

CREDIT OPINION

24 October 2023

New Issue

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RATINGS

ASR Re Limited

Domicile	HAMILTON, Bermuda
Long Term Rating	Baa1
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.

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ASR Re Limited

New rating assigned: Baa1 IFSR with stable outlook

Summary

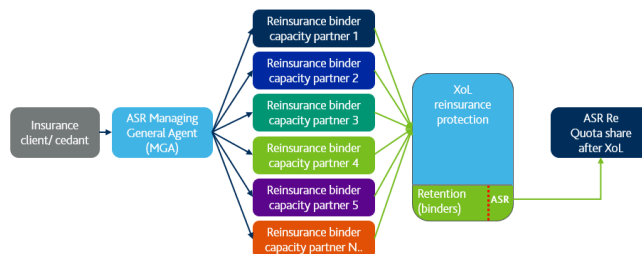
ASR Re Limited's (ASR Re) Baa1 IFSR reflects (i) its growing relevance and client base in the specialty and corporate insurance market in Africa, (ii) strong capital adequacy and low risk invested assets exposure, and (iii) strong underwriting profitability to date.

These strengths are partially offset by (i) ASR Re's operational and underwriting execution risk associated with rapid growth of the business and the relatively small portfolio of insured exposures that increases concentration risk, and (ii) ASR Re's focus on Africa which exposes it to a high proportion of clients in countries with higher risk operating environments, a feature that increases its product risk but is to a great extent compensated for by strong pricing, risk selection and diversification.

ASR's business model is centered on leveraging the capacity of other reinsurers, both the binder capacity partners and a panel of retrocession partners alongside its own reinsurer, ASR Re. This model enables it to offer a meaningful level of capacity to the market while limiting its own balance sheet exposure. The exhibit below illustrates the typical flow of business for one of the group's insurance transactions, although we note that can differ by product line and region. One of the ASR MGA's originates the transaction with the cedant, often via an insurance broker, and places the risk with ASR's panel of binder capacity partners. The binder capacity partners retain a portion of the risk and cede the remainder to the panel of retrocessionaires arranged by ASR, which typically takes the form of a \$20 million excess over \$5 million excess-of-loss reinsurance agreement. ASR Re then assumes a 25% quota-share of the binder capacity partners' retention (i.e. 25% of retention up to \$5 million).

Exhibit 1

Structure and flow of typical reinsurance transaction



The above example is shown for a typical PRTC policy written with an African ceding insurer. The transaction structure, exposure limits and reinsurance can vary between product types and region of exposure.

Source: ASR; Moody's Investors Service

Credit strengths

- » Growing relevance and client base in Africa that supports its overall franchise and market position despite its still modest scale,
- » Good business diversification across specialty and corporate business lines and broad geographic diversification within Africa.
- » Financial profile is supported by strong capital adequacy and low risk invested assets exposure, while underwriting profit, to date, has been strong.
- » Financial flexibility benefits from a supportive investor base comprised of large development focused financial institutions.
- » Risk-sharing based business model reduces balance sheet exposure to ASR Re while enabling it to deliver meaningful capacity to its clients.
- » Bermuda domicile and hard-currency invested assets support credit profile relative to some local African reinsurers.

Credit challenges

- » Still modest scale relative to the upper tier of reinsurers operating in Africa.
- » Operational and underwriting risk associated with rapid growth that it has already achieved and has planned for upcoming years.
- » The relatively low number of insured exposures that increases concentration risk.
- » Focus on Africa exposes it to a high proportion of clients in countries with higher risk operating environments.
- » Dependence on the continued cooperation of its binder capacity partners and retrocessionaires which exposes it to the cyclicity of the insurance cycle and exogenous events.

Rating outlook

The stable outlook reflects Moody's view that ASR Re is well positioned to continue growing its business volume while maintaining underwriting discipline and good capital adequacy. The stable outlook further reflects our view that while ASR's business model and structure do not preclude it from reaching a higher rating level in the future, it would need to demonstrate its ability to continue balancing rapid growth with underwriting and operational risk management.

Factors that could lead to an upgrade

- » Strengthening of its market position evidenced by achieving business volume growth according to or ahead of plan
- » Maintaining strong underwriting performance with loss ratios remaining at or below 60%
- » Further diversification of its panel of binder capacity providers
- » Reduction in the proportion of receivables and loans relative to cash and invested assets.

