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FBC Reinsurance Limited

Zimbabwe Reinsurance Analysis **May 2013**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	A-(zw)	Stable	05/2014
Claims paying ability	International	B	Stable	05/2014

Financial data:

(Stated in US$'m)

	31/12/11	31/12/12
Total assets	10.7	14.7
Total capital	5.7	7.0
Cash & equiv.	3.3	6.3
GWP	9.5	13.7
U/w result	0.9	0.9
NPAT	1.2	1.6
Op. cash flow	(0.2)	3.2
Market cap	n.a.	
Market share*	14.9%	

*Based on aggregate reinsurance GWP for 2012.

Related methodologies/research:

GCR's criteria for rating short term insurance and reinsurance companies,

FBC Reinsurance Limited ("FBC Re") rating reports, 2009-2012

Rating history:

Initial rating (post dollarisation 05/2009)
National scale: A-(zw)
Rating outlook: Evolving
International scale: n.a.
Rating outlook: n.a.

Last rating (08/2012)
National scale: A-(zw)
Rating outlook: Stable
International scale: B
Rating outlook: Stable

GCR contacts:

Primary Analyst
Marc Joffe
Sector Head: Insurance
+27 11 784-1771
joffe@globalratings.net

Secondary Analyst
Damien Dube
Junior Analyst
+27 11 784-1771
dube@globalratings.net

Committee Chairperson
Mark Chadwick
Regional Sector Head: Insurance
+27 11 784-1771
chadwick@globalratings.net

Website: www.globalratings.net

Summary rating rationale

The rating is based on the following key factors:

- FBC Re's well established position in the domestic market, underpinned by previously demonstrated capital support from FBCH and linkages with top tier insurers. Moreover, the reinsurer is covered by an explicit parental guarantee, under which FBCH undertakes to settle all legally payable claims to the extent that the reinsurer is unable to meet admitted obligations.
- A sizeable 78% of the investment portfolio is invested in cash and equivalents, underpinning sound liquidity metrics. No material change in the investment strategy is expected over the short to medium term. Significant counterparty risk is, however, inherent in the placement of the bulk of cash holdings (86% at FYE12) with two FBCH subsidiaries.
- Persistent strong premium growth, together with increasing retention saw the international solvency margin fall behind budget at FYE12. In the absence of new capital, and against strong premium projections, solvency is forecast at 47% in F13 (F12: 59%).
- FBC Re has generated underwriting profits for two consecutive years, which trend is expected to be maintained over the medium term. However, owing to relatively high delivery costs, the reinsurer remains susceptible to higher claiming years.
- The reinsurer's retrocession placements on XoL are predominately with secure rated entities. Per risk net retention (4% of FYE12 capital) is, however considered high and exposes FBC Re to an accumulation of unrelated risks.
- FBC Re's book exhibits elevated concentration, with over 50% of NWP derived from accident.
- Notwithstanding recent improvements, the highly uncertain socio-political outlook, adverse macroeconomic fundamentals and low industry entry barriers present considerable operational challenges.
- As the bulk of FBC Re's assets are domiciled in Zimbabwe, the international rating is significantly constrained by sovereign risk. Although the country has no sovereign rating, it has previously defaulted on payments to international financial institutions.

Factors that could trigger a rating action

Positive movement factors: In view of the industry risk characteristics embodied within the Zimbabwean operating environment, the industry rating ceiling has been capped at A- (single A minus).

Negative movement factors: Persistent downward pressure on key solvency and liquidity metrics. In this regard, a minimum solvency margin of between 45% and 50%, coupled with sustained levels of liquidity metrics, is required to maintain the ratings. This is also premised on the basis that recent trends of underwriting profitability remain intact. The highly uncertain socio-political outlook is likely to exacerbate challenges within the operating climate, constraining capital inflows and economic growth. Should this deteriorate further, the rating ceiling of the insurance sector as a whole would likely be reviewed.

Industry overview

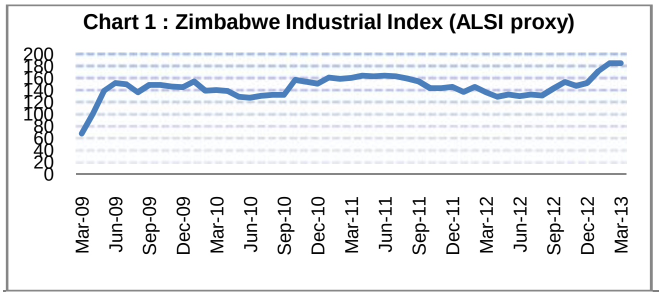
Economic overview

Political developments will continue to take centre stage in Zimbabwe. Positively, the two main political parties recently agreed on a new constitution paving the way for elections, which are scheduled for later in 2013. Following a decade of economic decline amidst a political crisis, the economy stabilised from 2009 upon the adoption of a multi-currency system that reversed hyperinflation. Inflation has since benefited, declining from an annual average of 6.2% in 2009 to 2.9% in December 2012. Domestic inflation is expected to closely follow inflation developments in South Africa, the country's biggest source of imports. Upward price pressures are, however, anticipated from food and fuel prices, while the pending election will likely see increased government social spending.

