MOODY'S
INVESTORS SERVICE

CREDIT OPINION

7 October 2021

Update

Rate this Research

RATINGS

The African Trade Insurance Agency

Domicile	Upperhill, Kenya
Long Term Rating	A3
Type	Insurance Financial Strength - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Analyst Contacts

Brandan Holmes +44.20.7772.1605
VP-Sr Credit Officer
brandan.holmes@moodys.com

Massimo Campi +33.1.5330.3363
Associate Analyst
massimo.campi@moodys.com

Antonello Aquino +44.20.7772.1582
Associate Managing Director
antonello.aquino@moodys.com

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The African Trade Insurance Agency

Update to credit analysis

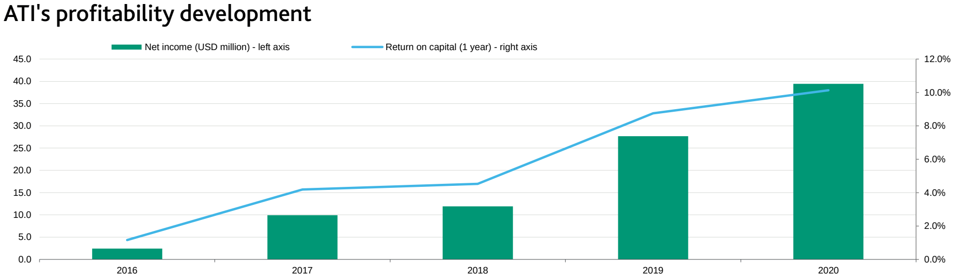
Summary

The African Trade Insurance Agency's (ATI) A3 IFS rating reflects its strong capitalization and liquidity relative to its insured exposures, high quality and conservative investment portfolio, strong relationships with a number of global reinsurers that provide significant risk-bearing capacity, good market position and reputation in originating credit and political risk insurance on a pan-African basis, and playing a key role in facilitating investment into Africa, and strong underwriting profitability. In addition, Moody's noted that ATI benefits from preferred creditor status (PCS) with all of its member sovereigns, which moderates its exposure to defaults on a large portion of its portfolio.

These strengths are partially offset by the high risk nature of its insured exposures and the related weak operating environments, currently exacerbated by coronavirus-related pressure on some member state economies, and limited direct access to capital markets and dependence on low-rated sovereign members for access to additional funding in case of need. However, large development finance institutions routinely fund membership contributions for new member sovereigns, demonstrating ATI's financial flexibility despite its lack of direct access to capital markets. The recent strong growth in its membership base has led to greater diversification of exposures, higher capital and a strengthened market position.

ATI's profitability has improved in recent years due to growth in its portfolio and stronger underwriting controls on commercial business, with return on capital improving to approximately 10.1% in 2020 (exhibit 1). While ATI has thus far not experienced a significant negative impact from coronavirus, the risk remains that ATI's profitability may be negatively impacted by stresses related to the pandemic and pressure on African economies, albeit that we expect its PCS and flexibility to reprofile transactions will limit the extent of credit impairments.

Exhibit 1
ATI's profitability development



Source: Company annual report, Moody's Investors Service

Credit strengths

» Strong capitalization and liquidity relative to its insured exposures, supported by preferred creditor status with member states

» High quality and conservative investment portfolio

» Strong and well-established relationships with a number of global reinsurers

» Good market position and reputation on a pan-African basis including significant cooperation with leading development finance institutions

» Strong underwriting profitability

Credit challenges

» The high risk nature of its insured exposures and the related weak operating environments, currently exacerbated by coronavirus-related pressure on member state economies

» Ensuring that its risk management infrastructure and capabilities keep pace with its growing portfolio and elevated risk environment

» Financial flexibility partially constrained by no established direct access to capital markets and reliance on member states for access to capital

Rating outlook

The outlook for ATI is stable, reflecting its strong capitalization and track-record of underwriting profitability, along with its growing importance in facilitating investment into Africa and our expectation that its PCS will be upheld by member states.

