

## Global Alliance Angola Seguros S.A.

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Angolan Insurance Analysis

Security class	Rating scale	Currency	Rating	Expiry date	Rating watch
Claims paying ability rating	National	Kwanza	BBB+	07/2007	Yes#

### Fundamentals

Global Alliance Angola Seguros S.A. ("GA Angola Seguros") is 70% held by the international investment holding company, Global Alliance Holdings, which is headquartered in South Africa. The company began operating in Angola in mid-F05, writing mainly commercial risks. The company's office in Luanda has full operational capabilities, further supported by technical expertise at group level.

### Rating rationale

The rating is based on the following key factors:

- Underpinned by its experienced staff and IT system, the company is able to provide a high level of service, which is considered to be a major competitive advantage. Furthermore, although the company has no track record in Angola as such, the rating was supported by the group's experience in other countries.
- Notwithstanding its newness in the market, premium growth has been robust to date, with the company expecting to record a modest profit in F06.
- The reinsurance programme was considered to provide adequate protection, while counterparties where of a high credit quality.
- Although the strong premium growth is positive from a profitability point of view, cognisance was taken of the potential growth strain on the company in terms of its solvency level. However, this will be closely managed and is not considered to be an immediate risk.
- The concentration in the risk pool was considered, although this is expected to improve with the growth of the book.

# Due to its infancy, the rating has been placed on rating watch and will be reviewed on a quarterly basis.

### Capital structure/risk management

Angola Seguros was initially capitalised with US\$6m, of which US\$4m was cash, with the remainder comprising the company's proprietary IT system. The first 7 months of operations, however, resulted in a US\$2m reduction in capital to US\$2m (excluding the intangible asset). Accordingly, the international solvency ratio was reported at an annualised 49% in May 2006, suggesting potential for solvency strain going forward, particularly in view of the anticipated growth in the business. With a small profit forecast for F06, from F07, the company anticipates being able to grow its capital base with internally generated profits. GA Angola Seguros' liquidity position was considered to be adequate considering the conservative reinsurance protection in place.

### Potential risks

- The attractive growth prospects in the Angolan insurance market is likely to invite competition. Accordingly, although market conditions are very favourable (from a growth and underwriting point of view), margins are unlikely to remain at current levels in the longer term.

## Background

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Global Alliance Angola Seguros S.A. (“GA Angola Seguros”) is a subsidiary of the Global Alliance Group. The group has well established insurance operations in Mozambique and has established a start-up operation in Ghana. The group has also recently garnered an insurance licence to operate in Soa Tome.

The group attained a licence to operate an insurance company in Angola in 2005. Underwriting activities began in June 2005, with the company being the first private insurer to operate in Angola in a quarter of a century. The company has full operational capabilities, with added technical support provided by the group. Core staff include:

- Robert Lewis, co-founder of the Global Alliance Group – General Manager, supervising the operations of the business in the initial startup phase. A replacement is currently being sought to take over this role from 2007.
- Alvin Delaney performs the function of head underwriter. He has over 30 years of underwriting experience, having held senior positions at several South African insurance companies.
- Kobus Brink - claims manager, has 7 years experience in claims handling.
- Margi Wilkinson – Administration and training. She has been in the insurance industry for 35 years, having held positions at South Africa’s largest insurance companies. She joined the group in 2001 and was instrumental in setting up the Mozambique operations.
- Viviana Cobzaru - Financial Manager.
- Luis Rodrigues and Rui da Silva, both Portuguese speaking, form the marketing arm of the business. Luis Rodrigues spent 2 years at AAA, one of GA Angola Seguros’ largest competitors before joining in 2005.

Although initial operations are highly dependent on these core staff, efforts are being made to add depth to the personnel base, where possible with locals.

## Competitive environment

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The insurance industry in Angola is dominated by 2 insurance companies, Enza and AAA, which are both government owned. As mentioned previously GA Angola Seguros was the first private company to open its doors, although several other entrants are expected to begin operations in the near future. In the broker market, there are 2 main players, Angorisk and AON Angola, although there are several smaller brokers that offer promise. Given its aptitude for service (underpinned by its staff and IT system), GA Angola Seguros has already gained a foothold in the market.

The size of the market is difficult to quantify, although it can be segmented into 2 distinct portions. The first is the large corporate, energy and multinational market, which is relatively sophisticated in terms of product demand and service expectations. Although growing rapidly on the back of foreign investment in the country, a significant portion of this business is placed through international insurance programmes or through fronting arrangements with local insurers. The second segment is the small and medium size market. This market is highly underdeveloped, with very little awareness of the role of insurance.

From a regulatory point of view, relatively few encumbrances are placed on insurance companies in general. The minimum capital requirement is currently set at US\$6m, although it is thought that the capital requirement for new licences could rise to US\$10m. Favourable legislation exists which entitles all registered insurers to revenue relating to energy and oil business. GA Angola Seguros’ share of this amounts to an estimated (minimum of) US\$1m per annum. Legislation enacted in May 2006 now requires all companies to carry workmens’ compensation insurance. Very few companies currently have this in place, suggesting that there is significant growth potential in this market. In addition, organic growth in the market should be supported by the introduction of compulsory third party insurance for motor vehicles, which is expected before the end of 2007.

