Rating Rationale
MUA Ltd

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	500	**CARE MAU AA-; Stable [Double A Minus; Outlook: Stable]**	**Reaffirmed**
Proposed Bond Issue	100	**CARE MAU AA-; Stable [Double A Minus; Outlook: Stable]**	**Assigned**

Rating Rationale

The rating assigned to the bond of MUR 500 million of MUA Ltd ("MUA" or "the Group") has been reaffirmed at CARE MAU AA-; Stable. CRAF has assigned a rating of CARE MAU AA-; Stable to the proposed Bond Issue of MUR 100 million.

The rating continues to derive strength from a successful track record of insurance activities which extend over the past 70 years and a highly qualified, professional, and experienced management team. The group is well established with a diversified revenue and product profile across different geographies and is one of the leading players in General Insurance (23% market share) & Life Insurance business (11% market share) in Mauritius. The Group maintains a sound investment portfolio, robust systems & processes, and a strong solvency position vis-à-vis regulatory requirements. Improvement in profitability of the General Insurance business and stability in the Kenyan operation was also noted. The group maintains a satisfactory track record of meeting claims. In addition, investment in group companies is well within the concentration limits.

The rating is however constrained by a high level of competition and growth stagnation in the Mauritian insurance market and lower profitability in East African operations (particularly Kenya).

Rating Sensitivities:

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Achieving higher profitability in the Kenyan operation with the integration of the newly acquired Saham Assurance Kenya Limited with the existing Kenyan operations.

Negative factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

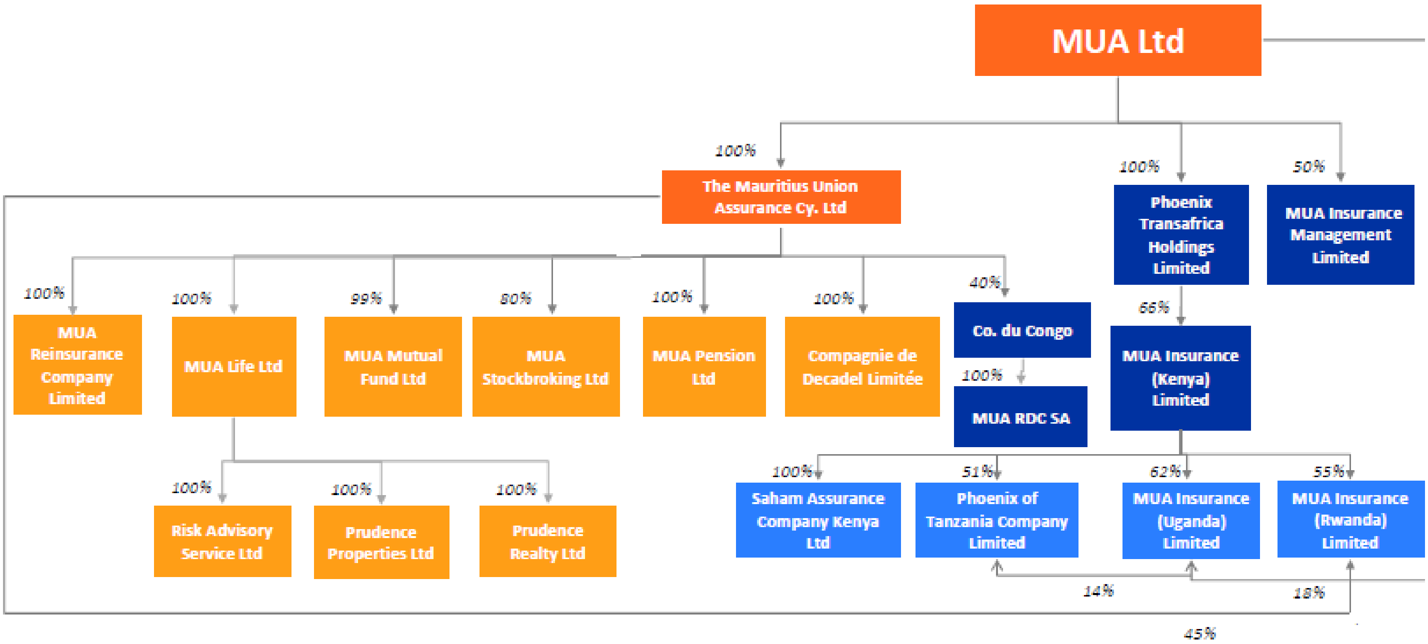
- Weakening of profitability, capitalisation, investment portfolio and solvency levels.
- Decline in the operational & financial performance of dividend paying subsidiaries - Mauritius Union Assurance Cy Ltd ("MUACL"; engaged in providing general insurance) and MUA Life Ltd ("MUA Life"; a wholly owned subsidiary of MUACL which provides life insurance).