Factors that could lead to an upgrade

» Increased membership base and participation by larger African countries, that results in higher capitalization and greater portfolio diversification

» Continued demonstration of strong underwriting performance and ability to recover claims under the preferred creditor arrangements

» Enhancement of ATI's enterprise risk management framework and capabilities

Factors that could lead to a downgrade

» An increase in net insured portfolio leverage to be consistently above 5x shareholders' equity

» A sustained decrease in underwriting profitability, with combined ratios in excess of 90%

» Significant reduction in reinsurance availability or quality of reinsurers

» Evidence of difficulty in securing reimbursement of claims from member states through ATI's preferred creditor status, including deterioration in ATI's standing with member states

» A reduction in shareholders' equity of more than 10% over a one-year basis

Key indicators

Exhibit 2
Key financial indicators

The African Trade Insurance Agency [1][2]	2020	2019	2018	2017	2016
As Reported (US Dollar Millions)					
Gross Premiums Written	126	112	66	45	30
Net Premiums Written	19	19	12	14	13
Net Income (Loss) Attributable to Common Shareholders	39	28	12	10	2
Total Shareholders' Equity	411	349	262	242	208
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	3.8%	3.8%	3.2%	3.2%	3.6%
Reinsurance Recoverable % Shareholders' Equity	40.4%	38.5%	33.3%	14.9%	14.4%
Goodwill & Intangibles % Shareholders' Equity	0.4%	0.6%	0.7%	0.5%	0.6%
Net Total Exposure % Shareholders' Equity	2.4x	3.1x	3.9x	3.6x	4.2x
Net Underwriting Leverage (Credit Insurers)	9.6%	14.6%	10.5%	11.6%	13.0%
Combined Ratio (1 yr.)	14.4%	10.8%	24.0%	36.8%	50.3%
Sharpe Ratio of ROC (5 yr.)	157.7%	145.9%	191.2%	158.3%	NA
Adjusted Financial Leverage	2.0%	2.8%	3.6%	4.0%	5.5%
Total Leverage	2.0%	2.8%	3.6%	4.0%	5.5%
Earnings Coverage	235x	128x	78x	110x	29x

[1] Information based on IFRS financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Source: Moody's Investors Service and company filings

Profile

Established in 2001, ATI is a pan-African financial institution that provides credit and political risk insurance to companies, investors and lenders undertaking transactions in Africa. ATI, headquartered in Nairobi, Kenya, is a supranational organization, established by international treaty, and owned and governed by its members, predominantly a number of African sovereigns.

Detailed credit considerations

Insurance Financial Strength Rating

Market position: Good market position in Africa, driven by local expertise and strong relationships

ATI has a good market position in Africa, based on its scale and the depth and breadth of its underwriting penetration. In terms of scale and market share, while ATI is significantly smaller than the large global credit insurers, it is estimated to be one of the top five credit insurers in terms of African exposure. In addition, ATI benefits from significant local expertise and understanding in a number of African countries, and underwrites a range of exposures of varying sizes and industry sectors, demonstrating its solid expertise and strong relationships. This is supported by the fact that it is owned by a number of African sovereigns, which have an interest in supporting ATI's operations in their respective economies.

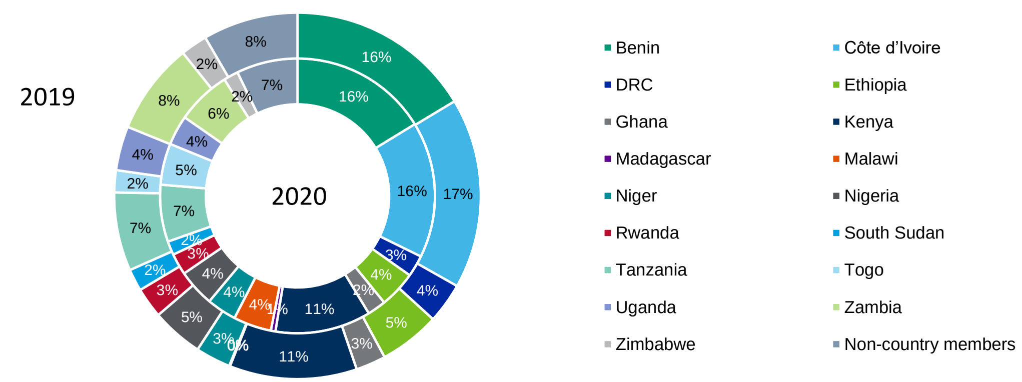
Notwithstanding its good position in the African market, its predominant focus on the region weakens its market position relative to its global credit insurance peers, that write business in a number of countries across the globe, and are therefore less exposed to competitive and market pressures in any one particular region. ATI has steadily added new member states to its ownership base, which serves to enhance ATI's relevance and further strengthen its market position. During 2019 and thus far in 2021, ATI added five new member states and three new institutional members, for a total of 19 member states and 12 institutional members. Capital contributions from new members supported growth in ATI's equity capital over that period, to $446 million at 30 June 2021, from $262 million at year-end 2018.

