Centriq Insurance Company Limited

South Africa Insurance Analysis | **June 2015**

Rating class	Rating scale	Rating	Rating outlook	Review date
Claims paying ability	National	AA-$_{(ZA)}$	Stable	June 2016

Financial data:
(USD'm comparative)

	31/12/13	31/12/14
R/USD (avg.)	9.64	10.84
R/USD (close)	10.50	11.61
Total assets	286.5	279.5
Total capital	17.1	17.5
Cash & equiv.	60.7	68.7
GWP	197.8	162.0
U/w result	(0.0)	0.8
NPAT	3.1	4.0
Op. cash flow	25.8	23.9
Market cap	n.a.	
Market share*	15.7%	

* Based on FSB statistics relating to cell captive GWP for the 2014 calendar year.

Rating methodologies/research:

Criteria for Rating Insurance Companies, updated July 2014

Criteria for Rating Cell Captive Insurers, updated July 2014

Centriq rating reports, 2006-2014

Rating history:

Initial Rating (March 2006)
Claims paying ability: A$_{(ZA)}$
Rating outlook: Stable

Last Rating (June 2014)
Claims paying ability: A+$_{(ZA)}$
Rating outlook: Stable

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Summary rating rationale

- Centriq Insurance Company Limited's ("Centriq", "the insurer") rating is supported by the insurer's strong standalone credit profile, coupled with support derived from its 100% shareholder, Santam Limited ("Santam", "the group"). In this regard, GCR considers Centriq to be strategically important to the group, given the parent's strategic focus on growing market share in the specialist lines segment, as well as its material participation in the reinsurance programme. This is reinforced by the risk management oversight provided by the shareholder, with group Enterprise Risk Management ("ERM") policies having become entrenched in the company's management and reporting functions.
- Centriq continues to hold a material share of the cell captive market, with competitive positioning supported by well developed systems and processes. Furthermore, the specialised nature of the business model is relatively difficult to replicate from startup.
- Risk adjusted capitalisation is expected to be maintained at adequate levels, and is complemented by the additional financial flexibility afforded by the Santam draw down facility. Furthermore, the successful containment of the cells' solvency shortfalls over the past two years enhances the insurer's credit strength and is favourably viewed from a rating perspective.
- Note is taken of the uncertainty surrounding the ultimate treatment of ring fencing and asset recognition under Solvency Assessment and Management ("SAM"). Furthermore, possible regulatory changes could impact on the company's strategic direction and ultimate profitability.
- On a statutory basis, Centriq's average underwriting margin continues to compare favourably with that of Guardrisk and the typical insurers. Furthermore, GCR expects the insurer to continue to achieve robust net profitability, given the large portion of fee based earnings.
- The insurer has maintained a low risk balance sheet, while consolidated liquidity levels are expected to remain sound, underpinned by the company's conservative investment policy.
- Cognisance is taken of the inherent exposure to volume volatility in the cell captive environment, given the portfolio nature of the arrangements and attrition associated with maturing books of business.

Factors that could trigger a rating action may include

Positive change: A rating upgrade could be supported by a) a strengthening in competitive positioning that is underpinned by growth into profitable business lines over the medium term, and/or b) a strengthening in risk adjusted capitalisation levels.

Negative change: A sustained weakening in operating performance that leads to erosion of promoter solvency, with a simultaneous reduction in shareholder capital support and/or a pronounced weakening in asset quality or liquidity levels.

Corporate profile

Centriq is a licensed short term cell captive insurance company that was established in 2004. The insurer is wholly owned by Centriq Insurance Holdings Limited, which is a 100% owned subsidiary of Santam. As at 18 May 2015, Santam had a market capitalisation of R26.7bn, and currently carries a $AAA_{(ZA)}$ GCR rating. Santam's majority shareholder is Sanlam Limited ("Sanlam"), with an effective 57.7% shareholding in Santam at FYE14.

