GCR GLOBAL CREDIT RATING CO.
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Tausi Assurance Company Limited

Kenya Insurance Analysis **September 2018**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	A(KE)	Stable	September 2019

Financial data:

(USD'm comparative)

	31/12/2016	31/12/2017
KES/USD (avg.)	101.5	103.2
KES/USD (close)	102.3	103.1
Total assets	19.3	21.8
Total capital	10.7	12.9
Cash & equiv.	3.1	4.7
GWP	9.5	10.3
U/w result	0.9	0.9
Net income after	1.7	2.4
Op. cash flow	2.4	2.3
Market cap.		n.a.
Market share*		0.9%

*Based on short term industry gross premiums for 2017.

Ratings history:

Initial rating (November 2016)
Claims paying ability: A(KE)
Rating outlook: Stable

Last rating (November 2017)
Claims paying ability: A(KE)
Rating outlook: Stable

Related methodologies/research:

Criteria for Rating Short Term Insurance Companies, updated May 2018

Tausi rating reports, 2016-2017

Kenya Short Term Insurance Industry Statistics Bulletins, 2014-2017

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Summary rating rationale

- Tausi Assurance Company Limited's ("Tausi') risk adjusted capitalisation remained very strong, supported by limited market risk exposures and relatively well contained insurance risks. Accordingly, the international solvency margin registered at a very high 182% at FY17 (FY16: 163%; review period average: 169%). While strong growth expectations may result in medium term risk adjusted capitalisation moderation, GCR expects capitalisation to register within a very strong range, supported by healthy internal capital generation and well contained dividend distributions.
- Key liquidity metrics, inclusive of government securities, remained very strong, as evidenced by very high coverage of average monthly claims and net technical provisions of 67 months and 1.9x respectively at FY17 (FY16: 57 months and 1.7x). GCR expects key liquidity measures to remain at very strong levels, supported by healthy operating cash flow generation, conservative asset allocation and well contained dividend distributions. Cognisance is, however, taken of the somewhat elevated single banking counterparty exposure to an unrated related party financial institution.
- Medium term earnings capacity is likely to moderate to a moderately strong range, from strong levels historically, as the insurer enters somewhat competitive product fields to accelerate growth. In this respect, GCR's base case scenario sees the underwriting margin hovering around 5%, compared to the review period aggregated margin of 11% (FY17: 12%; FY16: 14%). Accordingly, the return on equity is projected to moderate from the high levels recorded historically (FY17: 21%; FY16: 16%).
- The insurer's medium term strategic objectives are aimed at improving the business profile by increasing competitive positioning and enhancing channel diversification. In this respect, the insurer expects business volumes to grow to KES1.8bn by FY21 (FY17: KES1.1bn; FY16: KES963m), supported by an expansion of the broker network, strengthening existing client relationships, while developing new products and pursuing quasi-niche lines of business. Management aims to maintain a well-balanced portfolio, while targeting lines of business which are characterized by fairly low product risk and adhering to disciplined underwriting guidelines. As such, the insurer's ability to successfully attain growth targets, while recording healthy net profitability represents a key rating consideration.
- The reinsurance panel reflects a strong aggregated level of credit strength, while maximum net deductibles are limited to moderate levels relative to capital.
- The actuarial function is undertaken internally. Furthermore, the company has an external actuary to test the adequacy of reserves, in line with the Insurance Regulatory Authority ("IRA") requirements.

Factors that could trigger a rating action may include

Positive change: Earnings capacity registering within a strong range through the expansionary phase may lead to positive rating movement. This would need to be supported by risk adjusted capital adequacy and liquidity metrics measuring at strong levels.

Negative change: A downgrade could result from a persistent deterioration in the underwriting result beyond expectations, coupled with material reduction in risk adjusted capitalisation and/or liquidity metrics.

Operating environment

Economic overview

Table 1: Macroeconomic indicators (%)	2014	2015	2016	2017	2018f*
Real GDP Growth	5.4	5.7	5.8	5.0	5.5
Inflation (annual avg. % change)	6.9	6.6	6.3	8.0	5.2
Government gross debt % GDP	48.6	51.6	52.6	56.2	56.0
Current account % GDP	(10.4)	(6.8)	(5.2)	(6.1)	(7.0)

f*- forecast.

The operating environment in Kenya was relatively subdued in 2017. Growth in real GDP registered at a lower 5% (2016: 5.8%), the weakest level in five years. This was attributable mainly to severe drought, lower levels of credit supply to the private sector as a result of the August 2016 regulatory capping of interest rates, and the protracted electoral process.

Notwithstanding these recent challenges, the real GDP growth rate remained higher than other emerging markets and the world average respectively over the past five years. This underscores the economy's resilience, supported by a relatively vibrant services sector. Services accounted for 82% of economic growth and industry contributed 17%, while agriculture was depressed by the drought.

Annual inflation averaged 8% in 2017, higher than the 6.3% recorded in 2016. This was due to high inflation in the food and non-alcoholic beverages category caused by the drought, which subsided to a year on year inflation of 3.7% in April 2018, the lowest level since January 2013. With falling inflation and expectations well within the Central bank of Kenya's ("CBK") target range of 2.5-7.5%, the MPC reduced the Central Bank Rate (CBR) by 50bps to 9.5% in March 2018.

