

**CREDIT RATING ANNOUNCEMENT****GCR upgrades Mayfair Insurance Company Limited's rating to A<sub>(KE)</sub>; Outlook Stable.**

Johannesburg, 11 June 2018 -- Global Credit Ratings has today upgraded the national scale claims paying ability rating assigned to Mayfair Insurance Company Limited to A<sub>(KE)</sub> from A<sub>-(KE)</sub>, with the outlook accorded as Stable. The rating is valid until June 2019.

**SUMMARY RATING RATIONALE**

Global Credit Ratings ("GCR") has accorded the above credit rating to Mayfair Insurance Company Limited ("Mayfair") based on the following key criteria:

The upgrade reflects Mayfair's earnings capacity remaining at strengthened levels, coupled with the maintenance of strong protection metrics. In this respect, the insurer sustained robust earnings capacity with the three year underwriting margin equating to 18% (FY17: 17%), while the investment returns averaged at 8% over the last three years. In GCR's view, the insurer's demonstrated track record of underwriting profitability is indicative of earnings capacity going forward.

Similarly, the insurer registered very strong risk adjusted capital adequacy over the review period, supported by strict credit management policies and significant capital growth catering for the quantum of insurance risk. In this respect, the international solvency margin equated to a higher 164% at FY17 (FY16: 156%). Risk adjusted capitalisation is likely to remain with a very strong range over the medium term, supported by a relatively sizeable capital base and measured risk assumption. The maximum net deductible per risk and event was maintained at a conservative level relative to capital, while the reinsurance panel reflects a strong aggregate level of credit strength.

Liquidity is assessed at strong levels, reflecting the exposure of sound liquidity metrics to moderately strong banking counterparties. Consistent cash flow generation from operations supported consistent cash coverage of net technical provisions at 1.0x, while average monthly claims coverage registered at a stable 35 months at FY17. GCR expects liquidity metrics to remain within a similar range over the outlook horizon, underpinned by sound cash flow generation and developing prudence in asset allocation.

Mayfair exhibits a moderately strong business profile, supported by a fairly well diversified earnings stream, which is partially offset by a comparatively limited competitive positioning. In this respect, the insurer accounted for an estimated 2% of total short term industry gross premiums in FY17 (FY16: 2%), with three lines materially contributing to revenue. While the insurer's competitive position is likely to remain limited over the rating horizon, GCR is cognisant of the potential for diligent efforts to grow market share, exhibited by sustained above market premium growth, to strengthen the business profile over the medium term.

Upward rating movement is likely to stem from a strengthening in the insurer's business profile (by way of enhanced earnings diversification and/or improvement in market share). This needs to be supported by strong credit protection metrics. Conversely, downward rating pressure may arise from a deterioration in liquidity, coupled with a weakening in solvency protection metrics.

**NATIONAL SCALE RATINGS HISTORY**

Initial rating (June 2015)  
Claims Paying Ability: BBB<sub>+(KE)</sub>  
Outlook: Positive

Last rating (June 2017)  
Claims Paying ability: A<sub>-(KE)</sub>  
Outlook: Positive

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**APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Short Term Insurance Companies, updated May 2018

Mayfair Insurance rating reports, 2015-2017

**RATING LIMITATIONS AND DISCLAIMERS**

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**SALIENT FEATURES 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.

Mayfair Insurance Company Limited participated in the rating process via face-to-face management meetings 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 Mayfair Insurance Company Limited with no contestation of the rating.

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

- Audited financial statements to December 2017
- Four years of comparative financial statements
- Unaudited interim results as at 30 April 2018
- Budgeted financial statements for 2018
- Actuarial valuation report for 2017
- Financial Condition Report for 2017
- 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.



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.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Coverage	The scope of the protection provided under a contract of insurance.
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.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For an insurer, its exposure may also relate to the risk related to policies issued.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
International Solvency Margin	Measures the ability to cover current year's written premiums using shareholder's funds.
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.
Premium	The price of insurance protection for a specified risk for a specified period of time.
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. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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 (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.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.
Upgrade	The assignment of a higher credit rating to an insurer by a credit rating agency. Opposite of downgrade.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

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



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