Centriq contributed approximately 8% of the Santam group's GWP in FY14, and has historically represented more than 20% of the group's specialist lines revenue. GCR considers Centriq to be strategically important to Santam, given the parent's strategic focus on growing market share in the specialist lines segment, as well as its material participation in the reinsurance programme. This is reinforced by the risk management oversight provided by the shareholder, with group ERM policies having become entrenched in the company's management and reporting functions. Centriq's ROaE has averaged 23% over the review period, which is aligned with Santam's benchmark return for the Centriq group. Furthermore, note is taken of the demonstrated capital support provided by Santam in the form of a R50m contingent capital facility. In terms of the agreement, the minimum withdrawal is R5m at a time and an annual 0.5% facility fee is payable on the facility net of all capital withdrawals (if applicable).

Corporate governance
Centriq's corporate governance framework is aligned with that of the Santam/Sanlam group policy, which sets out the minimum requirements for all businesses within the group. Corporate governance principles are based on the King III Code of Corporate Practices, as well as governance, risk management and internal control regulatory requirements, including Board Notice 158 of 2014.

The board of directors ("board") comprises three executive and five non-executive directors. The majority of the non-executive directors are executives in the Santam/Sanlam group. Santam's CEO is the Chairman of the board. Santam's audit committee carries out the duties of an audit committee for Centriq. The insurer has a Risk and Financial Review Committee that oversees the financial reporting, internal and external audit, and risk management functions and assists the Santam Audit Committee.

Strategic overview
The insurer underwrites a diverse portfolio of insurance risks spanning the specialist sub segments and more commoditised commercial and personal lines. The underwriting of traditional insurance risks is achieved through an Underwriting Management Agency ("UMA") and affinity partnership model, which typically involves a cell captive structure. Alternative risk financing solutions are mostly provided through contingency policies, and in some instances a fully capitalised cell captive solution.

Competitive positioning

Table 1 compares Centriq's key performance measures with those of Guardrisk, which is considered to be a close competitor in the cell captive market.

Table 1: Peer comparison FY14	Centriq	Guardrisk*
GWP (% of cell captive)	15.7	53.5
NWP (% of cell captive)	19.2	60.1
Assets (% of cell captive)	17.7	38.7
NPAT (R'm)	43.0	76.8
Net surplus assets (R'm)	964.3	1,828.2
Key ratios (%)		
GWP growth	(12.4)	14.5
Statutory solvency margin	55.5	33.6
Statutory CAR cover (x)	1.9	1.4
Claims cash cover (months)	27.1	29.5

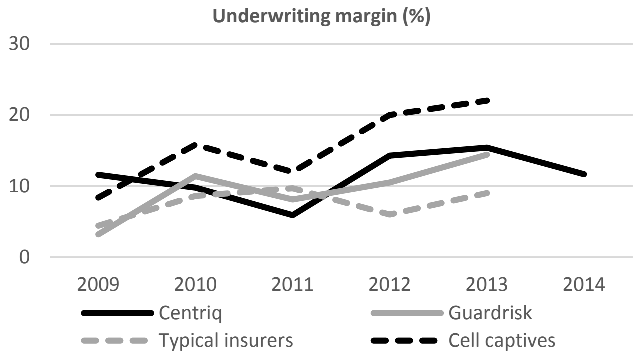
Source: ST returns.
*Year ended March 2014.

Growth and market share
Centriq's GWP levels have been relatively static in recent years, while the contraction in FY14 saw the insurer's market share soften to 16% of the cell captive segment (FY13: 19%). This was largely a function of the discontinuation of three large client portfolios during FY12 and FY13. Excluding these arrangements, Centriq's top line was relatively stable in FY14, while the number of active arrangements increased by 9% to 127 structures. Notwithstanding the contraction, Centriq continues to hold a material share of the cell captive market, with competitive positioning supported by its systems and processes and the specialised nature of the business model, which is relatively difficult to replicate from startup. Note is, however, taken of the possible regulatory changes that could impact the types of business that can be written by cell captive insurers, which could in turn constrain business volumes and associated profitability levels.