Table 1: Macroeconomic indicators	2010	2011	2012	2013+
Real GDP growth (%)	7.2	4.6	3.3*	4.6
Real per capita GDP growth (%)	8.1	9.3	4.7*	6.3
CPI inflation (%)	3.0	3.5	2.9	5.1

*Estimated figures: + Forecast
Source: IMF SSA Regional Economic Outlook, April 2012

According to the International Monetary Fund ("IMF"), GDP growth averaged around 8% between 2009 and 2011, following years of contraction. Growth declined to around 5% in 2012, due in part to a poor harvest and lower diamond revenues. Downside risks to growth are significant, particularly in light of the indigenisation policy (especially in the key mining and financial sectors), which together with severe liquidity constraints is expected to see vital investment being withheld.



Little capital has been raised on the ZSE since dollarisation. Furthermore, the industrial index has shown no meaningful improvement, despite the volatility exhibited on a daily basis. Volumes traded are low, and largely limited to active blue chip and growth counters. As such, the performance of certain insurer's investment portfolios does not necessarily reflect overall ALSI performance. Overall, the Industrial Index gained 15% for the 12 months ending December 2012. This follows a 12% decrease in 2011. The property market remains considerably subdued, as the scarcity of funding has had a dampening effect on asset values. Positively, rentals registered above inflation escalations on the back of rising residential demand.

Insurance overview

As at 31 December 2012, a total of 28 non-life insurers and 10 non-life reinsurers were registered with the Insurance and Pension Commission ("IPEC"). However, a comparatively lower 23 and 9 respectively were operational. The non-life insurance industry is significantly fragmented, with the 1st tier comprised of 5 insurers contributing around 56%to 2012 GWP. Insurers continue to offer quarterly and semi-annual policies. Although this has lengthened the cash conversion cycle, debtors' days generally remain within 120 days. Liquidity, however, remains a key challenge for the market, with effective working capital management deemed crucial. The non-life insurance market registered a slightly improved underwriting profit in 2012, on the back of lower relative management expenses. In contrast, the reinsurance industry registered a marginal underwriting loss in 2012, in sharp contrast to the solid 14% margin achieved in 2011. This follows a 12 percentage point increase in the industry earned loss ratio to 44%. Major insurers also continue to actively manage their reinsurance, adjusting cover to reduce costs associated with redundant capacity.

Elevated unemployment levels have led to the rapid expansion of the informal sector, which is largely uninsured. Positively, levels of formal cover by corporates have risen in recent years, albeit at a slower than anticipated pace. Infrastructural erosion and low fixed capital formation have constricted CAR/engineering business volumes, while fire premiums have been adversely impacted by the undervaluation of properties. As such, insurance penetration remains low, at around 2% of GDP, compared to a high of 6% in 2001.

Table 2: Key industry data	
Regulatory authority:	IPEC
Min. capital req. (non-life insurance; reinsurance):	US$1.5m
# of registered non-life insurers (reinsurers):	28 (10)
# of registered composite insurers (reinsurers):	n.a
Market share of top 3 insurers (reinsurers) by GWP:	38% (57%)
Market share of top 3 insurers (reinsurers) by NWP:	42% (59%)
Non-life insurance (reinsurance) industry GWP 2012	US$194m (US$92m)
Non-life insurance (reinsurance) industry NWP 2012:	US$100m (US$69m)
Non-life ins. penetration (% of GDP):	2%
Non-life insurers	
GWP growth 2012 (2011):	22% (35%)
NWP growth 2012 (2011):	21% (19%)
Retention ratio 2012 (2011):	52% (52%)
Earned loss ratio 2012 (2011):	47% (46%)
Management expense ratio 2012 (2011):	43% (45%)
U/w margin 2012 (2011):	5.4% (4.4%)
International solvency margin 2012 (2011):	51% (47%)
Claims cash coverage 2012:	3.9 months
Largest risk classes 2012 (% of GWP):	Motor (41%); fire (21%); accident (16%)
Non-life reinsurers	
GWP growth 2012 (2011):	35% (36%)
NWP growth 2012 (2011):	49% (46%)
Retention ratio 2012 (2011):	75% (68%)
Earned loss ratio 2012 (2011):	44% (32%)
Management expense ratio 2012 (2011):	30% (30%)
U/w margin 2012 (2011):	-1.1% (14%)
International solvency margin 2012 (2011):	84% (123%)
Claims cash coverage 2012 :	4.1months
Largest risk classes 2012 (% of GWP):	Fire (30%); motor (20%); accident (18%)