Factors that could lead to a downgrade

- » Deterioration in underwriting performance, with combined ratios consistently above plan
- » Weakening of ASR Re's regulatory capital position, with a BSCR ratio consistently below 200%
- » Material loss in diversification or quality of binder capacity or retrocession partners
- » A material increase in asset risk, with for example, an elevated level of high risk assets or receivables relative to cash and invested assets

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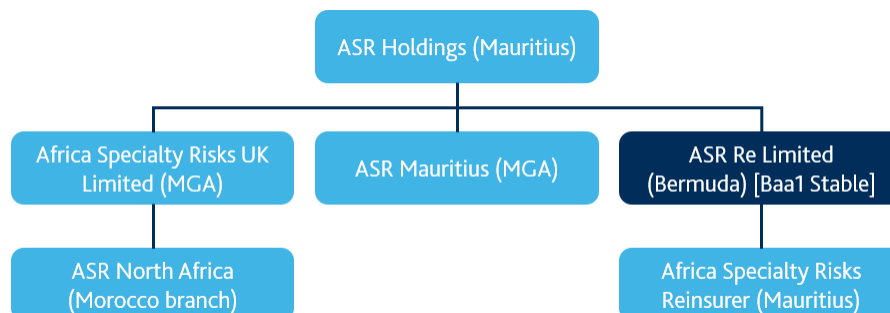
» Significant slowdown in premium growth at the MGA which impedes the group's overall profitability and franchise

Profile

Africa Specialty Risks (ASR) provides comprehensive, bespoke risk mitigation solutions and facultative reinsurance to local and global customers across the African continent. Africa Specialty Risks Ltd (ASR) operates as a Managing General Agent sourcing capacity for African insurance and reinsurance risks, including through ASR Re Limited (ASR Re) (Bermuda), the group's Bermuda domiciled reinsurer.

Exhibit 2

ASR Group structure



Source: ASR

Detailed credit considerations

Market position, brand & distribution: Growing relevance and client base in Africa supports its market position despite its still modest scale

ASR Re's market position is supported by its ability to underwrite complex risks and provide meaningful capacity to clients through its MGA and binder capacity partners. The ASR group benefits from strong broker and client relationships across Africa, in part due to management's prior track record of running a successful Africa-focused reinsurer. While the group's premiums - \$75 million and \$26 million GWP in 2022 for the group and ASR Re, respectively - are modest relative to global reinsurers, it has put in place the structure to support strong growth which will strengthen its market position and franchise over time.

A key risk inherent in ASR's business model is its dependence on binder capacity partners and to a lesser extent retrocessionaires. The group manages this risk through building and maintaining a diverse panel of binder capacity partners and retrocessionaires, and through contractual arrangements with these partners. ASR's technical underwriting expertise and strong links between Africa and the London market position it to source and underwrite specialty corporate business that its binder capacity partners do not write, thereby providing a new source of business for them. Over the longer-term, ASR's ability to keep its partners engaged and supportive depends on its underwriting performance and ability to grow profitably.

Business & geographic diversification: Good product and geographic diversification with focus on Africa

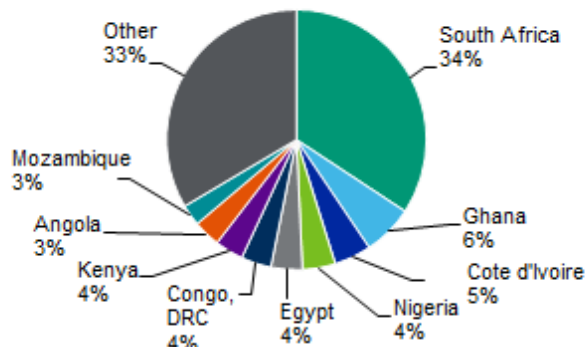
Geographically, the group is focused on Africa, where it sourced over 90% of its premiums in 2022, albeit that it expects growth in the Middle East, South America and Asia to lead to a slight decrease in the proportion of African business over time. Broad diversification across Africa and a strong position in South Africa's well-developed insurance market help manage its exposure to countries with higher risk operating environments.

Its product mix is focused on commercial and specialty lines, with political risk and trade credit (PRTC) being its largest line of business, followed by engineering and political violence and terrorism (PVT). Over time, ASR expects to maintain a well-diversified set of product exposures which are well balanced between short and medium tailed lines.