Centriq expects to revert to positive premium growth of 13% in FY15, underpinned by organic growth, as well as new UMA and risk finance partnerships. Centriq's focus nevertheless remains on profit generation rather than top line growth.

Profitability
On a statutory basis, Centriq's average underwriting margin continues to compare favourably with that of Guardrisk and the typical insurers, averaging 12% over the past five years (Guardrisk: 10%; typical insurers: 8%). Going forward, GCR expects the strong consolidated underwriting profitability to be sustained over the rating horizon, supported by a relatively large contribution of niche sub segments within the main insurance lines. In this regard, Centriq has placed greater emphasis on targeting specialist or non-traditional portfolios of business, with the more

commoditised lines to be provided largely on an accommodation basis going forward.



Note: Guardrisk's figures are allocated to the preceding calendar year.
Source: ST returns.

Earnings diversification

Product distribution

Both gross and net premiums are evenly spread between the UMA and Risk Finance divisions, with Affinity also contributing a fairly material proportion of revenue. Excluding a discontinued arrangement, the five largest clients collectively accounted for 50% of GWP in FY14, while the largest represented 12%. Furthermore, one UMA accounted for 10% of GWP, and contributed a further 14% of IFRS NWP through a reinsurance inward arrangement. The high level of client concentration increases risk to business volumes and associated fee income. In this regard, note is taken of the inherent exposure to volume volatility in the cell captive environment, given the portfolio nature of the arrangements and attrition associated with maturing books of business.

Table 2: Divisions (%)	GWP		NWP	
	FY13	FY14	FY13	FY14
UMA	46.6	49.2	46.5	47.2
Risk finance	42.0	40.4	45.6	44.6
Affinity	11.5	10.4	8.0	8.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Management accounts, statutory accounting method.

Statutory premium distribution

Table 3: Class (%)	GWP		NWP		Retention	
	FY13	FY14	FY13	FY14	FY13	FY14
Property	19.1	13.1	14.5	18.3	51.0	119.3
Transport	6.1	6.4	5.4	3.5	59.2	46.0
Motor	44.7	48.2	53.9	51.1	81.0	90.4
Accident	11.6	13.9	16.7	15.9	96.8	97.7
Guarantee	1.4	1.0	0.5	(0.4)	25.8	(34.9)
Liability	2.6	6.5	1.5	6.1	38.4	79.0
Engineering	0.9	0.8	0.6	0.9	46.5	92.3
Miscellaneous	13.5	10.0	6.8	4.7	33.8	40.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**67.2**	**85.4**

Source: ST returns.

Four lines of business contribute material premium volumes, implying a good degree of diversification. Product risk is fairly limited, with the majority of business comprising motor, accident and property related exposures. Premium retention rose to 85% from 67% in FY13, on the back of increasing risk participation by Centriq and the cell owners. In this regard, the insurer plans to reduce its risk taking on certain arrangements and channel underwriting participation to the cell owners, with a view to incentivising improved underwriting and risk rating.

Financial performance

GCR's analysis of financial performance looks at the feed through of underwriting profitability to Centriq at a promoter level. This information is largely derived from management accounts, given the distortions that arise from IFRS adjustments (where third party cell owners are treated as reinsurers, given their responsibility for the solvency of the cell captive). A summary of IFRS performance is included at the back of this report. The FY14 financial statements were audited by PricewaterhouseCoopers Inc. and an unqualified opinion was issued.

Underwriting performance

Centriq's exposure to underwriting risk is limited to its participation in third party UMA business through reinsurance inward or pure risk assumption at the promoter level. The pure risk assumption portfolios tend to be more commoditised, with the agreements structured in a similar manner to the traditional UMA model.

Total NWP from risk assumption increased by 29% to R425m in FY14, on the back of organic growth in one key cell and the inclusion of a full year of premiums from an arrangement that incepted in October 2013. One large risk assumption book continued to register an elevated earned loss ratio in FY14 and posted an underwriting loss of R11m for the year. This was attributed to the tail of catastrophe claims feeding through from the end of FY13, as well as cyclical and exchange rate related underwriting pressure. Centriq continues to monitor its performance closely, while the implementation of re-rating and an anticipated favourable runoff experience is expected to see a turnaround in relative loss experience from FY15. Overall, the underwriting profit from risk assumption softened to R7m from R15m in FY13.