The Shilling remained resilient against the US dollar in 2017, depreciating by a modest c. 1.7% relative to the 2016 average rate of KES101.45/ USD. Confidence in the shilling was largely supported by the IMF Stand-By arrangement of USD1.5bn, with low debt risk positively bearing on capacity to attract financial account inflows, despite continued shrinkage in foreign direct investments, registering a 70% reduction over the past six years. Strong diaspora remittances had a positive effect on the Shilling, and the CBK is seen as willing to intervene when downward pressure on the Shilling heightens, supported by an ample level of foreign reserves to withstand potential shocks. These factors somewhat moderated adverse internal factors such as declining foreign currency inflows from tourism (negatively affected by terrorism threats) and other industries; and the country's growing current account deficit.

Kenya's economic prospects for 2018 are positive according to the IMF, World Bank and Kenyan Treasury. The IMF projects that real GDP growth for 2018 will be 5.5% and could rise further to 6.5% over the medium term. Expectations of an end to the drought; improved political stability; fiscal consolidation; and the relaxation of interest rate controls underpin the prospect of the economy rebounding.

Industry overview

The Kenyan insurance industry is regulated by IRA. As part of ongoing efforts to improve the legislative framework, the Insurance Act (Cap 487) was revised in 2015 and 2016 to incorporate Insurance Draft Bills dating back to 2013 and accompanying industry comments. Concurrent to these efforts, the IRA issued various regulations and guidelines to enhance corporate governance and operational practices of insurers. Changes have extended to actuarial compliance, auditing and risk management functions. Furthermore, this laid the foundation for the medium-term transition to the risk based capital ("RBC") model in order to strengthen the industry and align it with global standards. Given its complexity and operational implications, the RBC model is still undergoing testing and feedback from various stakeholders and international consultants, although market players are required to comply with a minimum capital adequacy ratio of 100% at all times, which will increase to 200% by 30 June 2020, in terms of The Statutory Law (Miscellaneous Amendments) Act No. 11 of 2017.

Table 2: Key industry data	
Regulatory authority:	**IRA**
Min. capital req. (short term insurance):	**KES600m**
Min. capital req. (long term assurance):	**KES400m**
# of registered short-term insurers in 2017:	**28**
# of registered composite insurers in 2017:	**9**
# of registered long-term insurers in 2017:	**25**
Market share of top 5 short term insurers 2017:	**38.3**
Short term insurance industry GWP in 2017:	**KES123.4bn**
Insurance penetration (% of GDP):	**1.5%**
Short term insurers	
GWP growth 2017 (2016):	**1.3% (9.9%)**
Retention ratio 2017 (2016):	**70.2% (73.5%)**
Net incurred loss ratio 2017 (2016):	**60.9 (62.7%)**
Commission ratio 2017 (2016):	**7.6% (8.1%)**
Operating exp. ratio 2017 (2016):	**30.9% (31.6%)**
U/w margin 2017 (2016):	**0.6% (-2.4%)**
Largest risk classes 2017 (% of GWP):	**Motor (35%); Medical (31%); Fire (10%)**

Source: IRA annual reports.

Compared with other East African markets, the insurance industry in Kenya is the largest and most advanced. Nevertheless, overall insurance penetration remains low (vs. more developed economies), at around 1.5% of GDP, indicating scope for growth. However, growth moderation in the short-term insurance sector resulted in the compound annual growth rate ("CAGR") reducing to 7% over the past three years, compared to an annual average of above 10% in previous periods. Notably, the reduction in the growth rate to 1.3% in FY17 was due to a stagnation in the medical portfolio, given the sector's high contribution to historical growth rates. This followed the migration of certain public accounts to the National Health Insurance Fund ("NHIF"). Resultantly, the top five players accounted for a lower 38% of gross premiums, compared to 40% in the previous year. GCR expects market share compression to increase market contestation in the short term, albeit creating motivation for insurers to exploit gaps in the market through i) expanding bancassurance arrangements (ii) technological innovations that increase market penetration and iii) an enhanced drive to develop micro-insurance and specialty products. Nonetheless, growth could continue to lag historical levels as insurers adapt underwriting strategies to a strengthening regulatory environment and assess the financial impact of IFRS 17, which will be adopted in 2021. Combined, these regulatory initiatives are expected to increase the level of market sophistication and financial stability, with further consolidation among market players a likely consequence.

The industry registered a low underwriting margin of 1% in FY17, recovering from consecutive losses in prior years (FY16: -2.4%; FY15: -0.3%). An improvement across all underwriting expense lines supported a strengthening in performance, demonstrating the industry's ability to self-correct. Essentially, a lowering in the loss ratio of private motor to 71% (FY16: 80%), coupled with a moderation in the medical loss ratio to 72% (FY16: 74%) offset the prior year deficit. Furthermore, the operating expense ratio reduced to 31% (FY16: 32%) amidst volume pressures in real terms, representing an aggregation of firm specific cost containment measures. Overall, underwriting profitability is likely to remain positive, albeit under pressure. This view is premised on continued price correction to avoid possible solvency and reserving strain from non-profitable contracts due to steepening regulatory requirements, coupled with broad initiatives to cut costs, while increased competitive dynamics may limit potential for widening margins, especially in commoditised lines that comprise the majority of premiums.

In this regard, investment income is expected to continue playing a significant role in industry capital formation, given prevailing positive real interest rates (especially on longer dated paper) and a possible recovery in the Nairobi Stock Exchange ("NSE"). Accordingly, capital increased by 7% to KES97bn at FY17, supporting a sound international solvency margin of 111% (FY16: 100%), while cash and equivalents (including government securities) covered liabilities by a sound 0.9x (FY16: 0.8x). In this view, the Kenyan short term insurance industry exhibits a healthy progression in operational performance, solvency and underlying regulatory systems, which bodes well for overall industry credit strength.