The proposed insurance bill is expected to empower IPEC to enforce the following.

- The prescription of admissible assets, investments and statutory assets;
- Enhancing regulation related to pricing, corporate governance and disclosure;

- More stringent risk management; and
- Increasing consumer protection.

IPEC also recently increased the minimum capital requirement for both insurers and reinsurers to US$1.5m (from US$0.3m for insurers and US$0.4m for reinsurers previously). All participants in the industry are required to have complied with 50% of this amount (i.e. US$0.75m) by 30 June 2013. Full compliance of US$1.5m is required by 30 June 2014. The Regulator has also proposed increasing the minimum solvency level to 50%, from the current 25%, further exacerbating capital raising hurdles. The 50% solvency requirement is understood to become the more stringent, suggesting targeted capital levels could be well in excess of the minimum US$1.5m.

2012 saw the registration of ZEP Re, increasing reinsurance capacity, although competitive pressures will rise, as the reinsurer is targeting both reinsurance and retrocession. ZEP Re achieved reasonable inroads during its first year of operations, deriving 4% of market GWP in 2012. AON Zimbabwe, which was suspended early 2013 for contravening certain aspects of the insurance sector regulations act, had its suspension lifted effective end March 2013. This follows meaningful progress by the company towards compliance with the provisions of the act.

Background and competitive position

Incorporated in 1994, and formerly known as Southern Africa Reinsurance Company ("SARE"), FBC Re in its current guise emanated from a merger with the FBC Bank reinsurance unit in 2004. The non life reinsurer is wholly owned by FBC Holdings Limited ("FBCH"). FBCH is the investment holding company of the FBC Group and represents diverse financial institutions that span a Commercial Bank, Building Society, Reinsurance Company and a Stockbroking unit. FBCH's major shareholders at FYE12 included the National Social Security Authority, with a 22% stake, Tirent Investments (Pvt) Limited (5%) and Cashgrant Investments (Pvt) Limited (5%). The ZSE-listed group had a market capitalisation of US$47m as at 10 May 2013.

Table 3: Peer analysis F12 (US$'m)	Baobab Re†	FM Re	ZB Re	FBC Re	Grand Re	Ind.†
GWP	18.7	17.6	16.1	13.7	7.6	91.7
NWP	15.4	9.0	13.4	11.8	6.2	69.1
NPE	**15.4**	**8.7**	**13.4**	**10.9**	**5.9**	**66.8**
Capital	28.3	4.9	3.8	7.0	10.0	58.1
Cash and equivalents	0.1	3.5	3.1	6.3	0.6	10.2
Total assets	**43.8**	**9.0**	**8.5**	**14.7**	**13.8**	**107.0**
Solvency (%)	183.9	54.4	28.1	59.0	161.8	84.1
Retention (%)	82.2	51.1	83.3	86.4	81.2	75.4
Earned loss ratio (%)	44.1	43.8	54.1	34.6	44.8	44.5
Commission ratio	28.4	22.6	25.7	30.1	25.1	26.9
Management ratio	54.9	33.9	15.9	27.3	23.3	29.8
U/w margin (%)	(27.3)	(0.3)	4.4	8.0	6.9	(1.1)
Claims cover (months)†	0.2	11.0	5.1	19.8	2.6	4.1

+ Source:IPEC fourth quarter 2012 report.

Based on F12 statistics, FBC Re is the 4th largest non-life reinsurer by GWP, accounting for 15% of the industry total and 14% of total assets. The reinsurer's net cash position accounted for 60% of the industry total. The industry consisted of 9 operational players in F12, of which the 5 largest accounted for 88% of market assets.

FBC Re's market position is underpinned by synergies within FBCH, and long standing relationships with keys cedents. The reinsurer has also focused on selectively reinsuring small to medium risks, carving out a niche that does not bring it in direct competition with other players.