Net profitability

Despite the underperformance at the underwriting line, total income from clients increased by a robust 10% to R114m in FY14. This was largely underpinned by changes to the fee structures for certain cells.

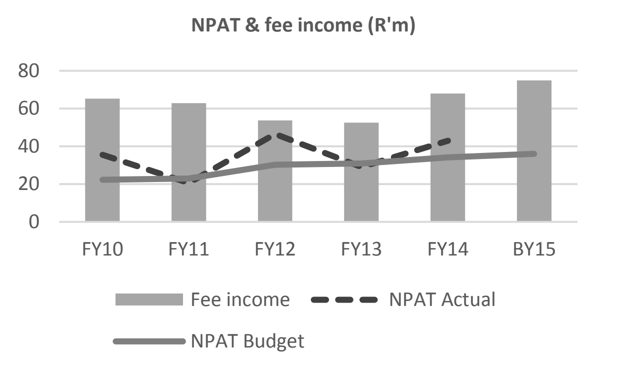
Table 4: Fee income* (R'm)	FY13	FY14
Affinity	6.2	4.3
Risk finance	21.7	25.0
UMA	31.2	43.3
Promoters	(3.0)	(0.8)
Total	**56.1**	**71.8**

Source: Management accounts.
*Including margin fee.

With management and staff expenses well contained relative to expectations, profit after incentives registered 30% higher at R46m, and exceeded budget by 13%. Return on shareholders' funds amounted to R11m, compared to R5m in FY13, on the back of higher than anticipated returns and fund levels. Overall, the company reported NPAT of R43m, translating into ROaE of 23%. This was in line with the five year average and the shareholder's targeted return for the Centriq group. Post year-end, the insurer paid a R50m dividend relating to FY14 results, which equated to 116% of comprehensive income.

Table 5: Income statement (R'm)	FY13	FY14		FY15
	Actual	Actual	Budget	Budget
GWP	***2,317.4***	***2,038.1***	***2,292.1***	***2,303.7***
U/w result*	21.9	12.2	28.6	15.2
Mgmt. fees	54.2	67.9	59.2	74.8
Inv inc – clients	28.2	34.3	34.3	30.9
Inc from clients	**104.3**	**114.4**	**122.2**	**121.0**
Mgmt expenses	(21.2)	(21.6)	(26.1)	(25.5)
Staff expenses	(39.3)	(39.4)	(41.0)	(45.5)
Sundry items	0.1	8.2	0.0	0.0
Before incentives	**43.9**	**61.7**	**55.1**	**50.0**
Bonuses	(7.0)	(10.1)	(10.0)	(9.0)
Staff sh scheme	(1.7)	(5.7)	(4.4)	(3.5)
After incentives	**35.2**	**45.9**	**40.8**	**37.5**
Ret on s/h capital	5.0	11.0	5.6	12.5
Tax	(11.1)	(13.9)	(12.3)	(14.0)
NPAT	**29.1**	**43.0**	**34.1**	**36.0**

Source: Management accounts.
*Including float and foreign exchange movements.



GCR expects the insurer to continue to achieve robust net profitability, given the large portion of fee based earnings. Furthermore, note is taken of the company's recent strategy to limit its underwriting participation, which is expected to reduce earnings volatility over the rating horizon.

Capital adequacy

Capital management
Centriq manages its capital levels in line with targeted ROaE objectives, and paid a special dividend of R111m in FY10 and a large ordinary dividend of R50m in early FY15. In the event of future solvency strain, the preferred approach would be to use Santam's reinsurance capacity to alleviate the shortfall, rather than relying on additional capital injections (thus preserving targeted return on equity).

Centriq has developed an internal model that is broadly aligned with SAM principles. The insurer monitors solvency levels at both the statutory and promoter levels each month to ensure an adequate buffer over and above the economic capital requirement.