Corporate profile

Corporate history

Tausi was incorporated in 1992, and began operations in 1993. The company is licenced to write the full spectrum of short term insurance products, excluding aviation.

Ownership

The company is majority owned by Prime Bank Limited, with an increased stake of 81% in FY17 (FY16: 38%). The second largest shareholding pertains to an individual with 13%. The remaining stakes relate to a few individuals. The insurer expects to derive benefits from the increased shareholding by Prime Bank Limited, such as higher group synergies, increased brand alignment and access to bancassurance segments.

Strategic overview

The insurer's five-year strategic plan covers the period from 2017 to 2021. The main objectives include growth and diversification, profit maximization, asset allocation optimization and enhanced risk management. According to management, gross premiums are expected to increase to KES1.8bn by FY21 (FY17: KES1.1bn; FY16: KES963m), supported by enhanced product development, pursuing quasi-niche business, widening the broker base and strengthened client relationships. The company may revise its strategic decision not to actively pursue medical business, in order to achieve growth objectives. In this respect, the insurer has engaged a consultant and is currently doing market research to see whether to actively pursue this line of business. According to management, if this class is pursued, it would be underwritten on a conservative basis.

Management expects underwriting margins to register within a range of around 5% to 10%, which compares well to the review period aggregate margin of 11%. This is largely expected to stem from operational efficiencies offsetting a possible increase in the net incurred loss ratio, as a function of growth. As such, successful attainment of medium term growth strategic targets, resulting in a strengthened business profile (by way of market share and enhanced earnings profile), while achieving strong earnings capacity, remain key rating considerations.

Competitive position

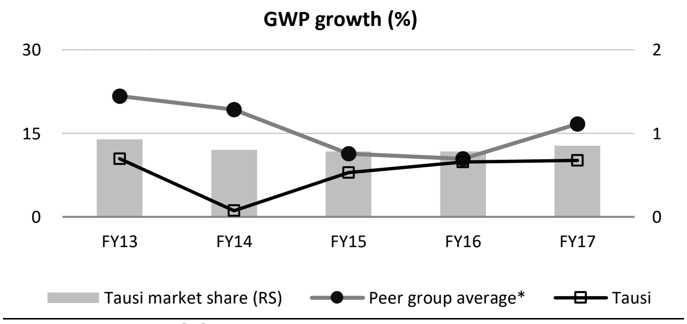
Peer group analysis

Table 3 compares Tausi's key performance and credit protection metrics with those of three competitors of comparable size which use similar business models, or aspects thereof.

Table 3: Peer group analysis	FY16		FY17	
	Tausi	Peer avg.*	Tausi	Peer avg.*
Operating ratios (%)				
GWP market share	0.8	-	0.9	-
GWP growth rate	9.9	10.4	10.1	16.7
Premium retention rate	69.8	54.8	68.9	57.8
Net incurred loss ratio	41.6	60.7	32.7	58.9
Net commission ratio	9.1	4.2	11.8	5.3
Operating expense ratio	35.2	27.5	43.6	28.1
U/w margin	14.1	7.6	11.9	7.7
Credit protection				
Int. solvency (%)	163.1	114.6	182.4	113.5
Cash / tech liabilities (x)	0.4	0.5	0.7	0.5
Cash cover (months)	14.6	16.0	24.0	16.0

*Peer group excludes Tausi.

Peer group analysis: growth and market position

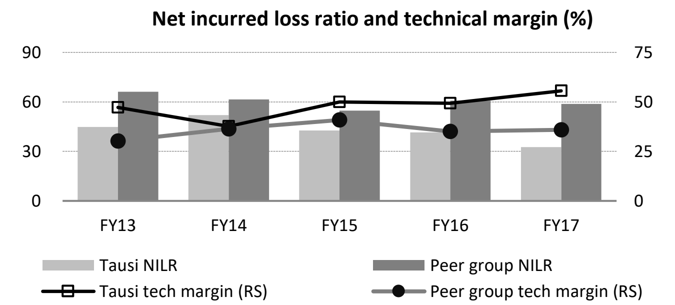


*Per group average excludes Tausi.

The insurer's gross premium CAGR of 7% over the review period, measured below the peer group average of

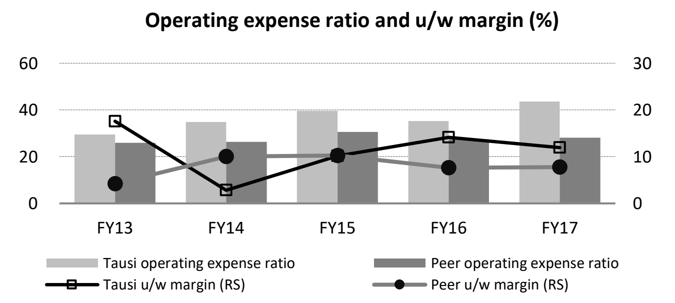
14% over the same period. Relatively lower growth was due to Tausi's strategic decision not to actively pursue medical business, which has been a major growth driver industry-wide over the last four years. Accordingly, the insurer's market share has remained relatively limited below 1% over the review period. Going forward, management expects gross premiums to advance in line with strategic objectives, supported by increased focus on growth and diversification.

Peer group analysis: technical profitability



Tausi's technical profitability generally trended above the peer group, supported by a very competitive net incurred loss ratio, offsetting a relatively higher net commission expense ratio. In this respect, the five year technical margin equated to 49%, compared to the peer group's aggregated technical margin of 36% over the corresponding period. The insurer's five year aggregated net incurred loss ratio equated to 42%, while the related net commission expense ratio registered at 10%. This compares to the peer's five year net incurred loss ratio of 60%, and the five year net commission ratio of 4%.

