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African Trade Insurance Agency

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Table Of Contents

African Trade Insurance Agency

This report does not constitute a rating action.

Stand-alone credit profile	a	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	Strong	**Adequate**	Moderate	Weak	Very weak

Issuer credit rating

A/Stable/--

Credit Highlights

Issuer Credit Rating
Foreign Currency
A/Stable/--

Overview

Enterprise risk profile	Financial risk profile
Policy importance anchored by unique business model supporting private-sector development in Africa	'AAA' capital redundancy
Exceptional growth in shareholder membership and support from multilateral lending institutions	Increased stress in the region and potentially higher claim payouts balanced by stronger capital base
Consolidating risk management and resource management	Claim payouts in Zambia since 2020 have been fully recovered
Preferred creditor treatment historically weaker than peers, but stabilized	Exceptional liquidity

In recent years, African Trade Insurance Agency (ATI) has increased its market presence and growth membership. The agency increased equity to $516.3 million as of year-end 2021 and continued to demonstrate strong top-line growth, recording premiums of about $143 million. This growth has been supported by organic portfolio growth and underwriting deals in new countries. In the past three years, it has added 10 member countries and reached gross written exposure of $6.6 billion.

Weakening fundamentals in the region could lead to an uptick in claim payouts, although we expect members will uphold ATI's preferred creditor status. On Oct. 21, 2020, we lowered our foreign currency ratings on Zambia to 'SD' (selective default) following the suspension of debt service payments to external creditors, given liquidity difficulties compounded by the COVID-19 pandemic. ATI made two claim payouts during 2020, totaling $10.1 million, which were subsequently recovered from the government of Zambia, although the reimbursement of the second claim exceeded our 180-day threshold by a technical margin. Two claims were paid out during 2021 and recovered with 180 days, and another claim for $5 million was paid out in March 2022 and recovered in less than a month. We believe these actions demonstrate Zambia's willingness to uphold its preferred creditor treatment with the agency, particularly amid significant debt distress.

We expect ATI will maintain a balanced growth strategy with strong reinsurance usage and conservative risk management and underwriting standards. However, continuing to expand into new markets and countries will require a more sophisticated and integrated enterprise risk management (ERM) framework. The agency recently revamped its ERM framework and is operationalizing it into underwriting activities and throughout the organization.

Outlook

Our stable outlook reflects our view that despite stress in the region and past difficulties in the reimbursement of the Zambia claim, ATI members will remain committed to upholding the preferred creditor treatment (PCT) with the agency over the next 12-24 months. In addition, ATI will continue consolidating its role and relevance in Africa by steadily expanding its shareholder base and underwriting activities and by strengthening key managerial and risk functions that support growth.

Downside scenario

Continued economic stress in the region compounded by an uptick in claim payouts could weaken ATI's capitalization and lead to a downgrade over the next two years. We could lower the ratings if shareholder support weakens, such as a reemergence of diminishing preferred creditor status as indicated by unrecoverable claims from sovereign members within our 180-day recovery period. We could also lower the ratings if sovereign members do not uphold the immunity and privileges granted to ATI as a multilateral institution.

Additionally, any relaxation of its risk constraints or lag between the agency's revamp of its enterprise risk management framework and its growing underwriting business could pressure the rating.

Upside scenario

We believe the likelihood of an upgrade over the next two years is remote. However, significant expansion of the shareholder base, supporting an exceptional market reach in the region, and a combination of a solid record of PCT with the development of superior risk management capabilities would point to strengthening credit fundamentals.

Environmental, Social, And Governance

Because it underwrites projects in Africa, ATI is exposed to material natural disaster risk through its member countries. Much of its exposure is concentrated in Cote d'Ivoire, Benin, and Kenya, where climate effects have had less impact on the buildings and infrastructure. These countries made up 37% of gross exposure and 29% of net exposure (after reinsurance) in 2021.

ATI's underwriting activities are in sectors that could carry higher risk: 34% of its gross exposure is in the financial and insurance sector, 14% in energy and gas, and 30% in construction. Given its business model, ATI is less able to exercise oversight over the emerging environmental and social risks in the projects it underwrites.

However, it's in-house environmental, social, governance (ESG) framework for assessing those risks was approved by key partner institutions like KfW Development Bank and the European Investment Fund (EIB). It also has built continuous monitoring provisions, particularly for higher-risk projects.

ATI's environmental and social risk policies and functions are less developed than other multilaterals. ATI hired a dedicated ESG officer and entered several partnerships that incorporate oversight that carries additional environmental and social requirements. ATI launched a liquidity facility for renewable energy, co-financed with the KfW Group, to support energy power producers that use renewable technology.