Cell solvency

Table 6: Capital shortfall (R'm)	FYE12	FYE13	FYE14	April 2015
Total	70.0	57.5	32.7	32.4
Adjusted*	***49.3***	***27.2***	***14.2***	***10.4***

*Based on Internal Model.

The contractual arrangements with cell owners provide for the separation of funds and limitation of cross-subsidisation between cells. Despite these contractual arrangements, South African legislation does not allow for the legal ring fencing of funds in the case of liquidation, and currently regards the assets and liabilities of third-party cells as part of the assets and liabilities of the insurer. Given the credit risk associated with capital shortfalls in the cells, Centriq monitors the individual solvency positions of the cells using statutory Interim Measures of SAM and its internal model. Depending on what has been contracted, if cells fall short of the required Interim Measure solvency level, a portion of promoter capital is allocated, with a solvency fee charged on the difference between the Interim Measure requirement and the capital in the cell.

The cumulative capital shortfall in the cells has reduced significantly over the past two years, and amounted to R33m on an Interim basis at FYE14. This improvement is largely a function of the cancellation of one cell agreement, which historically experienced a high degree of reserving strain. Based on the internal model, the solvency shortfall amounted to R10m as at April FY15, having reduced from R14m at FYE14 (FYE13: R27m). This equated to 6% of YTD shareholders' funds, compared to around 33% three years ago. The successful containment of the cells' solvency shortfalls over the past two years enhances the insurer's credit strength and is favourably viewed from a rating perspective.

Statutory solvency
From a statutory perspective, the cell owners' funds are included in the calculation of net surplus assets at the licence level, with a ring fencing adjustment built into the Solvency Capital Requirement ("SCR"). As at FYE14, Centriq's reported statutory CAR cover (based on Interim Measures) of 1.9x was in line with the ratio at FYE13. Note is taken of the continued uncertainty regarding the ultimate treatment of ring fencing and asset recognition under SAM.

Promoter solvency
The internal capital adequacy position for the promoter as at April 2015 (after accounting for the R50m post year-end dividend payment) is summarised below.

Capital levels are managed to maintain promoter CAR cover above 1x, excluding the Santam draw down facility. Overall, capitalisation is expected to be maintained at adequate levels, and is complemented by the additional financial flexibility afforded by the Santam draw down facility.

Table 7: Promoter solvency (R'm)	April 2015
Premium risk	83.7
Reserve risk	11.4
Market risk	95.2
Operational risk	36.1
Diversification	(48.4)
SCR	**178.0**
Loss abs. capacity of deferred tax	(49.8)
Economic capital requirement	**128.1**
Net capital shortfall in cells	10.4
Total capital requirement	**138.6**
Shareholders' funds	170.5
Santam draw down facility	50.0
Available capital	**211.9**
Promoter CAR (minimum)	***1.2x***
Promoter CAR (including draw down)	***1.6x***

Asset management

Investment strategy

Table 8: Investments	FYE13		FYE14	
	R'm	%	R'm	%
Cash & money market	637.5	24.8	798.1	28.5
Debt securities	1,890.4	73.7	1,978.6	70.5
Listed equities	36.7	1.4	26.9	1.0
Unlisted equities	1.1	0.0	1.1	0.0
Total	**2,565.7**	**100.0**	**2,804.7**	**100.0**

The majority of preference shareholders' funds are invested in a pool of largely liquid investments, with deviations governed by contractual agreements with the cell owners. The investment portfolio is managed by Sanlam Investment Management ("SIM"). In terms of Centriq's group risk appetite criteria, the portfolio must comply with SIM's Credit Risk Framework, which is approved by the Sanlam Group's Central Credit Committee. Credit rating restrictions are in place across the investment portfolio. Investments in equities and regulated entities are each limited to 5% of portfolio assets, while investments per single unregulated entity are limited to 2.5%. The Centriq group exposure to any single bank is limited to 20% of portfolio assets. Approximately 96% of invested assets were placed with counterparties rated A- (national scale) and above at FYE14.