Peer group analysis: underwriting profitability



The insurer's underwriting profitability generally measured above the peer group average over the review period. In this respect, the five year aggregated underwriting margin equated to 11%, compared to the peer group's margin of 8% over the corresponding period. This was largely a function of Tausi's higher technical performance, offsetting the relatively higher aggregated operating expense ratio (37%) relative to the peer group (28%).

Earnings profile

Premium scale

Gross premiums increased by 10% to KES1.1bn in FY17, measuring in line with expectations. Growth was largely supported by increases across all lines of business, barring engineering, personal accident, theft and miscellaneous (which contracted). In GCR's view, the insurer's growth is likely to range between 10% and 15%, which measures roughly in line with the three year CAGR of 10%, with strong growth targets likely to be moderated by strict underwriting disciplines.

Table 4: Premium scale (KES'm)	FY17	FY18	
	Actual	Budget	1H FY18*
GWP	1,061.1	1,080.0	751.3
NWP	731.5	638.0	516.8
Key ratios (%)			
GWP growth**	10.1	12.1	41.6
Retention	68.9	59.1	68.8

*Actual unaudited six months results to 30 June 2018.
**Annualised year to date results.

Market segment diversification

Tausi operates in the corporate segment. As such, all the gross premiums are sourced from corporate and industrial business. Management expects to gradually diversify in line with the revised strategic plan.

Distribution channel diversification

Brokers continued to dominate the gross premium base, contributing 73% in FY17 (FY16: 75%), with the largest broker accounting for 34% of gross premiums (four next largest combined account for 38%), implying an elevated degree of single intermediary concentration risk. The second largest source of business is independent agents, accounting for 25% of gross premiums in FY17 (FY16: 23%). The balance of revenue is sourced through direct sales and reinsurance inwards.

Policyholder concentration

GCR views policyholder concentration to be limited, with the five largest policyholders accounting for 9% of gross premiums in FY17 (FY16: 10%).

Earnings diversification by lines of business

Table 5: Earnings diversification (%)	GWP		NWP		Retention	
	FY16	FY17	FY16	FY17	FY16	FY17
Engineering	5.5	4.1	1.6	1.4	19.7	23.0
Fire -domestic	4.0	3.8	4.0	4.0	70.9	72.9
Fire - industrial	21.2	25.0	5.3	7.0	17.6	19.2
Liability	1.3	1.3	1.7	1.8	90.4	93.5
Marine	11.5	12.3	11.6	12.2	70.6	68.6
Motor - private	15.6	14.6	21.9	20.8	98.3	98.7
Motor-commercial	9.3	9.1	13.0	13.0	98.4	98.8
Pers. Accident	1.5	1.2	2.0	1.5	92.0	88.6
Theft	11.7	10.4	15.2	13.5	90.8	89.4
Workmen's comp.	14.9	15.7	20.4	22.3	95.4	98.2
Miscellaneous	3.5	2.5	3.2	2.4	62.9	66.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**69.8**	**68.9**

The business profile, although well balanced across the various classes, is constrained by the comparatively limited gross premium base in absolute terms. Management expects premium diversification to remain high, while focussing on growing the premium base.

- *Motor*: The gross premiums for motor grew by KES12m to KES251m in FY17. As such, motor accounted for a relatively stable 24% of gross premiums in FY17 (FY15: 25%). Management expects motor volumes to continue to grow over the medium term, albeit projected to range between 25% and 30% of gross premiums.
- *Fire*: Fire gross premiums increased by 17% to KES306m in FY17, supported by the acquisition of

new business. As such, fire represented a higher 29% of gross premiums in FY17 (FY16: 25%). Fire premiums are expected to expand further over the medium term.

- *Workmen's compensation*: The gross premiums for workmen's compensation amounted to a higher KES166m in FY17 (FY16: KS144m). As such, this class represented a slightly higher 16% of gross premiums in FY17 (FY16: 15%).
- *Medical*: Medical business (which was historically included in miscellaneous) is expected to amount to increase in FY18 (FY17: KES7.4m; FY16: KES8.2m).

Risk premium diversification

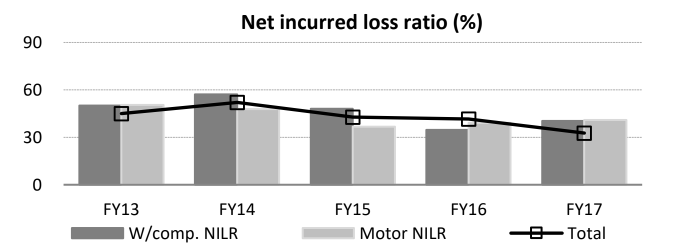
The risk base is fairly well spread, with three lines of business contributing materially. The motor book contributed 34% of net premiums in FY17 (FY16: 35%). Workmen's compensation represented a higher 22% of net premiums in FY17 (FY16: 22%), while marine accounted for a stable 12% of NWP. As such, GCR views product risk to be fairly limited. The premium retention rate equated to 69% in FY17 (FY16: 70%; review period average: 66%).

Earnings capacity

Financial performance

A five year financial synopsis of the IFRS performance of Tausi is presented at the end of this report. The 2017 financial statements were audited by PKF Kenya, and an unqualified opinion was issued.

Claims experience analysis



The insurer's net incurred loss ratio is viewed to positively impact on earnings capacity, given the competitiveness of the ratio. In this respect, Tausi's five year aggregate net incurred loss ratio equated to 42% (FY17: 33%; FY16: 42%). Cognisance is taken of the lower loss ratio in FY17, which was largely due to a change in accounting of certain costs. Retrospectively applying the same principle, the prior year net incurred loss ratio reduces to 35% (FY15: 38%).