Risk diversification

Domestic cedents accounted for an unchanged 97% of GWP in F12. Facultative volumes remained dominant, as they provide the reinsurer with considerable flexibility with regards to risk selection. These accounted for 75% of F12 gross premiums (F11: 76%) and largely pertain to proportional business. Client concentration is significant, with the top 5 policyholders representing 68% of GWP (F11: 62%). The leading cedent accounted for 21% of gross premiums in F12 (F11: 19%). Although the reinsurer writes most of its premiums directly, business from intermediaries rose over fourfold to US$4.4m, accounting for 32% of GWP in F12 (F11: 10%).

Table 4: Business mix (%)	GWP		NWP		Retention	
	F11	F12	F11	F12	F11	F12
Fire	34.1	29.2	29.3	22.3	69.2	65.9
Miscellaneous*	2.7	3.1	3.4	3.6	100.0	100.0
Motor	11.6	11.9	15.3	13.5	100.0	97.3
Engineering	15.4	9.2	10.3	9.3	54.0	87.6
Accident	36.1	46.6	41.7	51.3	93.0	95.2
Total	**100.0**	**100.0**	**100**	**100**	**80.6**	**86.4**

*Comprises transportation and credit.

GWP growth registered at a robust 44%, maintaining the strong trajectory evidenced in F11 (61% growth). The business mix was little changed on a gross premium basis in F12, with fire and accident continuing to dominate. Specifically, accident GWP registered at US$6m (F11: US$3m), translating to 47% of the gross book. This was well above the average for the market, of 18%. FBC Re continued to retain the bulk of these risks. Fire's contribution to the gross book reduced to 29% from 34% previously. Retention for this class shed 3 percentage points to 66%. Motor and miscellaneous' contribution to GWP was little changed. Gross engineering premiums remained subdued, albeit the reinsurer ramped up its retention for this class to 88% (F11: 54%). Overall, driven by strong growth in accident, FBC Re's retention ratio rose by 6 percentage points to 86%, against a 75% peer average.

Table 5: Claims analysis (%)	Net loss		Earned loss	
	F11	F12	F11	F12
Fire	27.6	45.6	28.9	41.8
Miscellaneous*	27.6	21.2	71.8	(3.5)
Motor	38.8	58.9	45.3	90.1
Engineering	22.0	10.7	30.8	21.5
Accident	14.3	11.3	23.5	30.8
Total	**22.1**	**25.6**	**30.6**	**34.6**

*Comprises transportation and credit.

Elevated attritional losses, exacerbated by dilapidated road infrastructure and rising repair costs, has seen motor account for a sizeable portion of claims over the review period (and a higher 28% of FBC Re's total net claims in F12 from 19% in F11). Specifically, net claims paid increased by 62% in F12, compared to motor NPE growth of 46%. This translated to the earned loss ratio for this class doubling to 90%. The sharp rise in relative claims for fire follows two large supermarket property incidences, albeit reinsurance recoveries mitigated losses somewhat. Specifically, an amount of US$539,629 was recovered from retro counterparties. Notwithstanding an increase in the loss ratio for the dominant accident class to 31% (F11: 24%), claims remained relatively well contained. Miscellaneous (mainly marine) reported a net claims inflow, following a release from claims reserves. Overall, the earned loss ratio rose by 4 percentage points to 35%, albeit this remained below the industry average of 45%.

Table 6: Underwriting profitability	F11 Comm.			F12 Comm.		
	Comm.	Tech. result		Comm.	Tech. result	
	%	%	US$'m	%	%	US$'m
Fire	16.7	54.4	1.1	33.2	25.0	0.8
Miscellaneous*	18.3	9.9	0.0	6.2	97.2	1.5
Motor	37.5	17.2	0.2	22.9	(13.0)	(0.2)
Engineering	14.0	55.3	0.4	33.9	44.7	0.4
Accident	37.4	39.1	1.2	37.6	31.6	1.3
Total	**27.9**	**41.5**	**2.9**	**30.1**	**35.3**	**3.9**

*Comprises transportation and credit.

Owing to the elevated fire claims, commission receipts from retrocessionaires fell sharply, which saw the net commission expense ratio for fire rise to 33% (F11: 17%). Engineering remained profitable, albeit reporting a lower technical margin of 45% in F12 (F11: 55%). Motor reported a technical loss, on the back of higher relative claims. Although the technical margin for accident declined to 32% (F11: 39%), this class registered a higher US$1.3m technical profit (F11: US$1.2m) owing to robust volume growth. Following a claims inflow miscellaneous reported sound technical profits of US$1.5m. Overall, while technical profits increased by 34% to US$3.9m, against a comparatively higher 56% increase in NPE, the technical margin fell 7 percentage points to 35%. Furthermore, following a sharp increase in management expenses (to US$3m from US$2m) the underwriting profit was little changed at US$0.9m. This translated to a lower underwriting margin of 8% (F11: 13%; budget: 15%), albeit outperforming the peer average of -1%.