The insurer continues to maintain a low risk balance sheet, with cash and investments accounting for more than 80% of the total asset base over the past three years (FYE11: 78%), and exposure to equities remaining low.

Liquidity

Income statement liquidity measures continue to register at sound levels on both an IFRS and statutory basis. IFRS cash and interest bearing securities covered net technical liabilities and preference shareholders' funds 1x, having been maintained at this level throughout the review period. Based on the FY14 ST return, cash and interest bearing securities covered net technical provisions a comfortable 1.6x at FYE14. This measure includes the net surplus assets of the cell owners, and assumes that the funds are not ring fenced against any particular liabilities. Consolidated liquidity levels are expected to remain sound, underpinned by the company's conservative investment policy, which is not expected to change over the medium term.

Table 9: Liquidity measures	IFRS		ST	
	FY13	FY14	FY13	FY14
Claims cover (months)	13.9	18.9	22.8	27.1
Expense cover (months)	11.0	13.9	17.7	17.3
Cash & interest bearing : tech. & pref s/h liab.	1.0	1.0	1.4	1.6

Reinsurance

In terms of Centriq's risk appetite criteria, the insurer only places reinsurance with counterparties that are rated A- and above, unless specific board approval is obtained or a pay-as-paid clause is included in the insurance contract. Facultative premiums per entity are limited to 10% of total reinsurance premiums. Furthermore, aggregate exposure per reinsurer is limited to 25% of total exposure, and 30% with respect to Santam. At the promoter level, maximum net retention per risk and event amounts to R3.4m and R4.1m respectively (including reinstatement premiums), equating to 2% and 2.5% of YTD shareholders' funds. These levels are below the company's risk tolerance levels of 7.5% and 12.5% of time weighted shareholders funds respectively.

The reinsurance programme posted small net technical recoveries in FY13 and FY14, as a result of catastrophe related claims recoveries (relating to 2013), as well as a large premium refund that had a 95% reinsurance structure (thus lowering reinsurance premium earned). The reinsurance four year technical margin has averaged 19% since FY11, compared to a corresponding gross technical margin of 28%.

Table 10: Reinsurance account (R'm)	FY11	FY12	FY13	FY14
Premiums earned	(814.6)	(925.6)	(629.5)	(391.7)
Claims recovered	368.4	440.2	512.1	318.4
Commission	218.5	182.3	125.2	78.8
RI technical result	**(227.7)**	**(303.1)**	**7.8**	**5.5**
Ratios (%)				
Claims ratio	45.2	47.6	81.4	81.3
Comm ratio	26.8	19.7	19.9	20.1
Tech margin	(28.0)	(32.7)	1.2	1.4

Source: ST returns.

Reserving

Centriq conducts quarterly assessments of IBNR reserves using internal data. IBNR provisions are based on the statutory calculations, and where sufficient data is available, other actuarial methods may be used for certain portfolios. These results are compared to historical experience to monitor inconsistencies, and developing trends are incorporated into the assumptions. Based on the FY14 ST return, claims development has been favourable in four of the last five years, with an average reserve margin of 13% reported above actual claims settlements.

Centriq Insurance Company Limited

(R in millions except as noted)