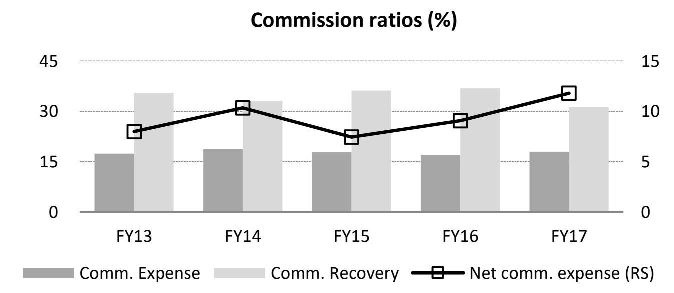
Table 6: U/w profitability (%)	NILR		Total exp. ratio*		U/w margin*	
	FY16	FY17	FY16	FY17	FY16	FY17
Engineering	49.0	19.2	(3.7)	58.0	54.7	22.8
Fire -domestic	120.4	9.5	56.8	59.5	(77.3)	31.0
Fire - industrial	57.5	28.5	(3.0)	81.7	45.4	(10.2)
Liability	21.2	14.2	55.2	60.1	23.5	25.7
Marine	44.7	31.7	69.9	67.0	(14.7)	1.3
Motor - private	44.5	37.8	15.4	46.3	40.1	15.9
Motor-commercial	29.9	45.8	36.7	39.5	33.4	14.7
Pers. Accident	9.8	8.7	45.5	45.8	44.6	45.5
Theft	35.4	21.9	43.6	50.9	21.0	27.2
Workmen's comp.	34.6	40.4	48.5	47.4	16.9	12.2
Miscellaneous	24.8	(3.8)	97.5	88.7	(22.3)	15.1
Total	**41.6**	**32.7**	**39.7**	**53.1**	**18.7**	**14.3**

*Excludes unallocated expenses amounting to KES17m in FY17 (FY16: KES29m).

- *Motor*: The net incurred loss ratio for motor registered at 41% in FY17 (FY16: 39%; FY15: 37%), albeit remaining lower than the review period average of 43%. Management expects the net incurred loss ratio to increase, although it is likely to remain within a competitive range, due strict underwriting disciplines.
- *Workmen's compensation*: Net claims incurred amounted to a higher KES71m in FY17 (FY16: KES46m), on the back of increased frequency in claims. As such, the net incurred loss ratio, equated to a higher 40% in FY17 (FY16: 35%), measuring below the review period average of 46%.
- *Theft*: The net incurred loss ratio for theft registered at a lower 22% in FY17 (FY16: 35%), measuring well below the review period average of 40%. The lower loss ratio was due to favourable claims experience.

Management expects the net incurred loss ratio to register at 34% in FY18, which would be roughly in line with the three year average ratio of 35%. In GCR's view, the net incurred loss ratio is likely to increase, as a function of growth (especially in medical business). Nonetheless, the metric could remain within a comparatively competitive range over the medium term.

Net commission expenses



The net commission expense ratio equated to a higher 12% in FY17 (FY16: 9%), measuring above the review period average of 9%. In GCR's view, the net commission expense ratio is likely to remain within a similar range, on the back of growth in competitive product fields.

Operating expense analysis

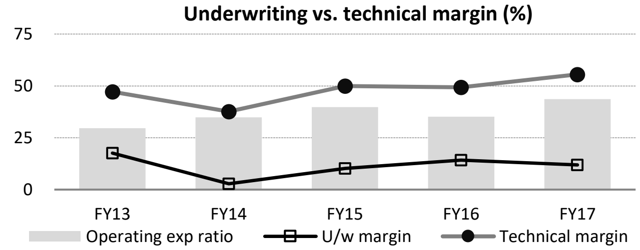
Table 7: Operating expenses	FY15	FY16	FY17
Operating expenses (KES'm)	223.1	221.7	324.5
Operating expense ratio (%)	39.7	35.2	43.6

Operating expenses amounted to a higher KES325m in FY17 (FY16: KES222m), which was significantly above budget expectations of KES265m. The higher operating expenses was largely impacted by the change in accounting of certain expenses. GCR expects operating expenses to continue to increase in absolute terms as the company remains focused on growth. This notwithstanding, the operating expense ratio is expected to moderate over the longer term, supported by increased scale efficiencies.

Underwriting result analysis

Technical profitability registered within a strong range, supported by the competitive net incurred loss ratio. In this respect, the five year technical profits cumulatively amounted to KES1.2bn (five year aggregate technical margin: 45%). Resultantly, the insurer recorded strong underwriting margins over the review period. The five year aggregate underwriting margin equated to 11% (FY16: 14%; FY15: 10%).

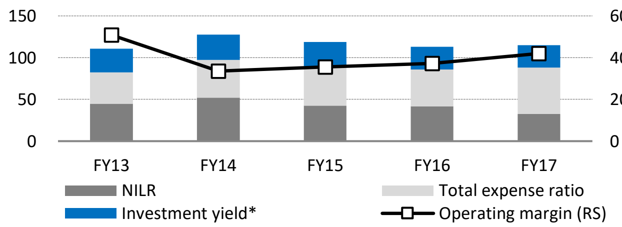
Underwriting vs. technical margin (%)



GCR expects the insurer to achieve moderately strong underwriting profitability over the rating horizon (with margin ranging between 4% to 7%), supported by the insurer's underwriting philosophy and demonstrated profitability track record.