ATI's primary means of originating new insurance business is through direct interaction with insureds and intermediaries, such as lenders. ATI's strong relationships across the continent, and increasing membership base amongst African states support its direct origination strategy. In addition, ATI increasingly distributes through a number of insurance brokers, which provide access to transactions outside of ATI's direct relationships.

Product Risk and Diversification: High risk exposures moderated by good sector diversification

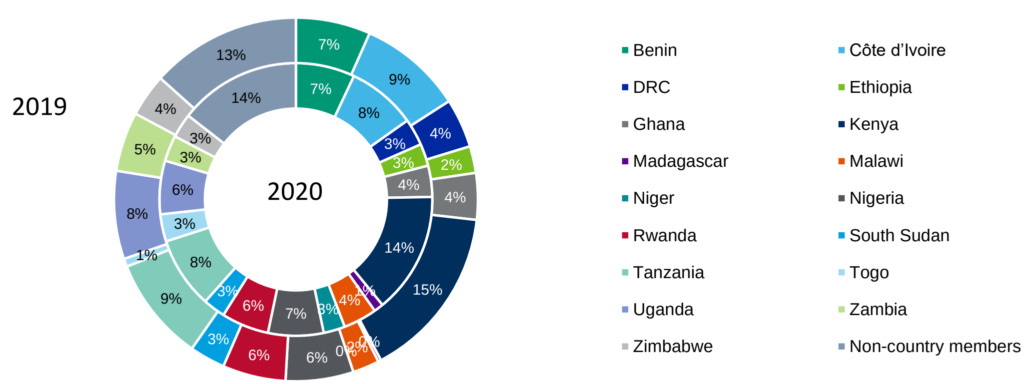
ATI's primary products are political risk insurance and medium-term credit insurance, with a small amount of traditional whole-turnover trade credit insurance, and political violence and terrorism risk insurance. It benefits from good diversification of exposures by industry sector and geography, although geographic diversification is constrained by its focus on Africa, where Benin is its highest country exposure at 16% of total gross exposure in 2020. ATI has only modest exposure to non-member states, which accounted for 7% of gross exposure at year-end 2020, down from 10% at year-end 2019. ATI does not benefit from PCS with respect to non-member state exposures, and therefore relies more heavily on facultative reinsurance to manage these exposures. At year-end 2020, its net insured exposures (net of reinsurance) represented approximately 15% of its total $6.3 billion gross exposures, within the portfolio leverage limits. Gross exposure had grown to $6.5 billion at 30 June 2021, with net exposure remaining constant at $970 million. Over time, as ATI expands its member base, we expect it to benefit from increased geographic diversification.

Exhibit 3
ATI's gross exposures in 2019 and 2020



Source: Company filings, Moody's Investors Service

Exhibit 4
ATI's net exposures in 2019 and 2020



Source: Company filings, Moody's Investors Service

We evaluate product risk as being high, due to the high-risk nature of ATI's insured exposures, generally being to lower credit-quality sovereigns and corporates, as well as the medium term (3 to 5 years) duration of its insured portfolio. This is a key difference to ATI's global credit insurance peers, which predominantly provide very short-term whole-turnover trade credit insurance, that allows significant flexibility in managing their exposures, to buyers of significantly higher credit quality.

ATI's product risk is somewhat offset by its preferred creditor status with member sovereigns. This status, which applies to approximately 70% of ATI's insured exposures, is a legal obligation of member sovereigns to reimburse ATI for claims it pays on obligations of sovereign-related debtors in each respective country.