Year ended : 31 December		2010#	2011	2012	2013	2014
Income Statement						
Gross written premium (GWP)		2,038.4	2,157.8	2,164.8	1,906.6	1,756.4
Reinsurance premiums		(1,657.3)	(1,627.8)	(1,599.9)	(1,277.7)	(883.3)
Net written premium (NWP)		**381.1**	**530.0**	**564.8**	**628.9**	**873.1**
(Increase) / Decrease in insurance funds		13.2	(37.3)	(144.6)	64.0	(177.3)
Net premiums earned		**394.3**	**492.8**	**420.3**	**692.9**	**695.8**
Claims incurred		(268.0)	(379.9)	(303.0)	(550.9)	(507.6)
Commission		(45.6)	(70.0)	(53.4)	(56.5)	(68.9)
Operating expenses		(66.6)	(49.7)	(62.2)	(85.8)	(110.7)
Underwriting profit / (loss)		**14.1**	**(6.8)**	**1.6**	**(0.2)**	**8.6**
Policyholder bonus		(61.3)	(59.5)	(37.3)	(65.4)	(74.9)
Investment income*		144.1	138.3	142.1	151.4	185.0
Fair value adjustment - preference share capital		(50.3)	(41.4)	(41.2)	(44.5)	(61.9)
Taxation		(11.2)	(7.6)	(17.8)	(11.0)	(13.9)
Net income after tax		**35.4**	**23.1**	**47.4**	**30.3**	**43.0**
Dividend paid		(111.0)	0.0	(28.3)	0.0	(19.4)
Balance Sheet						
Shareholders interest		**107.0**	**130.1**	**149.2**	**179.5**	**203.0**
Preference shares/cell owners' capital		965.4	588.8	611.2	829.8	935.3
Net UPR		917.4	1,239.8	1,365.9	1,252.2	1,371.2
Net OCR & IBNR		80.4	360.7	263.6	414.1	397.8
Other liabilities		392.4	401.9	341.9	332.6	337.6
Total capital & liabilities		**2,462.7**	**2,721.4**	**2,731.7**	**3,008.2**	**3,244.8**
Fixed assets		3.6	3.1	3.4	2.9	7.2
Investments		1,092.4	1,589.0	1,945.8	1,928.2	2,006.6
Cash and short term deposits		897.9	535.5	293.0	637.5	798.1
Other assets		468.9	593.9	489.5	439.7	432.9
Total assets		**2,462.7**	**2,721.4**	**2,731.7**	**3,008.2**	**3,244.8**
Cash flow statement						
Cash generated by operations		(101.2)	(70.6)	(49.4)	(59.0)	(15.6)
Cash flow from investment income		150.2	125.5	145.4	139.1	177.5
Working capital decrease / (increase)		193.1	155.4	77.6	149.5	114.7
Tax paid		(56.3)	(21.3)	1.9	19.5	(16.9)
Cash available from operating activities		**185.8**	**189.0**	**175.5**	**249.1**	**259.6**
Dividends paid		(111.0)	0.0	(28.3)	0.0	(19.4)
Cash flow from operating activities		**74.8**	**189.0**	**147.2**	**249.1**	**240.2**
Cash flow from investing activities		**(99.0)**	**(497.4)**	**(359.1)**	**16.2**	**(85.1)**
Cash flow from financing activities		**(50.9)**	**(54.1)**	**(30.6)**	**79.2**	**5.5**
Net cash inflow / (outflow)		**(75.1)**	**(362.4)**	**(242.4)**	**344.5**	**160.6**
Key Ratios						
Solvency / Liquidity						
International solvency margin	%	28.1	24.5	26.4	28.5	23.3
Total capital / NWP	%	281.4	135.6	134.6	160.5	130.4
Statutory CAR	%	n.a.	n.a.	1.7	1.9	1.9
Net UPR / NWP	%	240.7	233.9	241.8	199.1	157.0
Net OCR / NWP	%	21.1	68.1	46.7	65.9	45.6
Cash : Net tech liabilities	x	0.9	0.3	0.2	0.4	0.5
Cash & fixed income : Pref s/holders funds and net tech. liabilities	x	1.0	1.0	1.0	1.0	1.0
Cash claims coverage	mnths	40.2	16.9	11.6	13.9	18.9
Efficiency / Growth	%					
GWP growth	%	4.3	5.9	0.3	(11.9)	(7.9)
Retention	%	18.7	24.6	26.1	33.0	49.7
Earned loss ratio	%	68.0	77.1	72.1	79.5	72.9
Commission expense ratio	%	11.6	14.2	12.7	8.1	9.9
Operating expense ratio	%	16.9	10.1	14.8	12.4	15.9
Underwriting margin	%	3.6	(1.4)	0.4	(0.0)	1.2
Combined ratio	%	96.4	101.4	99.6	100.0	98.8
Operating margin**	%	11.8	6.2	15.5	6.0	8.2
Profitability						
ROaE	%	24.5	19.4	33.9	18.4	22.5
Investment yield	%	7.3	6.7	6.5	6.3	6.9
Dividend cover***	x	n.a.	0.8	n.a.	1.6	0.9