Operating analysis

Operating profit drivers (%)



*Investment income as a proportion of net earned premiums.

Earnings capacity is further supported by healthy investment income. In this respect, investment income (inclusive of fair value gains) amounted to KES224m in FY17 (FY16: KES146m), with the majority of investment income being derived from interest receipts from government bonds and short term deposits. As such, the investment yield (including unrealised gains) equated to a higher 17% (FY16: 10%; review period average: 14%), while the operating margin registered at a strong 42% in FY17 (FY15: 37%; five year operating margin: 40%). Operating profitability is likely to remain within a strong range, supported by sound investment income and healthy underwriting performance.

Net profitability

Table 8: Financial performance (KES'm)	FY17		FY18
	Actual	Budget	1H FY18*
NPE	**744.0**	**638.0**	**380.2**
Claims	(242.9)	(249.0)	(124.8)
Commission	(87.7)	(63.8)	(42.9)
Operating expenses	(324.5)	(265.2)	(218.4)
U/w result	**88.9**	**60.0**	**(6.0)**
Realised investment income	200.4	183.0	92.9
Unrealised income	23.3	(28.4)	(3.3)
Other income/(expenses)	0.4	0.0	0.0
Tax	(64.0)	(92.2)	(16.5)
NPAT	**248.9**	**122.4**	**67.1**
Other comprehensive income	59.8	0.0	(1.1)
Total comprehensive income	**308.7**	**122.4**	**66.0**
Key ratios (%)			
Commission ratio	11.8	10.0	11.3
Operating expense ratio	43.6	41.6	57.5
U/w margin	11.9	9.4	(1.6)
Op. margin	38.9	38.1	22.9

*Actual unaudited six months results to 30 June 2018.

Net income after tax amounted to KES249m in FY17 (FY16: KES172m). Accordingly, ROaE equated to a strong 21% in FY17 (FY16: 16%), measuring roughly in line with the review period average of 19%. The insurer's net profit after tax is likely to remain solid, supporting a strong ROaE.

Reinsurance

Reinsurance counterparties

The insurer's reinsurance management strategy stipulates that the company will only place its business with reputable and financially strong reinsurers. In this respect, the aggregated counterparty strength is viewed to be strong.

Reinsurance structure

The structure of the 2018 reinsurance programme remained largely unchanged. Tausi's maximum net deductible equated to KES50m per risk and event, equating to 5% of FY17 capital. Accordingly, the maximum net retention is viewed to be limited to a moderate level relative to capital.

Reinsurance account

Table 9: Reinsurance account (KES'm)	FY14	FY15	FY16	FY17
Earned premiums ceded	(288.0)	(318.0)	(290.5)	(329.6)
Claims recovered	177.1	66.1	58.8	46.7
Commission recovered	95.5	115.1	107.1	102.8
Net earned transfer	**(15.4)**	**(136.8)**	**(124.6)**	**(180.1)**
Key ratios (%)				
Tausi tech. margin	37.6	49.9	49.3	55.6
Reinsurance tech. margin	5.3	43.0	42.9	54.6
Reinsurance commission ratio	33.2	36.2	36.9	31.2
Reinsurance loss ratio	61.5	20.8	20.2	14.2

Tausi cumulatively transferred KES457m to reinsurers over the last four years. This translated into a four year reinsurance technical margin of 37%, which compares with Tausi's technical margin of 49% over the same period.

Asset management

Investment strategy

Table 10: Investments	FY16		FY17	
	KES'm	%	KES'm	%
Cash on-hand	14.5	0.9	22.5	1.3
Short term deposits*	214.6	13.9	363.3	20.6
Govt. securities available for sale	89.4	5.8	99.1	5.6
Cash and equivalents	***318.5***	***20.6***	***484.9***	***27.5***
Govt. securities held to maturity	919.7	59.4	878.8	49.8
Interest securities	21.7	1.4	14.4	0.8
Shares-Listed (ordinary)	190.6	12.3	236.9	13.4
Loans/Mortgages**	98.2	6.3	148.2	8.4
Non-cash investments	***1,230.2***	***79.4***	***1,278.3***	***72.5***
Total investments	**1,548.8**	**100.0**	**1,763.2**	**100.0**

*Included in short term deposits in FY16 is KES3.5m which was held under lien with National Industrial Credit Bank Limited. The amount was redeemed in 1Q FY17.
**Of this amount 12% pertained to related parties in FY17 (FY16: 8%).

The insurer employs a conservative investment strategy, with the portfolio predominantly comprising of cash and equivalents, including government securities, with the balance pertaining to corporate bonds, listed shares and mortgages. The investment objectives include maximizing investment return at minimum risk, ensuring regulatory compliance and safeguarding the company's liquid assets against market fluctuations. Going forward, management expects the investment portfolio to remain heavily weighted towards liquid assets.

Cash generation

Cash and equivalents amounted to KES485m at FY17 (FY16: KES319m), supported by sound operating cash generation. As such, cash and equivalents, including government securities available for sale, equated to a higher 28% of total investments at FY17 (FY16: 21%). Inclusive of all government securities, liquid assets represented 77% of total investments (FY16: 80%). GCR expects cash flow generation to register within a sound range over the outlook horizon, supported by strict credit policies and healthy profit generation.

