



Fitch Rates Nova Sociedade de Seguros de Angola IFS 'B+'; Outlook Stable

Fitch Ratings-London-16 October 2015: Fitch Ratings has assigned Nova Sociedade de Seguros de Angola SA (Nossa) an Insurer Financial Strength (IFS) rating of 'B+'. The Outlook is Stable.

KEY RATING DRIVERS

Nossa's rating is driven by a weak operating environment, associated high investment risk, and by the insurer's small size and scale. These key rating weaknesses are offset by supportive capitalisation, sound profitability, an established franchise and a clear operating strategy.

The Angolan economy has weakened as a result of a sharp fall in oil prices. Its insurance market is small, and characterised by low penetration, a lack of understanding of the benefits of insurance products, and high barriers to entry in specific segments of the market. However, initiatives are under way to liberalise the energy sector, which previously only placed business with state-owned insurers.

Nossa's investment universe is limited to mainly speculative-grade assets. Moreover, the absence of secondary markets in Angola narrows the available set of liquid investments. As a result its investment portfolio is exposed to significant credit and concentration risk, despite Nossa's conservative investment strategy.

Nossa is the fifth-largest insurer in Angola by gross written premium (GWP), but is small in absolute terms (2014 GWP approximately USD52m). Its business mix is concentrated, with motor business accounting for 70% of GWP, but it has successfully started to diversify into life and non-life lines.

Capitalisation is supportive of the rating. Nossa's regulatory solvency margin compares favourably with peers, and it has maintained a margin of at least 115% of the minimum requirement for each of the past five years. Fitch expects this level to improve during 2015 mainly as a result of further profit retention.

Nossa's capitalisation is 'weak', as defined by Fitch's Prism factor-based capital model, and based on 2014 results. The biggest drivers of the model result are investment risk and concentration risk.

Overall profitability is sound, as indicated by Nossa's 2014 underwriting margin of 18.8% (2013: 0.7%). The margin improvement was driven by an improved claims ratio and sound expense management. As a result, net profit improved 84% in 2014 to AOA297m (2013: AOA162m), generating a return on equity of 18.1% (11.5%).

Nossa's experienced management team aims to instil strong governance, robust client service and best practice business processes into the insurance market, thereby distinguishing itself from competitors and building trust with clients. Fitch views this strategy as a potential differentiator in the highly under-developed Angolan insurance market.

Unlike all other liabilities, the annuity liability arising from workmen's compensation policies has an average duration of around 12 years. This significantly exceeds the duration of investible fixed interest assets available to Nossa. Fitch, however, believes that this liability is conservatively provisioned for, which partially offsets the risk arising from the duration mismatch.

RATING SENSITIVITIES

A downgrade could result from a failure by Nossa to successfully implement its growth strategy, indicated by a sustained decline in gross premiums, a Fitch-calculated expense ratio above 65% or a

significant decline in profitability.

A weaker operating environment, indicated by a contraction in the insurance market or a sovereign downgrade, could also result in a downgrade.

A downgrade in the ratings of Nossa's parent, Banco Angolano de Investimentos SA (BAI; B+/Stable), could result in a corresponding downgrade in the ratings of Nossa. This is because Nossa's IFS rating is at the same level as the IDR of both BAI and the sovereign. An upgrade of Nossa's rating is therefore unlikely.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Methodology (pub. 16 Sep 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=871172)

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Dodd-Frank Rating Information Disclosure Form
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