Retrocession

Table 7: Retro participation-2013 (%)	XoL	Surplus	National rating~	Internat. Rating~
Africa Re	25.0	30.0	n.a	A-*
CICA Re	17.0	12.0	AA$_{(TG)}$	BB+
Continental Re	5.0	25.0	n.a.	B+*
Ghana Re	3.0	5.0	AA$_{(GH)}$	BB+
Hannover Re	45.0	-	AA+$_{(ZA)}$	A
Kenya Re	-	15.0	AA$_{(KE)}$	BB+
Tan Re	-	4.0	A+$_{(TZ)}$	B+
Senegal Re	-	4.0	n.a	-
Milli Re(Turkey)	5.0	5.0	n.a	B+*
Total	**100.0**	**100.0**	-	-

~GCR ratings, unless otherwise stated.
*AM Best ratings (international). NB: Africa Re is also rated A- by S&P.

FBC Re has an ongoing retrocession programme, which is primarily brokered by AON Re Africa. The reinsurer's treaties comprise a combination of proportional and non proportional treaties. The retrocession contracts cover risks emanating from Sub-Saharan Africa (excluding South Africa). Retro counterparties and their respective participation are largely unchanged in 2013, and primarily relate to secure rated entities internationally.

The 2013 retro programme is a continuation of the previous year, as management considers that the current retention levels sufficiently minimize capital erosion. Fire and engineering surplus cessions are capped at US$6m. The XoL treaty limits FBC Re's net retention to US$300,000 (both per risk and event), which equated to 4% of the capital base as at January 2013. The treaty also provides for three full reinstatements on the 1^{st} layer, two on the 2^{nd} and 3^{rd}, and one on the final layer.

Table 8: Retrocession-2013(US$)	Retention	Limit
Surplus		
Fire	6,000,000	6,000,000
Engineering	6,000,000	6,000,000
Misc. accident	3,000,000	3,000,000
Excess of loss (# of layers)		
Fire, CAR/engineering, marine, misc accident, motor – CAT (4)*	300,000	20,000,000

*Motor: treaty & fac max net retention: US$100,000.

Notwithstanding sound GWP growth in F12, on the back of increased retention, premiums ceded to retrocessionaires remained stable at US$1.9m. Following a 60% increase in aggregated recoveries, to US$0.7m (F11: US$0.5m), the net transfer declined to US$1.1m (F11: US$1.4m). This equated to a lower 16% of FYE12 capital (FYE11: 24%).

Table 9: Retrocession (US$)	F11	F12
Premiums ceded	(1,846,270)	(1,869,006)
Claims recovered	-	539,629
Commission recovered	469,002	209,746
Net transfer	**(1,377,268)**	**(1,119,632)**

Solvency and reserving

On the back of solid retained earnings of US$1.5m, shareholders interest was reported 23% higher, at US$7m in F12. However, following a marked 55% increase in NWP the international solvency margin decreased sharply to 59% (FYE11: 74%). This was below budget of 69%. Similarly, the financial base ratio declined to 82%, from 97% previously. Positively, shareholder support is evidenced in a parental guarantee, wherein FBCH has undertaken to settle all legally admissible claims (on an annual basis), should FBC Re be unable to meet admissible reinsurance claims. The agreement may be cancelled, subject to 90 days prior written notice to GCR. Although CAT cover mitigates capital erosion, as it provides protection against sizeable losses, GCR considers the reinsurer's risk management weak, as no formalised modelling tools are utilised to assess this exposure.

Premium receivables increased to US$2.7m in F12 (F11: US$2.5m), and equated to 18% of total assets (FYE11: 23%). The average premium collection period improved to 70 days from 81 days previously, due to an improved oversight of collections. Adjusted for US$0.4m in debtors outstanding for more than 180 days, the international solvency margin registered at 56% (F11: 71%).

Despite an increase in quarterly and semi-annual policies, reserving methodologies remained fairly conservative, with the UPR calculated on the 1/365th basis and IBNR set at 7% of NWP. The UPR corresponded to an unchanged 23% of NWP at FYE12. Furthermore, the outstanding claims reserve equated to a stable 18% of NWP. Claims provisioning is based on historical claim trends, and is periodically adjusted for policy changes and anticipated cost escalations. The adequacy of reserving is verified by the company's auditors.