Exhibit 3

Geographic mix of gross written premiums

Based on 2022 GWP managed at the ASR group level

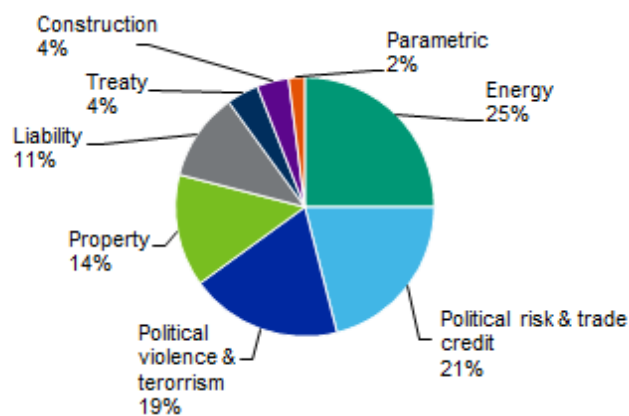


Source: Company filings and Moody's Investors Service

Exhibit 4

Mix of gross written premiums by product

Based on 2022 GWP managed at the ASR group level



Source: Company filings and Moody's Investors Service

ASR's product and geographic mix exposes it to countries that have high social risks, with potential for products such as political risk and trade credit (PRTC) or political violence and terrorism (PVT), to be impacted by social unrest or political turmoil. This risk is moderated through adherence to risk and exposure aggregation limits, risk sharing with its partners and growing diversification of its insured book.

Asset quality: High quality invested assets but receivables balances weigh on overall asset quality

Asset quality is supported by ASR Re's high quality investment portfolio, with invested assets mainly comprised of US Government bonds and high investment grade corporate debt securities. The reinsurer expects to maintain this high quality, liquid investment profile going forward, albeit with a modest increase in its allocation to investment grade corporate debt as it grows.

However, asset quality is negatively impacted by high premium receivables and a large loan from ASR Re to its affiliated MGA, Africa Specialty Risks UK Limited, which together amounted to around 42% of total assets at year-end 2022 and results in diminished balance sheet liquidity. The group is taking steps to manage down its receivables, the majority of which are from strong counterparties and therefore do not pose significant credit risk, and expects the inter-company loan to be fully repaid in the next two years rising business volumes translate into growing profits and cashflows at the MGA.

Capital adequacy: Strong capital adequacy and supportive investors

Based on ASR Re's Bermuda regulatory solvency ratio, its capitalization was strong at year-end 2022, although this will drift down as its business grows but is expected to remain strong relative to the regulatory requirement and compared to peers.

ASR Re has only moderate exposure to natural catastrophe risk, primarily due to its business mix being less focused on cat exposed property, but also because of its excess of loss reinsurance that scales down the gross exposure. That said, the understanding and modeling of natural catastrophe risk in Africa is underdeveloped relative to many larger insurance markets, giving rise to higher uncertainty around the group's exposure, particularly in the light of growing physical climate risk for Africa.

While its business model and risk sharing limit its exposure to a single large natural catastrophe event, ASR Re's key underwriting exposure is to elevated frequency of claim events or an accumulation of losses on multiple risks because of one event. It has in place a good risk and exposure management framework to monitor and manage these exposures and their impact on its capital.

ASR benefits from supportive shareholders that are aligned with its objective of developing African commercial insurance markets through the capacity and expertise it delivers and we expect that its owners will provide capital necessary to support the group's growth and stability, if needed.

Profitability: Strong underwriting profitability, offset by short track record and startup costs at the MGA

Profitability is supported by ASR's strong underwriting performance to date and the blend of fee income and underwriting profits that will result in strong return on capital at the group level once the business is at scale. Based on the most recent fiscal year, while ASR Re reported a net profit, the group was not yet profitable due to startup costs, albeit that we expect profitability to increase in line with growing business volume.

Specialty commercial insurance in Africa has historically offered good underwriting returns, in part due to the limited availability of this cover. While we expect ASR's more concentrated portfolio of insured exposures to result in some volatility in profits from time to time, our baseline expectation is that ASR's exposure management combined with strong pricing in African markets will support good underwriting profit through the cycle.

That notwithstanding, in the near to medium term, our assessment of ASR Re's profitability is held back by the group's strong growth trajectory, with premiums planned to grow by over 700% from the start of 2023 to the end of 2025, which could give risk to higher underwriting and operating risk execution as the group evolves to manage significantly increased business volume.