Asset Quality: Conservative fixed income focused portfolio with limited African exposure

ATI's asset quality is good, supported by its high quality and conservative investments, comprised predominately of hard-currency cash and short-term instruments, and investment grade fixed income securities. At year-end 2020, approximately 90% (2019: 95%) of ATI's investment portfolio was rated single-A and above with the majority held outside the African continent. ATI's high risk assets as a % of shareholders' equity was very low at 3.8% at YE2020 (3.8% at YE2019) and compares favorably to our rated credit insurance peers. ATI's policy of holding its invested assets predominantly in developed countries limits the level of correlation between its assets and its insured exposures, which are all Africa-based.

While ATI’s high reliance on reinsurance to support its underwriting capacity places it at risk in case of dislocation in the reinsurance market, the high quality of its reinsurance panel serves to moderate counterparty risk associated with its elevated reinsurance cessions. While ATI’s extensive use of reinsurance does expose them to changes in supply and price of reinsurance, their long-track record with reinsurers, and strong reputation in underwriting African PRI and Credit risk, positions them as a strong partner to reinsurers, and somewhat mitigates this risk. In addition, majority of its reinsurance cessions were to reinsurers rated A1 or higher as at YE2020 and, despite the high reinsurance reliance, the recoverables from reinsurers were modest relative to shareholders' equity, although they increased to 40.4% at YE2020 (38.5% at YE2019).

Capital Adequacy: Strong capital adequacy driven by low portfolio leverage and preferred creditor status

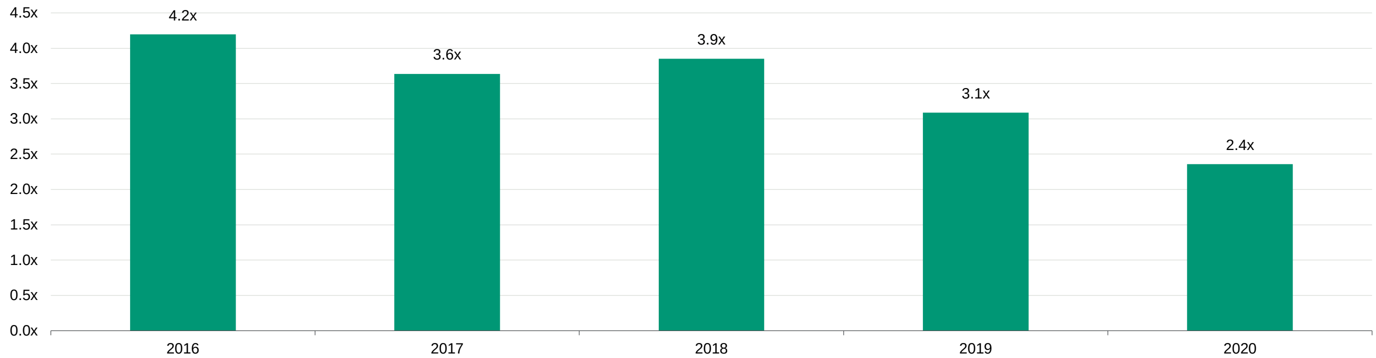
ATI's strong capital adequacy is driven by its high level of capital relative to insured exposures, with net portfolio leverage of approximately 2.2x at 30 June 2021, down from 2.4x at year-end 2020 and 3.1x and 3.9x at YE2019 and YE2018, respectively. The significant improvement in ATI's portfolio leverage reflects its increased equity capital and reduction in net exposure. While we expect ATI's net portfolio leverage to rise from the very low current levels, as coronavirus uncertainty abates and it starts to deploy excess capital, we expect ATI will continue to maintain relatively conservative leverage.

Total shareholders' equity increased to $446 million at 30 June 2021, from $412 million at YE2020 from $349 million at YE2019, largely due to capital additions and full-year positive net income. In 2020, its gross exposures decreased to $6.2 billion from $6.4 billion in 2019, due to the decline in some product lines which were affected by reduced demand as a result of coronavirus, and exposure reductions made in line with risk management actions.

Its high capital levels mitigate some of the risk associated with its higher risk exposures, both in terms of credit quality and exposure duration of insured portfolio. In contrast to its global credit insurance peers, ATI's portfolio exposures are geographically concentrated in one region, Africa (around 93% in 2020 based on net exposures), and are mainly to lower credit quality entities than is the case with its global peers. In addition, the majority of its exposures are medium term in duration and with higher single risk exposures due its portfolio being comprised of less granular exposures than a typical trade credit insurance book. Nonetheless, good diversification amongst African countries and industry sectors to some extent mitigates ATI's exposure to single obligors or events.