Investment counterparty exposure

Single counterparty placement registered at a higher 58% at FY17 (FY16: 34%). This was largely due to funds received during the last few days of 2017. Subsequently, funds were transferred to other financial institutions. Nonetheless, GCR views single banking counterparty concentration to be somewhat elevated. Cognisance is also taken of the relationship with Prime Bank Limited (which is the largest shareholder and an unrated financial institution). Banking counterparty aggregated credit strength is viewed to be limited by majority of funds placed with unrated financial institutions.

Liquidity

Table 11: Adjusted key liquidity ratios*	FY15	FY16	FY17
Claims cash coverage (months)	54.4	56.7	67.4
Cash / Net technical liabilities	1.6	1.7	1.9

*Includes all government securities.

Key liquidity measures remained strong, as evidenced by the very high claims cash cover and net technical provision cover metrics of 67 months and 1.9x respectively as at FY17 (FY16: 57 months and 1.7x). GCR expects key liquidity measures to remain at strong levels, supported by healthy operating cash flow generation, conservative asset allocation and well contained dividend distributions.

Equities

Listed equities amounted to KES237m at FY17 (FY16: KES191m), on the back of fair value gains. The portfolio is spread across various counters in diverse sectors.

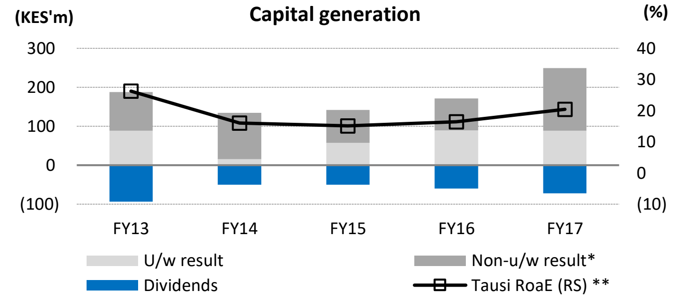
Premium receivables

Premium receivables amounted to a higher KES85m at FY17 (FY16: KES72m). Of this amount, approximately 5% was due from related parties (FY16: 19%; FY15: 40%). According to management not more than 15% of gross premiums have been outstanding since 2009 and all premium receivables are within 180 days. Management expects to maintain strict credit terms, as well as monitor collection processes going forward.

Capitalisation

Capital generation

Net profits after tax cumulatively amounted to KES884m over the review period, supporting healthy internal capital generation. Dividends amounted to KES326m, representing 37% of net income after tax. As such, capital increased to KES1.3bn at FY17 (FY16: KES1.1bn) from KES797m at FY13.



*Includes investment (realised & unrealised), other income/(expenses) and tax.
**Includes unrealised movements.

Risk adjusted capital adequacy

risk adjusted capitalisation remained very strong, supported by limited market risk exposures and relatively well contained insurance risks. While strong growth expectations may result in medium term risk adjusted capitalisation moderation, GCR expects capitalisation to register within a very strong range, supported by healthy internal capital generation and well contained dividend distributions.

Statutory coverage

The IRA proposed new capital requirements based on the expected risk based supervision model, with the requirements postponed to June 2020 from June 2018 for existing insurers and reinsurers. Based on the latest RBC computation, Tausi's capital adequacy requirement ("CAR") equalled KES369m at FY17 (FY16: KES317m), with eligible capital amounting to KES1.2bn (FY16: KES977m). Given that the risk based capital minimum requirement was lower than the minimum absolute value of KES600m, the MCR was used in the solvency computation. In this respect CAR coverage was 209% (FY16: 163%), which measures above the expected minimum requirement of 2x anticipated by June 2020. Management expects to sustain CAR coverage above the minimum, supported by sound internal capital generation and conservative asset allocation.

Reserving

Reserving

Table 12: Reserving (%)	FY13	FY14	FY15	FY16	FY17
UPR/NWP	42.4	36.7	33.9	34.6	30.1
(OCR + IBNR) / NWP)	89.1	100.1	90.8	74.7	68.8

The company's actuarial function is undertaken by internal resources. Furthermore, the company engaged an external actuary (Zamara Actuaries, Administrators and Consultants Limited) to test the adequacy of reserves, in line with IRA requirements. The unearned premium and outstanding claims reserves equated to 30% (FY16: 35%) and 69% (FY16: 75%) of NWP respectively at FY17.

Tausi Assurance Company Limited

(KES in millions except as noted)