* *Including foreign exchange and unrealised movements.*

** *Includes policyholder bonus, investment income and fair value adjustment - preference share capital.*

*** *Relates to dividends paid in the following financial year.*

#*Before restatements.*

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Audited Financial Statements	Financial statements that bear the report of independent auditors (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
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.
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.
Cash Flow Statement	The cash flow statement shows the cash flows associated with the operating, investing and financing activities of a company, combining to explain the net movement in cash holdings.
Catastrophe	An event, which causes a loss of extraordinary magnitude.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Claims Incurred	Claims that have occurred, irrespective of whether or not they have been reported to the insurer.
Combined Ratio	Measures the ability to conserve profits through the expense line.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Creditworthiness	An assessment of a debtor’s ability to meet debt obligations.
Debt	An obligation to repay a sum of money.
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.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Dividend Cover	The extent to which a company's dividend is matched or exceeded by the earnings available for distribution to shareholders.
Earned Loss Ratio	Measures the proportion of claims in the net premiums earned.
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.
Enterprise Risk Management	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.
Exchange Rate	The value of one country's currency expressed in terms of another.
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.
Facultative	Facultative reinsurance means reinsurance of individual risks by offer and acceptance wherein the reinsurer retains the “faculty” to accept or reject each risk offered.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Flexibility	The company’s ability to access additional sources of capital funding.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Financial Year	The year used for accounting purposes by a company.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
IFRS	International Financial Reporting Standards are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
Income Statement	A summary of all the expenditure and income of a company over a set period.

IBNR	Losses which have occurred during a stated period, usually a calendar year, but have not yet been reported to the insurer as of the date under consideration.
IFRS	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
International Solvency Margin	Measures the ability to cover current year’s written premiums using shareholder’s funds.
Interest	Money paid for the use of money.
Investment Income	The income generated by a company's portfolio of investments.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
Liabilities	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. 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.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Loss	The happening of the event for which insurance pays.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
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.
Net Premiums Earned	That portion of a policy's premium that applies to the expired portion of the policy, net of reinsurance premiums.
Net Retention	The amount of insurance that a ceding company keeps for its own account and does not reinsure.
Net Written Premium	Written premium less deductions for commissions and ceded reinsurance.
Operating Margin	Measures the efficiency of profit generation from investments and underwriting.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Personal Lines	Types of insurance, such as auto or home insurance, for individuals or families rather than for businesses or organisations.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Policyholder	The person in actual possession of an insurance policy.
Portfolio	All of the insurer’s in-force policies and outstanding losses, with respect to described segments of its business.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Risk Rating	The statistical process by which insurers determine risks and pricing for the basic classes of insurance.
Rating Horizon	The rating outlook period
Rating Outlook	A rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Reinstatement	The resumption of coverage under a policy, which has lapsed.
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.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose.
Retention	The net amount of risk the ceding company keeps for its own account.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Return on Equity	ROE is the ratio of a company's profit to its shareholders' equity, expressed as a percentage. It is the most widely used measure of how well management uses shareholders' funds.
Securities	Various instruments used in the capital market to raise funds.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
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.

Statutory	Required by or having to do with law or statute.
Technical Result	Net premiums earned less net claims incurred and net commission expenses.
Total Capital	The sum of owner’s equity and admissible supplementary capital.
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.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

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SALIENT POINTS 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; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Centriq 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 Centriq Insurance Company Limited with no contestation of the rating.

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

- Audited financial statements to 31 December 2014 (plus four years of comparative numbers)
- Unaudited year to date results to 30 April 2015
- Budgeted income statement and balance sheet to 31 December 2015
- Full year statutory returns to 31 December 2014.
- A summary of the current reinsurance programme
- Other relevant company specific information.

The rating above was solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.