The Africa Energy Guarantee Facility, a risk-sharing platform launched with the EIB, provides up to $1 billion in reinsurance capacity for sustainable projects and requires that projects comply with the EU's sustainable energy criteria.

ATI's governance and management assessment has a neutral effect on the rating. Although governance is limited by the concentration in African member countries with lower governance rankings, on average, we view the management and financial risk frameworks as robust.

Given ATI's fast-growing portfolio and expanding reach, more sophisticated risk management capabilities will be important, and we believe it has made strides to enhance its risk management framework.

Rationale

Enterprise risk profile: Strong

Policy importance: Growing membership base and increased market reach support strong policy importance. ATI's mission is to provide political risk (noncommercial) and export credit guarantee (commercial) insurance to support trade and investments in its African nation-state members. ATI was established by treaty in 2001 with the support of the World Bank to help reduce the risks and costs of doing business in Africa. The agency has also recently introduced commercial surety bonds to its products. In line with similar multilateral institutions, it is exempt from corporate income taxation.

ATI has a key competitive advantage in that the ability of private credit insurer competitors to fulfill their role in the region is limited given ATI's preferred creditor status afforded by member governments. ATI's statutes affirm the obligation of member governments to reimburse the institution for claims resulting from actions or inactions of sovereigns and subsovereigns, as well as noncommercial claims. This has eased competition and allows ATI to enter reinsurance arrangements with other international credit risk and political risk insurers.

ATI has grown its shareholder base from seven initial member states to the current 20. Over recent years, the agency received paid-in capital from Chubb, Ghana, Nigeria, Togo, Niger, and Spanish Export Credit Agency and received capital increases from Côte d'Ivoire and Madagascar for a total of $68 million. India's Export Credit Guarantee Corp. joined with a $12 million equity contribution. More recently, Nigeria, Niger, Cameroon, and Senegal completed their memberships and Benin and Togo increased their share capital in ATI. Regional and nonregional sovereign members as well as development institutions continue to show interest in joining.

As evidenced by the growth in new members, ATI's strength and relationship with shareholders are a pillar of our rating. However, on May 20, 2019, George Otieno (then CEO) filed a constitutional petition against ATI challenging the expiry of his fixed-term employment contract in the Employment and Labour Relations Court at Nairobi. While we expect that the Kenyan government and its court system will ultimately uphold ATI's right to immunity from legal jurisdiction (including personnel matters), an unfavorable outcome could weigh on our assessment of ATI.

While ATI was founded with the technical and financial support of the World Bank and IDA, other institutions have also supported the agency by extending financing to ATI's new member states. More recently, the African Development Bank Board loaned $14.2 million to support Nigeria's membership with ATI. KfW provided $17.6 million for Ghana to become a full member, a $6.5 million grant for capital increases of Côte d'Ivoire, and a $5.9 million grant for capital increases of Madagascar.

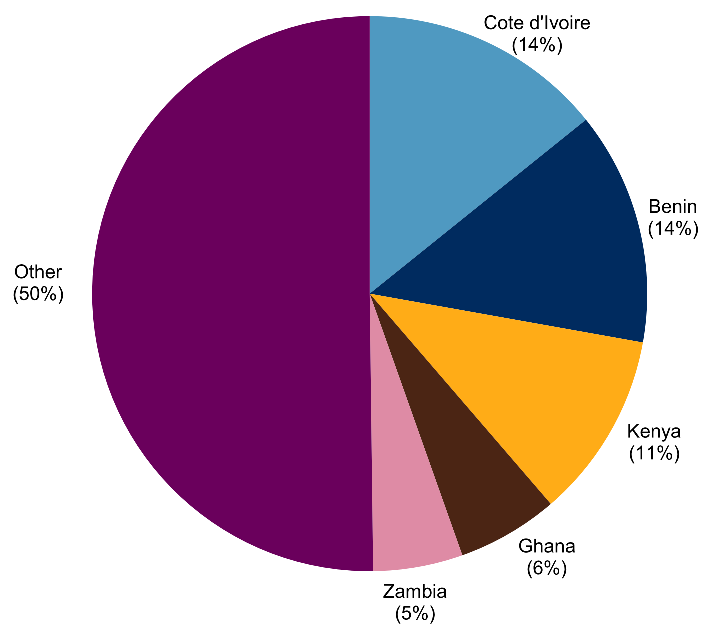
The EIB has provided an additional $25 million in grants to fund the shareholding of Cameroon and Togo with $12.5 million in equity investment for each country.