Year end: 31 December		2013	2014	2015	2016	2017
Income statement						
Gross written premium		803.2	812.1	876.8	963.3	1,061.1
Reinsurance premiums		(279.8)	(288.0)	(318.0)	(290.5)	(329.6)
Net written premium (NWP)		**523.4**	**524.0**	**558.8**	**672.8**	**731.5**
(Increase) / decrease in insurance funds		(19.6)	29.6	3.1	(43.0)	12.5
Net premiums earned		**503.8**	**553.6**	**561.9**	**629.8**	**744.0**
Net claims incurred		(226.1)	(288.0)	(239.8)	(262.0)	(242.9)
Net commission expenses		(40.2)	(57.3)	(41.8)	(57.0)	(87.7)
Operating and other expenses		(148.8)	(192.8)	(223.1)	(221.7)	(324.5)
Underwriting profit / (loss)		**88.6**	**15.6**	**57.2**	**89.1**	**88.9**
Investment income		143.0	167.2	162.3	172.1	200.4
Unrealised investment income/(expenses)		24.6	3.0	(19.8)	(26.3)	23.3
Other income / (expenses)		3.3	0.5	0.5	1.9	0.4
Tax		(71.4)	(52.1)	(58.5)	(65.2)	(64.0)
Net income after tax		**188.1**	**134.2**	**141.6**	**171.6**	**248.9**
Other comprehensive income		67.6	(0.8)	21.3	(7.9)	59.8
Total comprehensive income		**255.7**	**133.5**	**162.9**	**163.7**	**308.7**
Dividend in respect of financial year		(93.8)	(50.2)	(50.2)	(60.0)	(72.0)
Balance Sheet						
Shareholders' interest		**797.2**	**880.4**	**993.0**	**1,097.2**	**1,334.0**
UPR		222.1	192.6	189.5	232.5	220.0
OCR & IBNR		466.3	524.3	507.4	502.7	503.0
Other liabilities		212.2	100.6	184.1	152.3	190.2
Total capital & liabilities		**1,697.9**	**1,697.9**	**1,874.1**	**1,984.6**	**2,247.2**
Fixed assets		243.7	243.1	295.6	289.1	320.8
Investments		808.0	730.9	956.9	1,230.2	1,278.3
Cash and equivalent		479.9	530.6	445.9	318.5	484.9
Other current assets		166.3	193.3	175.8	146.8	163.2
Total assets		**1,697.9**	**1,697.9**	**1,874.1**	**1,984.6**	**2,247.2**
Cash flow statement						
Cash available from operating activities		**272.2**	**126.6**	**271.7**	**308.7**	**312.7**
Tax paid		(72.2)	(95.0)	(37.7)	(66.0)	(77.6)
Dividends paid		(93.8)	(50.2)	(50.2)	(60.0)	(72.0)
Cash inflow / (outflow) from operating activities		**106.2**	**(18.6)**	**183.8**	**182.7**	**163.2**
Cash inflow / (outflow) from investing activities		**240.0**	**79.3**	**(261.8)**	**(295.1)**	**6.7**
Cash inflow / (outflow) from financing activities		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash inflow / (outflow)		**346.2**	**60.7**	**(78.0)**	**(112.4)**	**165.9**
Key ratios						
Operating ratios						
GWP Growth	%	10.5	1.1	8.0	9.9	10.1
Retention ratio	%	65.2	64.5	63.7	69.8	68.9
Net incurred loss ratio	%	44.9	52.0	42.7	41.6	32.7
Commissions expense ratio	%	8.0	10.3	7.4	9.1	11.8
Operating expense ratio	%	29.5	34.8	39.7	35.2	43.6
Total expense ratio	%	37.5	45.2	47.1	44.3	55.4
Underwriting margin	%	17.6	2.8	10.2	14.1	11.9
Combined ratio	%	82.4	97.2	89.8	85.9	88.1
Avg. premium debtors days	days	28.8	38.0	39.5	26.7	23.9
Solvency & liquidity						
International solvency margin	%	152.3	168.0	177.7	163.1	182.4
Outstanding claims/ NWP	%	89.1	100.1	90.8	74.7	68.8
Unearned premiums/ NWP	%	42.4	36.7	33.9	34.6	30.1
Claims cash cover	months	54.0	40.1	54.4	56.7	67.7
Cash coverage of technical liabilities	x	1.5	1.3	1.6	1.7	1.9
Investment return						
Investment yield (excl. unrealised gains/losses)	%	11.6	13.1	12.2	11.7	12.1
Investment yield (incl. unrealised gains/losses)	%	13.6	13.4	10.7	9.3	17.1
Profitability						
ROaE	%	26.3	16.0	15.1	16.4	20.5
Dividend cover	x	2.0	2.7	2.8	2.9	3.5

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

Accident	An unplanned event, unexpected and un-designed, which occurs suddenly and at a definite place.
Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
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.
Captive Insurance Company	A company owned solely or in large part by one or more non- insurance entities for the primary purpose of providing insurance coverage to the owner or owners.
Cash	Funds that can be readily spent or used to meet current obligations.
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.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
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.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
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.
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.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
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.
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.
Income Statement	A summary of all the expenditure and income of a company over a set period.
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.
Interest	Money paid for the use of money.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
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.
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 Retention	The amount of insurance that a ceding company keeps for its own account and does not reinsure.
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.
Preference Share	Preference or preferred shares entitle a holder to a first claim on any dividend paid by the company before payment is made on ordinary shares. Such dividends are normally linked to an interest rate and not determined by company profits. Preference shares are normally repayable at par value in the event of liquidation. They do not usually carry voting or pre-emptive rights. Preference shares can be redeemable or perpetual.
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.
Pool	An organisation of insurers or reinsurers through which particular types of risk are underwritten and premiums, losses and expenses are shared in agreed-upon amounts.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Preference Share	Preference or preferred shares entitle a holder to a first claim on any dividend paid by the company before payment is made on ordinary shares. Such dividends are normally linked to an interest rate and not determined by company profits. Preference shares are normally repayable at par value in the event of liquidation. They do not usually carry voting or pre-emptive rights. Preference shares can be redeemable or perpetual.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
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. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company.
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. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
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.
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.
Statutory Solvency Margin	Gives an indication as to whether the minimum regulatory solvency margin is being met, based on the net statutory assets to statutory net premiums ratio.
Technical Margin	Measures the percentage of net earned premiums remaining after accounting for claims and expenses incurred.
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.

For a detailed glossary of terms please click here

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; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Tausi Assurance Company Limited participated in the rating process via face-to-face management meetings, teleconferences 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 Tausi Assurance Company Limited.

The information received from Tausi Assurance Company Limited other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 December 2017
- Four years of comparative audited numbers
- Unaudited interim results to 30 June 2018
- Budgeted financial statements for 2018
- The current year reinsurance cover notes
- Statutory returns to 31 December 2017
- The Financial Condition Report to 31 December 2017, and
- Other related documents.

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