Supporting its own capitalisation, ATI has strong and long-standing relationships with a number of large global reinsurers that enable it to increase its underwriting capacity while retaining conservative levels of capitalisation. At year-end 2020, its net insured exposures amounted to $968 million ($1,074 million at YE2019), representing approximately 15.5% of its total $6.2 billion gross exposures (2019: $6.4 billion).

Exhibit 5
ATI's portfolio leverage on a net basis



Source: company filings, Moody's Investors Service

Similar to other multilateral development institutions, ATI benefits from preferred creditor status (PCS) with its member sovereigns. This PCS, which is required to be enacted into local laws of each member state, gives ATI priority above other creditors and requires the related sovereign to reimburse ATI for any claims paid on behalf of that sovereign or its related sub-sovereign entities. ATI's good track-record of recoveries from sovereign members – albeit with some delayed payments in recent years - and its increasing prominence as a key player in facilitating investment into Africa - demonstrates the effectiveness of the PCS protections as a means to limit its exposure to losses. Strengthening the PCS protections is ATI's ability to write-off member capital to cover losses that have not been reimbursed in line with the PCS requirements. The ability to write off capital - which ATI has done in the past - increases the incentive for member sovereigns to honour their obligations under the PCS, albeit that this tool tends to be used as a last resort because in most cases of distress, member states have reimbursed ATI in a timely manner, even whilst under debt rescheduling talks with creditors.

Profitability: Strong underwriting profitability, and improved return on capital reported in recent years

Being a development institution, ATI's primary focus is on facilitating investment into Africa, while pricing appropriately for the risk it assumes, and generating a sustainable return on its capital. In line with this development focus, ATI's return on capital has historically been relatively low, primarily due to its conservative capitalization. However, return on capital (Moody's calculation) has improved in recent years, with return on capital improving to 10.1% in 2020 from 4.5% in 2018, supported by portfolio growth and a stronger underwriting performance. ATI's underwriting performance, as measured by its combined ratio (Moody's calculation), has been consistently strong with a 5-year average of 18.4% from 2016 through 2020, demonstrating the strength of ATI's underwriting and risk pricing capabilities.

Reserve Adequacy: Prudent reserving approach balances reserving risk that is elevated relative to typical credit insurers

Reserving risk at ATI is elevated by the longer duration of exposures relative to a typical credit insurer. However the low frequency nature of its losses mean that management can spend more time assessing the reserves (as opposed to reliance on actuarial reserving for very large portfolios), reducing the risk of reserve development. ATI calculates reserves based on case reserves, an IBNR, and also a more forward-looking Statistical reserve that takes into account claims frequency and severity to predict expected portfolio losses, and provides an additional level of prudence. ATI's strong track-record in recovering claims paid and reprofiling guaranteed exposures further reduces its reserve risk.

Financial Flexibility: Strong leverage and coverage metrics, but partially constrained by dependence on low-rated member states

ATI's financial leverage and coverage metrics are very strong, given that it is predominantly equity funded with only a small amount of debt. Despite very strong metrics, Moody's considers ATI's overall financial flexibility to be constrained by the limited financial flexibility of many of its member states and its lack of direct access to capital markets.

Offsetting these limitations, we note that large development finance institutions - notably the World Bank (Aaa stable), African Development Bank (AfDB, Aaa stable), European Investment Bank (EIB, Aaa stable) and KfW (Aaa stable) - have regularly funded a portion of the capital contribution required for countries to become members of ATI, or to increase the size of their membership. As such ATI is indirectly supported by these institutions, although there is no formal guarantee or agreement for the institutions to continue with this practice, or more important, to contribute new capital in the event of capital erosion. In addition, we believe that because ATI is a key organization that supports trade and investment into their economies, member states would be incentivized to support ATI in the event needed, albeit that their ability to do so may be limited in certain instances.

Environmental, Social and Governance (ESG)

Social

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The rapid global spread of the coronavirus has led to a deteriorating economic outlook, and broad financial market upheaval, generating an unprecedented credit shock across many sectors worldwide. Of specific relevance to ATI, a number of African economies have been significantly impacted by the ongoing pandemic and volatility in the oil price, which could lead to some pressure on ATI's insured exposures.