This funding support has facilitated ATI expanding into new markets and countries and forging deals alongside other multilateral lending institutions (MLI) and institutional investors. Gross exposure was $6.6 billion in 2021, up from $6.3 billion in 2020. The agency increased its presence in non-member countries, although these are limited to strategic deals with prospective members and projects on a commercial basis. Net exposure contracted by 4% to $0.93 billion in 2021.

Approximately 76% of gross exposure is noncommercial, which includes sovereign nonpayment risk, political risk insurance (PRI), and subsovereign underwriting. The remaining 24% of gross exposure is commercial risk.

Chart 1

ATI--Five Largest Countries By Gross Exposure
As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

ATI has generally been able to demonstrate PCT and fully recover from its respective member states. During 2016 and 2017, ATI had rising sovereign claims that were not recovered within the 180-day recovery period we consider in our criteria. However, as of today, they have all been recovered, including an outstanding claim from the Tanzanian government of US$4.2 million that was deducted from the country's capital contributions and has now been reinstated.

ATI made various claim payouts in Zambia between 2020 and 2021, which were subsequently reimbursed. During 2020, ATI made two claim payouts in August and September for a total of $10.1 million. Zambia committed to reimbursing the two claims within the 180-day threshold, making the first payment in February 2021 and the final payment in March 2021, which exceeded the time frame by a technical margin. A third claim of $5.1 million was paid in May 2021 and recovered in July 2021 and a fourth claim of $5.1 million was paid in August 2021 and fully recovered in November 2021.

We believe this pattern indicates the challenges Zambia was facing amid deep debt distress and does not pose additional risk to the agency's PCT, despite an additional claim payout during 2022 for $5 million, which was recovered in less than a month. Our calculated PCT arrears ratio is close to 6%, which reflects the reimbursement delays occurring within our 10-year lookback period.

ATI has proactively reinforced its preferred creditor status through a series of measures. It introduced mandatory notifications and no objection requests for PRI transactions and a sanctions regime involving interest charges on payment delays exceeding 180 days. In addition, ATI has strengthened strategic partnerships with members by hiring a full-time membership liaison officer and engaging ministers of finance.

We expect that ATI will manage recoveries on sovereign claims and maintain a stable PCT ratio. This is crucial to its business and competitive advantage over other insurers in the region, and a key factor to its policy importance underpinning the rating.

Governance and management expertise: We view the shareholder structure as potentially vulnerable to agency risk. Most of ATI's shareholders are from African member countries, which have lower average World Bank indicators on governance effectiveness compared with other MLI peers.

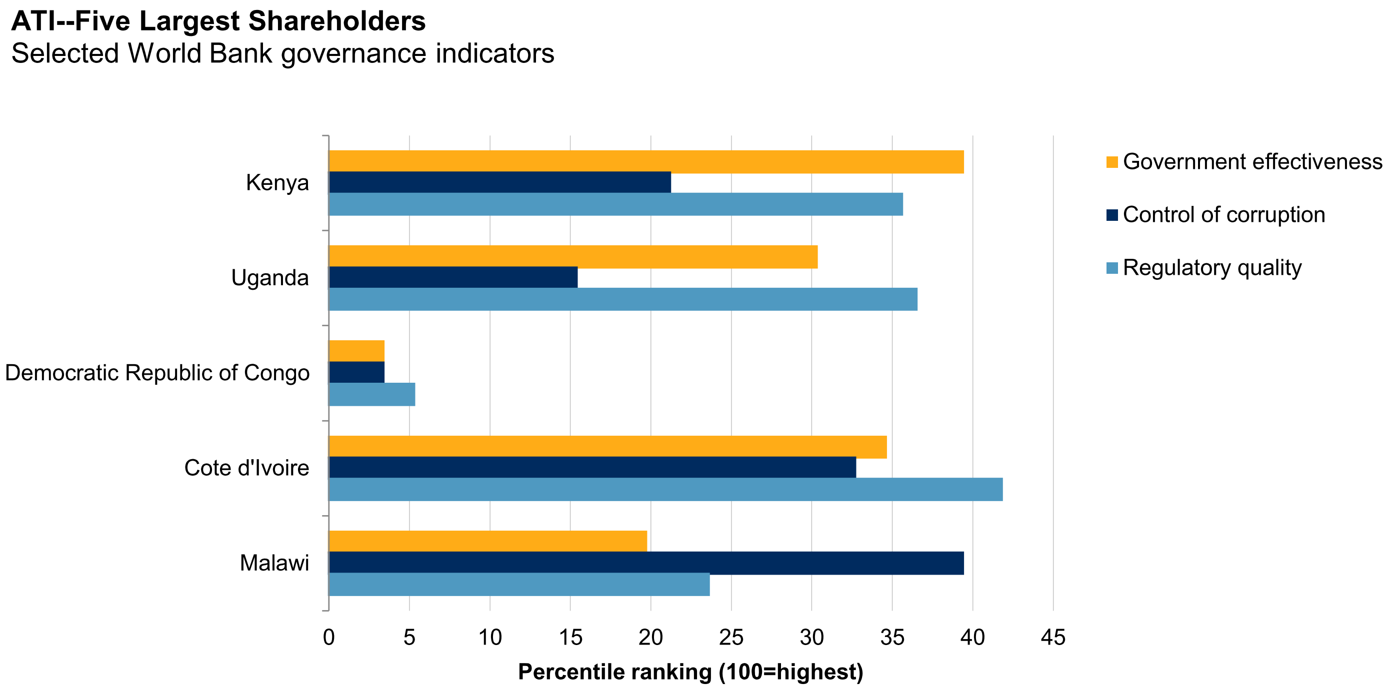
As of Dec. 31, 2021, the largest shareholders were:

- Kenya (8%),
- Benin (7%),
- Togo (7%), and
- Uganda (6%).

Although no shareholder is dominant, we consider that a majority of shareholding from countries with lower governance standards potentially creates risks to ATI during a crisis.

ATI has private-sector shareholders representing less than 13% of voting rights. Although the percentage is small, private shareholders could dilute its developmental mandate. Other shareholders typically have a developmental mandate that carries over to ATI. For instance, the African Development Bank is the largest non-sovereign shareholder, with 4% of the shares.

Chart 2



Source: https://databank.worldbank.org/source/worldwide-governance-indicators

We view ATI's management as appropriately skilled and having a sufficient track record in operating the business at the current business volumes. The management team is small, and some key man risks exist, but these are commensurate with an entity of this size.

ATI continues to hire key personnel to support its risk management capabilities congruent with its growth trajectory, despite recent turnover. The CFO left the agency, and the positioned was filled in September 2021. The CRO left the agency in March 2022, although we expect this position to be filled promptly. In December 2020, the newly appointed CEO, Manuel Moses, assumed his post in ATI. Manuel brings extensive financial experience working with the World Bank's IFC.

We view key risk controls within ATI's risk management framework as sufficient and the controls appropriate for its key underwriting and investment risks, considering the size of the entity. ATI approved a revised enterprise risk management framework in December 2021 and incorporated an environmental and social risk framework. The agency is operationalizing the revamped ERM framework into its underwriting activities. The maximum net exposure is 5x equity, although ATI's net exposure position is 1.8x as of fiscal year 2021.

In June 2021, ATI directors recommended a US$9.9 million dividend for the year. ATI said this policy will help shareholders service loans related to their ATI share acquisitions. Dividend policy in the agency's agreement requires that all liabilities be provisioned before making any distributions. We recognize most shareholders typically reinvest the dividend back into the organization.

Financial risk profile: Adequate

Capital adequacy: Robust capitalization combined with exceptional liquidity. In our view, ATI has strong capital and earnings, moderate risk exposure, and exceptional liquidity.

ATI's equity increased to $516.3 million as of year-end 2021, and the agency demonstrated strong top-line growth, recording gross premiums of about $144 million, compared with $126 million in 2020. This increase was supported by organic portfolio growth and underwriting deals in new countries. ATI posted net profit close to US$35 million in 2021, slightly below its $39 million in 2020, affected by lower interest income.

ATI's gross incurred-loss ratio remained subdued at 2.2% in fiscal year 2021 (was 27% in 2020), given the full recovery of the Zambian claim. ATI has managed to mitigate rising credit pressures, given the economic impact of COVID-19 in the region and low claims ratio. Favorably higher commissions remained supportive of the overall underwriting result, in lieu of portfolio growth and top-line expansion.

Currently, there are no sovereign claims outstanding. If a claim were to be paid, we would expect preferred creditor status to be withheld. We believe noncommercial claims could increase as debt distress and macroeconomic challenges remain, although ATI is robustly capitalized to absorb this risk.

Both commercial and noncommercial risks are protected in part by appropriate reinsurance, both treaty and facultative, with net exposure at $0.9 billion in 2021.

We view ATI's liquidity as robust. In our view, liquid assets will remain generously in excess of the likely and stressed claim outflow.

Extraordinary Shareholder Support

We give no credit for extraordinary shareholder support because all capital is paid in.