In light of the above, GA Angola Seguros’ current growth strategy includes the following:

- Although the company has and continues to glean business from the large multinational/corporate market, the marketing effort is currently focused on

small and medium sized risks (i.e. growing the market, as opposed to gaining market share from other insurers).

- Market education on the legal requirements in terms of workmens' compensation. This is mainly taking place on a one-on-one basis, although the company's first advertisement targeting this market met with significant success.
- Given the substantial increase in building activity in the country, there are significant opportunities to write CAR business.
- The company is launching a motor insurance product through a retail bank. Clients financing motor vehicles are required to take out insurance and would be offered the GA Angola Seguros product. Policy issuance would take place at the relevant branch, facilitated by an automatic underwriting system put in place by GA Angola Seguros. Since the system is live, activity can be monitored on an ongoing basis, and intensive training will be provided for bank staff. Claims and all other insurance related dealings with the client thereafter would be directly with GA Angola Seguros.
- There is strong demand for health insurance, with no products of this type currently available in the market.

### **Risk diversification**

The current book of business is overwhelmingly comprised of commercial/corporate risks, with 99% of GPI stemming from this source. The largest account comprises 25% of premium income at this stage, although as the book develops this proportion will reduce. The majority of cover is provided in US\$, in line with the market convention, although reinsurance and 98% of cash reserves are also held in US\$, minimising currency risk. Current distribution channels include

**Brokers** – the primary source of business, accounting for 90% of GPI. The largest 2 brokers are the source of 85% of premiums, suggesting concentration risk, although this is largely in line with the market norm.

**Agents** – generate less than 1% of premium at this stage, although it is believed that this will form a significant portion of new business going forward.

**Direct** – although there is pressure to service clients directly (usually from the clients themselves), the company needs to ensure that it does not compete directly with the brokers. Currently direct business comprises around 10% of the book in premium terms.

Written to April 2006 (%)	GPI	Retention ratio	NPI
Motor - own damage	9.7	100.0	25.1
Motor - 3rd party	10.8	100.0	28.0
Fire	45.0	2.9	3.4
Engineering	14.3	11.8	4.4
WCA	13.4	100.0	34.9
Other	6.8	23.6	4.2
<b>Total</b>	<b>100.0</b>	<b>38.6</b>	<b>100.0</b>

As reflected in the table, the fire class is the predominant class in terms of gross premiums. From a net retention perspective, however, consistent with the nature of the risks, the fire and engineering accounts are heavily reinsured. In contrast, the company retains 100% of motor and workmens compensation (WCA) risks for its own account, which account for a combined 88% of net premium income.

Written to April 2006 (%)	Gross claims ratio	Claims/EPI
Motor - own damage	13.6	39.3
Motor - 3rd party	10.5	47.0
Fire	0.0	0.0
Engineering	21.3	4.3
WCA	8.1	31.7
Other	0.0	0.0
<b>Total</b>	<b>6.6</b>	<b>34.9</b>

The table reflects the relatively low claims experience to date, with overall gross and earned loss ratios of 6.6% and 35% reported to date. Although difficult to substantiate empirically, it is believed that these loss ratios are close to the industry norms, suggesting that they are sustainable going forward.

### **Reinsurance**

The structure of the reinsurance programme is similar to that of the other group companies. The treaty programme is led by Africa Reinsurance, with a 30% share, followed by ZEP Re (30%), Munich Mauritius Reinsurance (20%), Everest Re (20%) and BEST Re (5%). Facultative reinsurance is placed

according to requirements by Baronscourt, the group's inhouse reinsurance broker. As summarised in the following tables, the company has bought excess of loss protection down to US\$100,000 per event. This equates to less than 5% of the capital base at F05, which was considered to be duly conservative.

## Financial performance

The company's financial performance for its first 6 months of operation and the budget for F06 are reflected in local currency at the back of this report.

Gross premium income amounted to US\$415,000 (KZ36.1m) in F05. Following significant cessions to reinsurers and transfers to reserves, earned premiums were negative. Management expenses totalled US\$1.7m (KZ148m), resulting in an underwriting deficit of US\$1.9m (KZ166m). In the first 5 months of F06, however, premium growth has accelerated rapidly, with GPI reported at US\$3.7m. As reflected in the table, despite the strong growth, this fell short of expectations, although management acknowledge that there was limited information on which to base budgets, given the lack of publicly available market information. In light of this, the company expects to fall short of the full year budgets reflected at the end of this report.