Governance

Like all other corporate credits, the credit quality of ATI is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention.

Environmental

While ATI has limited direct exposure to environmental risks, it has significant indirect exposure through its linkeage to member sovereigns, some of which have meaningful exposure to environmental risks, and risks related to climate change in particular. This risk is somewhat mitigated by the short-to-medium term duration of ATI's exposures and its ability to reprice and adjust its exposures over time in response to rising climate risk.

Operating Environment: Negligible exposure to Kenyan operating environment given supranational status

ATI is a supranational entity and, as such, not subject to local regulation or economic constraints, with the majority of its invested assets and cash reside offshore. As a result we believe that the Kenyan operating environment does not have a meaningful impact on ATI's credit profile. The extent to which its insured exposures are impacted by the weaker operating environments in which they are located is reflected in our assessments of ATIs scores for Product Risk and Capital Adequacy.

The Operating Environment factor and score serves to capture relevant economic, social, judicial, institutional and general business conditions in a particular country as regards the insurance sector, and therefore the extent to which external conditions can exert a meaningful influence on an insurer's credit profile. The operating environment score in Kenya is suppressed by relatively low insurance penetration and density, as well as weaker economic and institutional strength at the national level and elevated susceptibility to event risk.

Support and structural considerations

Although ATI receives no explicit support from its member sovereigns or other third parties, it does benefit from preferred creditor status (PCS) with its member sovereigns, and receives indirect support from certain development banks in the form of them funding new member capital contributions.

Preferred creditor status, which is required to be enacted into local laws of each member state, gives ATI priority above other creditors and requires the related sovereign to reimburse ATI for any claims paid on behalf of that sovereign or its related sub-sovereign entities. ATI's good track-record of recoveries from sovereign members – albeit with some delayed payments in recent years - and its increasing prominence as a key player in facilitating investment into Africa - demonstrates the effectiveness of the PCS protections as a means to limit its exposure to losses. Strengthening the PCS protections is ATI's ability to write-off member capital to cover losses that have not been reimbursed in line with the PCS requirements. The ability to write off capital - which ATI has done in the past - increases the incentive for member sovereigns to honour their obligations under the PCS, albeit that this tool tends to be used as a last resort because in most cases of distress, member states have reimbursed ATI in a timely manner, even whilst under debt rescheduling talks with creditors.

In addition, because ATI's aim is to facilitate trade and investment for member sovereigns, we believe that member sovereigns are incentivised to ensure that ATI is appropriately supported. We expect this level of implicit support to increase as more and larger states become ATI members, further increasing ATI's relevance as a development finance institution.

Rating methodology and scorecard factors

Exhibit 6

The African Trade Insurance Agency

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Ba	Baa
Market Position and Brand (10%)								Ba	Baa
-Relative Market Share Ratio							X		
-Distribution and Access to New Markets			X						
Product Focus and Diversification (20%)								Ba	Ba
-Business Diversification					X				
-Flexibility of Underwriting				X					
-Risk Diversification					X				
Financial Profile								Aa	A
Asset Quality (15%)								Aaa	Aa
-High Risk Assets % Shareholders' Equity	X								
-Reinsurance Recoverable % Shareholders' Equity		40.4%							
-Goodwill & Intangibles % Shareholders' Equity	0.4%								
Capital Adequacy (20%)								Aaa	A
-Net Total Exposure to Shareholders' Equity	X								
-Net Underwriting Leverage (Credit Insurers)	X								
Profitability (20%)								A	A
-Combined Ratio (5 yr. avg.)	27.3%								
-Sharpe Ratio of ROC (5 yr.)				157.7%					
Reserve Adequacy (5%)								Aaa	A
-Worst Reserve Development for the Last 10 Years % Beg. Reserves	0.0%								
Financial Flexibility (10%)								Aaa	Baa
-Adjusted Financial Leverage	2.0%								
-Earnings Coverage (5 yr. avg.)	116.2x								
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A1	A3

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2020. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
THE AFRICAN TRADE INSURANCE AGENCY	
Insurance Financial Strength	A3

Source: Moody's Investors Service

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Americas	1-212-553-1653
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