Reserve adequacy: Redundancy built into reserve levels but limited track record of data and reserve development

ASR Re's reserves are set by an internal team of actuaries and opinioned on by external actuaries as a second review. Reserve risk is moderated by the mix of short and medium tailed business and limited number of claims that allow for more detailed reserve analysis and setting. In addition, the structure of ASR's business model, where its own MGA originates the risk that ASR Re assumes, allows the reinsurer greater visibility into each risk it assumes, compared to more traditional reinsurers that are a step removed from the risk and largely rely on information provided by cedants.

Based on the limited track record to date, reserves have run off favourably relative to expectations and benefit from the level of redundancy built into reserve estimates. However, significant growth on the back of limited claims history and a still modest number of insured exposures increases the risk of unfavourable reserve development. Reserve risk will decrease over time as the company builds more claims data and a longer track record of experience.

Financial flexibility: No leverage and no direct access to public debt and equity markets but supportive investor base

ASR benefits from strong and supportive investors, including leading African investment firm Helios Investment Partners, and three large development finance institutions. Despite not having direct access to public debt and equity markets, the group's ownership base supports our assessment of its financial flexibility, particularly because of the alignment between ASR's strategy and the investors' development objectives.

The investors have undertaken to provide additional support to the group, as needed, albeit that this support is not of the form that would result in explicit uplift to ASR Re's rating. Moody's noted that continued support from the investor base, including their provision of additional capital to support growth, would further strengthen its assessment of ASR's financial flexibility.

Operating environment: Bermuda domicile and hard-currency assets moderate risks arising from weaker operating environments

ASR operates predominately in African markets, where several countries have weak operating environments characterised by challenges to their economic strength, institutions and governance, and elevated susceptibility to event risk. Furthermore, insurance markets and regulatory oversight remain relatively underdeveloped in some countries, adding to operating risk for insurers.

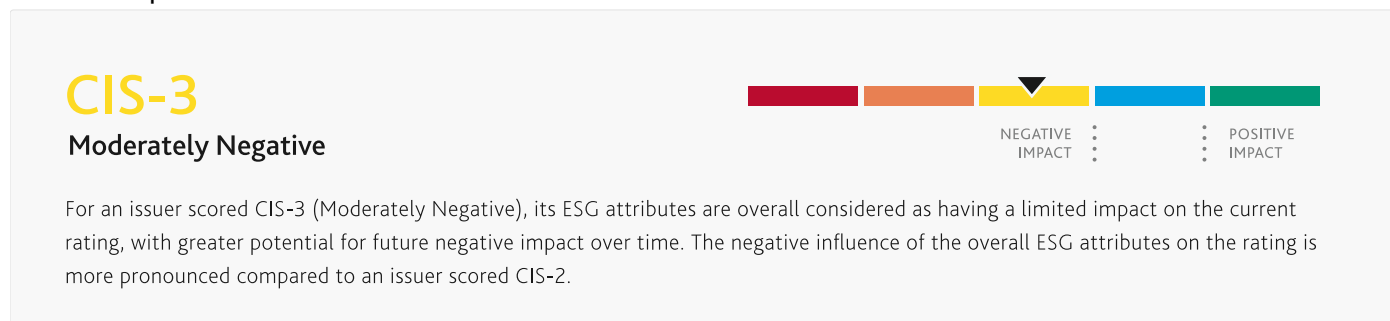
Our assessment of ASR Re's exposure to the operating environment considers its Bermuda domicile and international invested asset profile which reduce its exposure to local operating environments relative to domestic insurers. In addition, ASR Re's broad diversification across countries and exposure to more sophisticated commercial clients and cedants means that it is less impacted by the constraints of underdeveloped insurance markets and domestic regulation that is often focused on retail insurance products.