Year to date F06 (US\$m)	Actual to May	Budget to May	% of budget
GPI	4.4	10.8	40.4
Reinsurance	-2.1	0.0	n.a.
NPI	2.3	10.8	17.5
UPR	-0.9	-2.7	34.8
EPI	1.4	8.1	10.4
Claims	-0.6	-2.4	24.8
Mgmt costs	-1.0	-1.3	81.3
Commission	0.0	0.0	-113.5
<b>U/w result</b>	<b>-0.3</b>	<b>4.5</b>	<b>-35.1</b>
Other income	0.1	0.0	49.0
Inv. Income	0.0	0.0	n.a.
<b>NPBT</b>	<b>-0.2</b>	<b>4.5</b>	<b>-4.6</b>

Overall, the company reported an underwriting loss of US\$0.3m for the 5 month period, substantially reduced from its first 6 months of operation. This includes an amount of US\$0.7m (KZ62m) relating to admin fees, which are fees charged over and above premium (an industry convention), included in premium. It is noted that the financial performance to date excludes an estimated US\$1m

in energy and oil revenue due to the insurer by law. This amount, once received, is essentially pure profit, as the underwriting risk never passes to the insurer.

## Capital adequacy

GA Angola Seguros was initially capitalised with US\$6m, of which US\$4m was cash, with the remainder comprising the company's proprietary IT system. The first 6 months of operations, however, resulted in a US\$2m reduction in capital (approximately half of "cash capital"). The international solvency ratio was reported at an annualised 49% in May 2006<sup>1</sup>, suggesting potential for solvency strain, particularly in view of the anticipated growth in the business. This notwithstanding, in spite of its relatively high operating costs, GA Angola Seguros has rapidly come to breakeven point and from F07 the company anticipates being able to grow its capital base from internally generated profits.

## Future prospects

Underpinned by the significant inflows of foreign investment into the country, the Angolan economy is expected to grow rapidly. In line with this, the insurance industry is expected to offer exciting opportunities for growth. Furthermore, the relatively low penetration rate of insurance offers further organic growth opportunities. As such, GA Angola Seguros is well placed to benefit, particularly given its differentiation from the rest of the market. Although international competition is anticipated in the near future, the insurer has the advantage of being first to market. In this regard, the company will be able to establish its brand and relationships with clients and brokers.

As a startup, the company aims to achieve critical mass as quickly as possible, which is made more challenging by its relatively high cost structure. However, it appears that the company will break even in F06 (with a small profit anticipated for the year), which significantly reduces capital strain.

<sup>1</sup> It should be noted that, in line with GCR's methodology, the calculation of solvency excludes intangible assets of US\$2m from equity.

To summarise, strong growth is expected in the medium term, on the back of the following:

- Despite the associated cost, the staff compliment is highly competent, able to deliver superior service to customers. The efficiency of staff, complimented by the IT system, has created substantial operational capacity. Accordingly, a leveraged effect on profitability is expected in the context of premium growth.
- Access to technical expertise within the group.
- A high level of security from a reinsurance point of view.
- The company's effort to grow the insurance market by increasing awareness of insurance.
- Innovative products.
- The development of an agency base.

# G.A. Angola Seguros SA

(Kwanza in millions except as noted)

Year ended : 31 December

A2005\*

F2006

## Income Statement

Gross premium income (GPI)	36.1	1,879.5
Retrocession premiums	(45.6)	(1,330.1)
Net Premium income (NPI)	(9.4)	549.4
(Increase) / Decrease in insurance funds	(7.9)	(204.8)
<b>Net premiums earned</b>	<b>(17.3)</b>	<b>344.6</b>
Claims incurred	(0.9)	(344.3)
Commission	(0.1)	10.5
Management expenses	(147.7)	(256.1)
Underwriting profit / (loss)	(166.0)	(245.3)
Investment income	0.2	0.5
Other income / (expenses)	0.0	281.9
Taxation	0.0	0.0
<b>Net income after tax</b>	<b>(165.8)</b>	<b>37.1</b>
Unrealised gains / (losses)	0.0	0.0

## Balance Sheet

<b>Shareholders interest</b>	<b>184.9</b>	<b>0.0</b>
Insurance funds	7.9	0.0
Life funds	0.0	0.0
Other liabilities	77.3	0.0
<b>Total capital &amp; liabilities</b>	<b>270.0</b>	<b>0.0</b>
Fixed assets	15.8	0.0
Investments	0.0	0.0
Cash and short term deposits	153.8	0.0
Other current assets	100.4	0.0
<b>Total assets</b>	<b>270.0</b>	<b>0.0</b>

## Key Ratios

### Solvency / Liquidity

Shareholders funds / NPI	%	neg	n.a.
Financial base	%	neg	n.a.
Cash claims cover	months	1,957.1	n.a.

### Efficiency / Growth

GPI Growth	%	n.a.	5,101.5
Premiums reinsured / GPI	%	n.a.	70.8
Earned loss ratio	%	n.a.	99.9
Commissions / Earned premiums	%	n.a.	(3.0)
Management expenses / Earned premiums	%	n.a.	74.3
Underwriting result / Earned premium	%	n.a.	(71.2)
Trade ratio	%	n.a.	171.2

### Operating

Dividend cover	X	n.a.	n.a.
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\* 7 month period, relevant ratios annualised

\*\* Budget translated from USD at KZ89.5/USD