Asset management

Table 10: Investment profile (US$)	FYE11	%	FYE12	%
Associate	491,239	10.1	491,239	6.1
Listed equities	1,091,762	22.5	1,286,152	16.0
Non-cash investments	**1,583,001**	**32.6**	**1,777,391**	**22.1**
Cash & equivalents	3,272,319	67.4	6,251,241	77.9
Total	**4,855,320**	**100.0**	**8,028,632**	**100.0**

Investments are managed by FBC Securities. The FBC Re investment committee prescribes the weighting of the various classes, depending on its liquidity requirements and market performance. Total investments amounted to US$8m at FYE12, representing growth of 65% over F11. Furthermore, the investment portfolio comprised a higher 55% of the larger asset base (FYE11: 46%). Growth in invested assets emanated from sound operating profits and improved working capital management, underpinning a 91% increase in cash holdings to US$6.3m. Despite a 77% increase in claims, cash coverage rose to 20 months (F11: 18 months). In addition, cash coverage of technical liabilities climbed to 1.3x (F11: 1x). The bulk of FYE12 cash (86%) was placed with two FBCH subsidiaries, signifying elevated counterparty exposure.

Table 11: Cash & equivalents by currency & bank (%)		Barclays Bank	FBC Building Society*	FBC Bank	Interfin Bank	Total
US$	F11	-	19.6	47.1	7.6	**74.3**
	F12	-	30.5	53.7	-	**84.2**
GBP	F11	25.7	-	-	-	**25.7**
	F12	14.2	-	-	-	**14.2**
Rand	F11	-	-	-	-	-
	F12	-	-	1.6	-	**1.6**
Total	F11	**25.7**	**19.6**	**47.1**	**7.6**	**100.0**
	F12	**14.2**	**30.5**	**55.3**	-	**100.0**

Listed equities accounted for a lower 16% of investments, from 23% previously. Blue chip counters that make up the portfolio have relatively broad sectoral representation. However, the top three stocks accounted for 68% of the aggregate value, elevating concentration risk. The investment in an associate pertains to a 23% shareholding in a subsidiary, Eagle Insurance.

On the back of higher interest income emanating from the enlarged cash base, realised investment income was reported at a review period high of US$0.9m. Including unrealised gains, the investment yield was little changed at 13%. Adjusted to exclude unrealised fair value movements, the return registered at an unchanged 11%.

Financial performance

Financial statements are presented in US$, the functional currency since the adoption of a multiple currency system in 2009. As financials from the period prior to 2009 do not meet the requirements of IAS 21 (The Effects of Changes in Foreign Exchange Rates) and IAS 29 (Financial Reporting in Hyper-inflationary Economies), a 4-year financial synopsis is reflected at the end of this report. The 2012 financial statements were audited by KPMG (Zimbabwe), with an unqualified audit opinion issued.

GWP of US$13.7m was closely aligned to budget. Retention rose to 86% (F11: 81%), against budget of 85% and an industry average of 75%. Following a US$0.9m transfer to the UPR, NPE amounted to a review period high of US$11m, representing growth of 56% over F11.

Table 12: Income statement-F12 (US$)	Actual	Budget	% of budget
GWP	**13,708,902**	**14,100,000**	**97.2**
NWP	11,839,896	11,985,000	98.8
NPE	**10,916,829**	**11,381,761**	**96.0**
Claims	(3,780,193)	(4,184,763)	90.3
Net commissions	(3,287,576)	(3,444,690)	95.4
Management expenses	(2,975,697)	(2,052,731)	145.0
Underwriting result	**873,363**	**1,699,577**	**51.4**
Ratios (%):			
Retention	86.3	85.0	
Earned loss	34.6	36.8	
Delivery cost	57.4	48.3	
U/w margin	8.0	14.9	
Int. solvency	59.0	69.1	
Claims cover (mths)	19.8	8.6	

On the back of a 77% increase in claims paid to US$3.8m, the earned loss ratio increased to 35%, against a prior 3-year average of 31%. This was however, below budget of 37% and a peer average of 44%. Despite a 50% increase in management expenses to US$3m, the expense ratio shed a percentage point to 27% given robust NPE growth. Including relatively high commission costs (F12: 30%; F11: 28%), the delivery cost ratio came in at 57% in F12, which was higher than the conservative budget of 48% (albeit in line with historical norms and the peer average). Overall, the reinsurer registered an US$873,363 underwriting profit, which fell well short of a budgeted US$1.7m profit. This was mainly attributable to a higher than forecast delivery cost ratio and translated to an 8% margin (F11: 13%; budget: 15%).

