

## **GCR Affirms Coface South Africa Rating of AA+(ZA); Outlook Stable**

Global Credit Ratings (GCR) has affirmed the national scale rating assigned to Coface South Africa (Coface ZA) of AA+(ZA); with the outlook accorded as Stable.

GCR said Coface ZA's risk-adjusted capitalisation has been measured at moderately strong levels. Inclusive of the EUR7-million guarantee from Cofinpar, a 100% owned subsidiary of Compagnie Francaise d'Assurance pour le commerce Exterieur (Coface SA), which GCR views as offering financial flexibility in adverse operating conditions, capital adequacy increases considerably.

GCR expects capitalisation to remain at sound levels relative to expected Solvency Assessment and Management (SAM) parameters, supported by the capital management strategy in place and the insurer's targets of CAR coverage ranging between 1.5x and 1.8x.

GCR expects Coface's investment philosophy to remain prudent, holding a large portion of its assets in cash and equivalents to meet short term obligations and limit market risk. Coface ZA expects to align its investment strategy with Coface Group in 2H 2015, with diversification efforts expected to include corporate bonds, treasury bills, and money market instruments into the investment portfolio, from the pure cash holding.

Liquidity metrics have remained at strong levels, albeit trending downwards over the review period. Cash covered net technical liabilities by a strong 1.9x at FYE14 (FYE13: 2.5x; FYE12: 2.9x), and cash claims coverage remained high at 52 months. GCR expects liquidity metrics to remain within a moderately strong range.

“Reinsurance arrangements are placed internally with the Group, with the high degree of reinsurance support underpinning underwriting capacity. This is accompanied by the integrated relationship with the Group providing Coface ZA with technical expertise and operational platforms. Furthermore, the insurer benefits from business from key multinational clients sourced through the Group,” GCR said.

“Coface ZA has registered strong profitability over the review period, with an average net underwriting margin equating to 13%. Strong profitability has been supported by the insurer’s core capabilities in portfolio management and strict underwriting disciplines. In this regard, GCR views Coface ZA’s through-the-cycle profitability to be indicative of sustained earnings capacity going forward. Cognisance is, however, taken of the elevated margin volatility due to the inherent linkages to high variability in the broader credit cycle.”

“The business profile reflects strong competitive positioning, with the insurer’s market share remaining relatively stable around 15% over the review period. This is partly offset by the high product risk emanating from the monoline focus of trade credit insurance and the long tail nature of the portfolio.”

“The rating derives upliftment from the strong implicit support from Coface SA. This view is supported by high levels of strategic, branding and operational alignment, success in supporting Group objectives, and comparability of capital and risk management frameworks.”

“The stand-alone rating may be upgraded if Coface ZA’s business profile evidences material development (by way of increased market share and enhanced exposure diversification), while underwriting profitability is maintained. Furthermore, a strengthening in the insurer’s strategic status within the Group may lead to positive rating movement. Conversely, the rating may be downgraded if risk adjusted capitalisation and/or liquidity metrics deteriorate substantially. Negative rating action may also result on the back of a material negative revision to the rating of Coface SA, an amendment

and/ or withdrawal of the guarantee or a change in the strategic importance of Coface ZA within the Group,” GCR said.

**National Ratings history:**

Initial rating (August 2006)

Claims paying ability: AAA(ZA)

Outlook: Stable

Last rating (June 2014)

Claims paying ability: AA+(ZA)

Outlook: Stable

**About Coface**

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2013, the Group, supported by its 4,440 staff, posted a consolidated turnover of €1.440 billion. Present directly or indirectly in 98 countries, it secures transactions of over 37,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies’ payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.

In France, Coface manages export public guarantees on behalf of the French State.

[www.coface.com](http://www.coface.com)

Coface SA. is listed on Euronext Paris – Compartment A

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