ESG considerations

ASR Re Limited's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 5

ESG Credit Impact Score

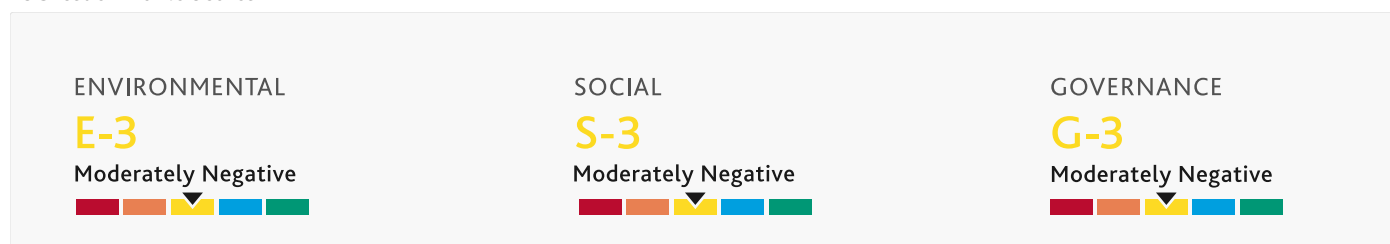


Source: Moody's Investors Service

ASR Re's **CIS-3** indicates the limited impact of ESG considerations on the current rating, with potential for greater impact over time, mainly due to operational and underwriting execution risk associated with rapid growth of the business which gives rise to moderate governance risk. That notwithstanding, the group's risk management and governance help mitigate its exposure to environmental and social risks, in particular physical climate risk and societal and demographic trends.

Exhibit 6

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

ASR Re faces moderate environmental risks, in particular physical climate risk and carbon transition risks related to these risks being faced by many of the countries where its insured exposures are located and the possible impact on its underwriting risk. For example, the transition to a low carbon economy could have a destabilizing effect on African countries that are hydrocarbon dependent and contribute to higher risk related to political violence and terrorism insurance contracts. Physical climate risk is high in several countries where ASR Re is active and contributes to exposure to extreme weather, albeit that ASR Re does have lower exposure to natural catastrophe risk than its global reinsurance peers. These risks are somewhat mitigated by ASR Re's good diversification of insured exposures, the short-to-medium term duration of these exposures that allows ASR Re to reduce exposure as these risks grow, and access to significant reinsurance capacity to support its own capital.

Social

ASR Re is exposed to social risks, both through its own operations and through its insured exposures covering companies in a wide variety of industries and African countries, some of which have significant social risk. ASR Re is specifically exposed to societal and demographic trends through some of its insurance lines, such as political risk and trade credit (PRTC) or political violence and terrorism (PVT), that could be impacted by social unrest or political turmoil. Its exposure to these risks is somewhat mitigated by the diversification of its portfolio, strong underwriting and risk management. In addition, ASR Re benefits from certain demographic and societal trends, such as economic growth and development in Africa, due to its strategic alignment with multilateral development institutions and other stakeholders focused on development on the continent.

Governance

ASR Re faces moderate governance risk related operational and underwriting execution risk associated with rapid growth of the business, which is reflected in its financial strategy and risk management. Overall, the group benefits from a good risk management framework and a measured and well managed approach to financial and underwriting risk. The group has invested in good quality risk and exposure management data and tools that help it implement its risk framework. Governance is strengthened by its seasoned management team, good board oversight and prudential regulatory supervision by the BMA, which supports its ability to manage the complexity inherent in its business model that combines an MGA, multiple binder capacity providers and affiliated and non-affiliated reinsurers. The group's ownership structure heightens board structure and policy risks due to concentration of control, albeit that the involvement of large development finance institutions and its track record to date suggest that this is a low risk to overall governance.

Support and structural considerations

Moody's rates ASR Re Baa1 for insurance financial strength, which is in line with the aggregate scorecard outcome.

Rating methodology and scorecard factors

Exhibit 7

ASR Re Limited

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	ScoreAdj	Score
Business Profile								Ba	Baa
Market Position, Brand, and Distribution (20%)								B	Baa
-Relative Market Share Ratio							X		
-Direct Reinsurance Premiums % GPW					X				
Business and Geographic Diversification (15%)								Baa	Baa
-Business and Geographic Diversification				X					
Financial Profile								Aa	A
Asset Quality (10%)								Aaa	A
-High Risk Assets % Shareholders' Equity	0.0%								
-Reinsurance Recoverable % Shareholders' Equity	2.7%								
-Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (20%)								Aaa	A
-Gross Underwriting Leverage									
-Gross Natural Catastrophe Exposure	X								
-Net Natural Catastrophe Exposure	X								
Profitability (10%)								Ba	Baa
-Return on Capital (5 yr. avg.)					0.0%				
-Sharpe Ratio of ROC (5 yr.)									
Reserve Adequacy (10%)									Baa
-Adv. (Fav.) Loss Dev. % Beg. Reserves (7 yr. avg.)									
Financial Flexibility (15%)								A	Baa
-Adjusted Financial Leverage	0.0%								
-Total Leverage	0.0%								
-Earnings Coverage (5 yr. avg.)						NM			
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								Baa1	Baa1

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2022. [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 8

Category	Moody's Rating
ASR RE LIMITED	
Rating Outlook	STA
Insurance Financial Strength	Baa1

Source: Moody's Investors Service

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