Realised investment income rose by 63% to US$0.9m, underpinned by interest income derived on the enlarged cash base. This contributed to NPAT increasing by 32% to a review period high of US$1.6m. Including unrealised investment gains (on listed equities) of US$141,075 (F11: US$101,856), and net of increased deferred taxation, retained income was reported at US$1.5m (F11: US$1.1m). This translated to a ROaE of 25.2% (F11: 23%). The insurer paid a dividend of US$137,452 in F12, translating to dividend cover of 11.7x (F11: 6.4x).

Future prospects

GWP growth is expected to remain robust in F13, at 45%, supported by a growing regional footprint (specifically SADC and COMESA). Higher retention levels are forecast (89% from 86%), translating to a projected 50% increase in NWP to US$18m. Notwithstanding a budgeted increase in the earned loss ratio (to 43%, from 35%), the delivery cost ratio is forecast to shed 15 percentage points to 42% on the back of cost efficiencies. Overall, the underwriting margin is expected to rise to 15%, from 8% in F12. Shareholders interest is budgeted at US$8.3m (FYE12: US$7m), driven by retained earnings. Against significantly higher projected NWP growth, international solvency is forecast to fall sharply, to 47% from 59% in F12. Solvency levels have continuously decreased from a high of 111% in F10. Cash holdings are projected at an aggressive US$12m at FYE13, which if achieved would translate to claims cash cover of 21 months.

Table 13: Profitability forecasts-F13 (US$)	YTD F13* Actual	F13 Budget	% of budget
GWP	**3,428,871**	**19,900,000**	**17.2**
NWP	2,755,317	17,737,142	15.5
NPE	**1,538,761**	**15,963,428**	**9.6**
Claims	(429,919)	(6,913,597)	6.2
Net commissions	(635,213)	(4,263,747)	14.9
Management expenses	(302,748)	(2,460,725)	12.3
Underwriting result	**175,881**	**2,325,359**	**7.6**
Ratios (%):			
Growth	n.a.	45.2	
Retention	80.4	89.1	
Earned loss	27.6	43.3	
Delivery cost	61.0	42.1	
U/w margin	11.4	14.6	
Int. solvency	n.a.	46.7	
Claims cover (mths)	n.a.	22.2	

*Based on unaudited management accounts to February 2013

International rating considerations

Sovereign risk

The international rating is significantly constrained by sovereign risk, given that a sizeable proportion of FBC Re's assets are held in Zimbabwe. In addition, the reinsurer relies almost entirely on domestic cedents for business. Although the country has no sovereign rating, it has previously defaulted on international obligations. Despite recent improvements, significant operational challenges are inherent in the highly uncertain socio-political outlook, weak macroeconomic fundamentals and low industry entry barriers. In this regard, donor support and FDI are likely to remain constrained until the socio-political environment is more certain. While FBC Re's plans to diversify into regional markets are viewed positively, the benefits are only likely to accrue in the medium term.

Counterparty risk

Significant concentration is evident in the placement of the bulk of FBC Re's cash reserves with FBCH subsidiaries (a combined 86% of cash holdings at FYE12), namely FBC Bank (rated A-$_{(zw)}$ by GCR) and FBC Building Society (rated BBB-$_{(zw)}$ by GCR). Furthermore, foreign currency denominated cash balances held offshore (14% of FYE12 cash) are susceptible to foreign exchange risk. However, management has indicated that these funds are a strategic investment and are not utilised for daily transactions. The strong counterparty (Barclays Bank) bodes positively in this regard.

The majority of participants on FBC Re's XoL treaty have secure ratings, alleviating the risk that counterparties may fail to meet their retrocession obligations. With respect to the surplus programme, a comparatively lower 60% are secure rated internationally.

Asset conversion risk

Although a range of foreign currencies (Rand, GBP and Euro) are considered legal tender in Zimbabwe, this introduces further exposure. Positively, the reinsurer's currency mismatch over the review period has been minimal, with around 98% of both gross premiums and claims denominated in US$. This however, is likely to change in the medium term as the regional diversification drive gains momentum.

