the next few years. The company has generated investment yields ranging from 2.9% to 4.9% between 2015 and 2019, resulting in a weighted average of 3.6% over the period. WAICA Re's relatively weak investment yields reflect its conservative investment strategy.

WAICA Re's prospective earnings are expected to remain strong, underpinned by solid technical performance, and complemented by positive, albeit modest, investment returns.

Financial Performance Summary	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016	2015
Pre-Tax Income	9,734	6,837	5,478	...	...
Net Income after Non-Controlling Interests	9,574	6,931	5,464	...	...

Source: BestLink® - Best's Financial Suite

Operating Performance (Continued...)

Operating and Performance Ratios (%)	2019	2018	2017	2016	2015
Overall Performance:					
Return on Assets	7.4	5.7	...	...	...
Return on Capital and Surplus	10.9	8.3	...	...	...
Non-Life Performance:					
Loss and LAE Ratio	31.8	31.6	31.0	...	...
Expense Ratio	59.2	62.3	51.8	...	...
Non-Life Combined Ratio	91.0	93.9	82.8	...	...

Source: BestLink® - Best's Financial Suite

Business Profile

WAICA Re's business profile is assessed as limited owing to its relatively small size and geographic concentration of business in Nigeria and Ghana.

WAICA Re has experienced strong growth in GWP over the last five-years (2015-2019), as demonstrated by a compound annual growth rate of 23.3% over the period.

The portfolio is concentrated with property (fire and engineering) contributing 56% of the overall top line in 2019 based on GWP. The rest of the portfolio was split between accident (15%), specialty (14%), marine and aviation (8%), motor (5%) and life (2%). The company primarily writes facultative business (74.4% of GWP in 2019, against 68.5% in 2018), with some reliance on the brokerage distribution channel (just under 60% of GWP, the remainder being written directly).

Exposure to catastrophe risk is typically low in West Africa, with risks generally geographically diverse given the low insurance penetration. The main catastrophic event category that WAICA Re is considered to be exposed to is flood.

WAICA Re operates via its headquarters in Sierra Leone, its two insurance subsidiaries (in Kenya and Zimbabwe) and a network of branches and representative offices (in Ghana, Nigeria, Ivory Coast and Tunisia).

The head office in Sierra Leone manages insurance business from markets where the company does not have a specific regional office: Central Africa; English-speaking West Africa, excluding Ghana and Nigeria; the Middle East and the rest of the world. The Nigeria and Ghana regional offices manage business from their respective markets given their size and importance. The branch in Ivory Coast manages business from French-speaking Africa, excluding North Africa, which is covered from the Tunisian regional office together with the Middle East. The subsidiary in Zimbabwe (WAICA Re Zimbabwe [Private] Limited) focuses on southern Africa markets, whilst the eastern Africa market is served by the subsidiary in Kenya (WAICA Re Kenya Limited).

The company underwrites risks in 58 countries across Africa and Asia. However, the business is concentrated in Nigeria (41% of 2019 GWP) and Ghana (23%). Whilst the strategic focus of the company is to expand and diversify its coverage across regions outside of these two main markets, AM Best expects business to continue to originate primarily from Nigeria and Ghana.

Enterprise Risk Management

WAICA Re's enterprise risk management (ERM) framework is considered to be evolving, supportive of a marginal assessment. Positive steps are being taken to improve and embed risk management throughout the operations, and it is expected that the company will continue to develop its risk management process.

WAICA Re maintains a risk appetite key risk indicators chart with targets, which sets out appetites by risk type with assigned tolerances. The management team has a clear set of responsibilities in place. Risk owners are required to maintain their risk registers, which are reviewed on a monthly basis. The board receives quarterly reports that highlight the aggregated risk profile of the business. The company's senior management is aware of the company's exposure to operational risks and has implemented a yearly training plan to improve learning and awareness amongst employees as part of reducing operational risk.

WAICA Re's data quality is not homogeneous, reflecting the information provided by its cedants, which can have data issues (e.g., accuracy, granularity, and ground-up versus truncated data).

The reinsurer faces considerable challenges represented by elevated economic, political, regulatory and legal risks in its core markets.

Enterprise Risk Management (Continued...)

Reinsurance Summary

WAICA Re’s protection includes a non-proportional retrocession programme for its main classes of business: liability, property, and marine, energy and aviation. The company also has an aggregate cover.

WAICA Re's dependence on retrocession is considered low, highlighted by an 88.3% premium retention ratio in 2019. Nonetheless, WAICA Re is exposed to counterparty credit risk, driven by the presence of low-rated participants on its retrocession panel.

Financial Statements

Balance Sheet	12/31/2019 USD (000)	%	12/31/2018 USD (000)
Cash and Short Term Investments	77,855	56.9	71,939
Bonds	1,702	1.2	1,706
Other Invested Assets	9,510	6.9	9,848
Total Cash and Invested Assets	89,067	65.1	83,493
Reinsurers' Share of Reserves	3,695	2.7	2,180
Debtors / Amounts Receivable	31,763	23.2	28,663
Other Assets	12,363	9.0	9,213
Total Assets	136,888	100.0	123,549
Unearned Premiums	32,692	23.9	27,351
Non-Life - Outstanding Claims	3,422	2.5	4,134
Life - Outstanding Claims	120	0.1	36
Total Gross Technical Reserves	36,234	26.5	31,521
Other Liabilities	11,284	8.2	6,071
Total Liabilities	47,518	34.7	37,592
Capital Stock	49,083	35.9	49,083
Retained Earnings	19,469	14.2	14,141
Other Capital and Surplus	20,818	15.2	22,733
Total Capital and Surplus	89,370	65.3	85,957
Total Liabilities and Surplus	136,888	100.0	123,549

Source: BestLink® - Best's Financial Suite

Income Statement	Non-Life USD (000)	Life USD (000)	Other USD (000)	12/31/2019 Total USD (000)	12/31/2018 Total USD (000)
Gross Premiums Written	68,631	1,709	...	70,340	57,972
Net Premiums Earned	56,808	1,332	...	58,140	52,590
Net Investment Income	...	...	3,441	3,441	3,252
Total Revenue	56,808	1,332	3,441	61,581	55,842
Benefits and Claims	18,071	610	...	18,681	16,858
Net Operating and Other Expense	33,610	854	-1,298	33,166	32,147
Total Benefits, Claims and Expenses	51,681	1,464	-1,298	51,847	49,005
Pre-Tax Income	5,127	-132	4,739	9,734	6,837
Income Taxes Incurred	...	...	...	160	-94
Net Income before Non-Controlling Interests	...	...	...	9,574	6,931
Net Income/(loss)	...	...	...	9,574	6,931

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

Best's Credit Rating Methodology, 03/05/2020

Catastrophe Analysis in A.M. Best Ratings, 10/13/2017

Available Capital & Holding Company Analysis, 10/13/2017

Evaluating Country Risk, 10/13/2017

Scoring and Assessing Innovation, 03/05/2020

Understanding Universal BCAR, 06/11/2020