ATI--Selected Indicators

(US$000s)	2021	2020	2019	2018	2017	2016	2015	2014
Summary balance sheet								
Assets								
Bonds	409,482	357,977	253,857	212,324	196,253	139,794	126,382	136,276
Cash deposits	142,315	114,814	128,343	81,625	55,040	73,246	54,353	63,328
Other investments	36,026	6,765	27,100	11,439	20,380	9,495	18,695	-
Total invested assets	587,823	479,556	409,300	305,388	271,673	222,535	199,430	199,604
Other assets	179,921	217,053	190,876	114,058	58,932	72,084	35,364	17,330
Total assets	767,744	696,609	600,176	419,446	330,605	294,619	234,794	216,934
Liabilities								
Technical reserves	180,938	221,355	191,000	112,283	61,054	63,818	31,698	21,418
Other liabilities	70,555	64,469	59,997	44,891	27,387	22,517	16,923	14,906
Total liabilities	251,493	285,824	250,997	157,174	88,441	86,335	48,621	36,324
Shareholders' equity								
Common equity	408,855	328,397	299,321	237,110	226,452	202,482	181,881	180,981
Retained profit balance sheet	107,396	82,388	49,858	25,162	15,712	5,802	3,392	(1,271)
Other capital	-	-	-	-	-	-	900	900

ATI--Selected Indicators (cont.)								
Total shareholders' equity	516,251	410,785	349,179	262,272	242,164	208,284	186,173	180,610
Selected indicators								
Gross exposure	6,626,852	6,262,406	6,449,273	4,786,842	2,391,438	1,945,681	1,690,910	1,262,174
Net exposure	933,627	968,386	1,073,640	1,006,804	877,999	870,485	744,268	600,439
Total assets	767,744	696,609	600176	419446	330605	294619	234794	199,604
Total shareholders' equity	516,251	410,785	349179	262,272	242,164	208,284	186,173	180,610
Gross premiums written	143,534	125,612	111,892	66,154	44,792	29,545	23,256	17,131
Net premiums written	19,437	18,572	18,649	11,718	14,056	12,779	10,162	7,929
Net premiums earned	19,351	19,520	18,061	12,806	13,868	11,587	8,671	7,590
Reinsurance utilization (%)	87	84	84	82	69	57	56	54
EBIT	34,870	39,578	28,534	12,029	10,001	2,496	4,746	3,531
Net income (attributable to all shareholders)	34,870	39,449	27,678	11,927	9,910	2,410	4,663	3,439
Return on revenue (%)	142.9	145	109	63.4	51.8	16.8	41.1	N/A
Return on shareholders' equity (reported) (%)	7.5	2.3	9	4.7	4.4	1.2	2.5	N/A
P/C: net combined ratio (%)	N.M.	N.M.	N.M.	51.0	63.9	85.2	74.2	84
P/C: net expense ratio (%)	N.M.	N.M.	N.M.	10.7	30.1	35.2	50.6	55
Net investment yield (%)	1.1	2.0	1.9	1.9	1.4	1.3	1.3	N/A
Liquidity ratio from capital model (%)	426	345	291	277	259	200	179	N/A
Commercial exposures (%)	76	76	74	N.A.	N.A.	N.A.	N.A.	N.A.
Non-commercial exposure (%)	24	24	26	N.A.	N.A.	N.A.	N.A.	N.A.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Ratings Score Snapshot

Enterprise Risk Profile	Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	**Strong**	Adequate	Moderate	Weak		
Governance and Management	Strong	**Adequate**	Weak				
Financial Risk Profile	Extremely strong	Very strong	Strong	**Adequate**	Moderate	Weak	Very weak
Capital Adequacy	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	Strong	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Understanding S&P Global Ratings' Rating Definitions, June 3, 2009

Related Research

- Supranationals Special Edition 2020 Says Multilateral Lenders Are Addressing Challenges From COVID-19, Oct. 20, 2020
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 21, 2020
- Introduction To Supranationals Special Edition 2020, Oct. 20, 2020
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020
- Supranationals Special Edition 2019: Report Says MLIs Are Focusing On Sustainable Development Goals , Oct. 25, 2019
- Supranationals Special Edition 2019: Comparative Data For Multilateral Lending Institutions, Oct. 17, 2019
- Introduction To Supranationals Special Edition 2019, Oct. 17, 2019

Ratings Detail (As Of May 18, 2022)*		
African Trade Insurance Agency		
Financial Strength Rating		
Local Currency		A/Stable/--
Issuer Credit Rating		
Foreign Currency		A/Stable/--
Financial Enhancement Rating		
Local Currency		A/--/--
Issuer Credit Ratings History		
19-Mar-2021	*Foreign Currency*	A/Stable/--
25-Jan-2021		A/Watch Neg/--
14-Mar-2018		A/Stable/--

Ratings Detail (As Of May 18, 2022)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.