FBC Reinsurance Limited

(US$ except as noted)

Year end : 31 December		2009	2010	2011	2012
Income Statement					
Gross written premium (GWP)		8,412,435	5,902,746	9,503,322	13,708,902
Retrocession premium		(1,029,152)	(1,642,351)	(1,846,270)	(1,869,006)
Net written premium (NWP)		**7,383,283**	**4,260,395**	**7,657,052**	**11,839,896**
(Increase) / Decrease in insurance funds		862,714	(100,993)	(680,837)	(923,067)
Net premiums earned		**8,245,997**	**4,159,402**	**6,976,215**	**10,916,829**
Claims incurred		(3,214,555)	(1,015,337)	(2,137,264)	(3,780,193)
Commission		(2,495,532)	(1,339,513)	(1,943,691)	(3,287,576)
Management & other expenses		(2,192,085)	(3,538,419)	(1,975,841)	(2,975,697)
Underwriting profit / (loss)		**343,825**	**(1,733,867)**	**919,419**	**873,363**
Realised investment income		35,206	284,943	551,609	899,606
Other income		22,135	26,386	52,843	142,683
Net profit before tax		**401,166**	**(1,422,538)**	**1,523,871**	**1,915,652**
Taxation		(49,718)	0	(305,521)	(305,186)
Net profit after tax		**351,448**	**(1,422,538)**	**1,218,350**	**1,610,466**
Deferred taxation		(329,743)	341,781	(188,720)	(306,111)
Unrealised gains/(losses)		355,758	(317,661)	101,856	141,075
Forex gains/(losses)		79,149	(69,233)	(15,519)	7,351
Retained income		**456,612**	**(1,467,651)**	**1,115,967**	**1,452,781**
Prior period adjustment(s)			318,106	0	0
Dividend in respect of financial year		0	0	(191,294)	(137,452)
Balance Sheet					
Shareholders interest		**3,693,530**	**4,747,318**	**5,671,990**	**6,987,320**
Net OCR & IBNR		1,235,369	948,123	1,395,207	2,140,145
Insurance funds (Unearned premium reserve)		959,805	1,060,798	1,741,635	2,664,702
Other liabilities		987,462	2,614,193	1,858,670	2,931,924
Total capital & liabilities		**6,876,166**	**9,370,432**	**10,667,502**	**14,724,091**
Fixed assets		387,139	316,031	383,121	341,233
Investments		1,805,235	1,528,606	1,583,001	1,777,391
Cash and short term deposits		1,269,755	3,725,866	3,272,319	6,251,241
Other assets		3,414,037	3,799,929	5,429,061	6,354,226
Total assets		**6,876,166**	**9,370,432**	**10,667,502**	**14,724,091**
Business risk profile					
GWP spread					
Fire		3,881,729	2,413,627	3,245,127	4,005,388
Miscellaneous		142,346	231,766	258,840	422,340
Motor		2,155,682	805,686	1,101,342	1,638,932
Engineering		1,005,224	353,591	1,464,398	1,260,124
Accident		1,227,454	2,098,076	3,433,615	6,382,118
Total		**8,412,435**	**5,902,746**	**9,503,322**	**13,708,902**
Investments spread					
Investment in associate		648,204	302,561	491,239	491,239
Listed equities		1,157,031	1,226,045	1,091,762	1,286,152
Total		**1,805,235**	**1,528,606**	**1,583,001**	**1,777,391**
Key Ratios					
Solvency / Liquidity					
Shareholders funds / NWP	%	50.0	111.4	74.1	59.0
Adjusted international solvency margin*	%	50.0	106.5	70.9	55.6
Financial base	%	63.0	136.3	96.8	81.5
Insurance funds / NWP	%	13.0	24.9	22.7	22.5
Outstanding claims / NWP	%	16.7	22.3	18.2	18.1
Claims cash coverage (months)	months	4.7	44.0	18.4	19.8
Cash: Technical liabilities	x	0.6	1.9	1.0	1.3
Average premium collection period	days	67.6	120.5	80.6	69.6
Efficiency / Growth					
GWP Growth	%	n.a	(29.8)	61.0	44.3
Premiums reinsured / GWP	%	12.2	27.8	19.4	13.6
Earned loss ratio	%	39.0	24.4	30.6	34.6
Commissions / NPE	%	30.3	32.2	27.9	30.1
Management expenses / NPE	%	26.6	85.1	28.3	27.3
Underwriting result / NPE	%	4.2	(41.7)	13.2	8.0
Profitability					
Investment yield (excl. unrealised gains/losses)	%	1.1	5.4	11.4	11.2
Investment yield (incl. unrealised gains/losses)	%	12.7	(0.6)	13.5	13.0
ROaE	%	21.3	(38.1)	23.0	25.2
Dividend cover	x	n.a	n.a	6.4	11.7

*Excludes debtors in excess of 180 days, and dividends in respect of financial year.