BACKGROUND

MUACL was founded on 26 July 1948 with the objective of providing affordable insurance to the Mauritian population by introducing both general and life insurance. Since inception, MUACL has offered life insurance and pension products as well as general insurance such as motor, household and fire policies amongst others to Mauritians. It was the first company to provide loans to middle class Mauritians at affordable rates. Over the last 70 years, the Group has grown both organically and through acquisitions, expanding into other regions beyond Mauritius. In 2014, the Group expanded into East Africa (Kenya, Tanzania, Rwanda and Uganda) through the acquisition of a 100% stake in Phoenix Transafrica Holdings Limited ("PTHL"), a group of companies engaged in providing general insurance in the four aforementioned East African countries.

Until December 2018, MUACL was the holding company of the Group, with the major income generating subsidiaries being MUA Life and MUA Transafrica Holdings.

In January 2019, MUA Ltd was incorporated as a new legal entity to act as the ultimate holding company of the Group and was listed on the Official Market of the Stock Exchange of Mauritius ("SEM"). The Group also underwent a restructuring of the subsidiaries and associates of MUACL, relating to East Africa, with these subsidiaries now held under MUA Ltd instead of MUACL. On July 03, 2020 MUA through its subsidiary, MUA Insurance (Kenya) Ltd. acquired 100% of Saham Assurance Kenya Limited ("Saham Kenya") for a total consideration of USD 12.325 million. The new Group structure is as depicted below:



MUA has a major presence in 6 countries namely Mauritius, Seychelles, Kenya, Uganda, Tanzania and Rwanda. MUA has a satisfactory solvency position. As at December 31, 2020, at the MUACL level the ratio of Excess Capital Available over Capital required margin stood at 217% (220% in FY19) against the statutory limit of 150% as per Insurance (General Insurance Business Solvency) Rules 2007. Mauritius is the primary market for MUA (23% market share for general insurance and 11% market share for life insurance). MUA has a market capitalization of MUR 5.8 billion as at June 8, 2021.

Financial and operational highlights as at Dec 31, 2020 and Dec 31, 2019 are as follows:

Particulars		Market Share in terms of GPE*		Position in Industry*		Amount	% of GPE	Amount	% of GPE
		2020	2019	2020	2019	2020		2019	
General Insurance Mauritius (Mauritius Union Assurance CY)	*Overall*	*23%*	*23%*	*No. 2*	*No. 2*	2,370	*45%*	2,291	*51%*
	Motor	*22%*	*22%*	*No.1*	*No.1*				
	Accident & Health	*20%*	*20%*	*No. 2*	*No. 2*				
	Property	*23%*	*23%*	*No. 2*	*No. 2*				
Life Insurance Mauritius (MUA Life)		*11%*	*11%*			1,311	*25%*	1,100	*24%*
General Insurance Africa (MUA Kenya)						1,597	*30%*	1,154	*25%*
PAT						365		444	
Gross Sum Insured (Life Insurance)						MUR 87.3 billion		MUR 69.6 billion	
Solvency ratio (Group)						217%		220%	
Total assets						19,203		16,770	
Life Insurance Fund						7,800		7,800	
Return on Equity						11.76%		14.80%	

**Latest available FSC Statistics*

MUA is a professionally managed Insurance company. It is governed by a 10-member Board of Directors comprising of 2 Executive Directors, 5 Non-executive directors and 3 Independent Directors from different industries, under the chairmanship of Mr. Dominique Galea. Mr. Bertrand Casteres is the CEO since January 2015. Mr Casteres has worked for major insurance companies in Europe and is assisted by a team of experienced and qualified professionals.

Acquisition

On July 2020, MUA acquired Saham Assurance Company Kenya Limited (referred to as Saham Kenya), through its subsidiary MUA Kenya at an aggregate cost of USD 12.325 million (financed by funds raised from a bond issue in 2019 and rights issue in 2020). While Saham Kenya has both life and general insurance business, but MUA has acquired only the general insurance business.

Right Issue

In November 2020, MUA raised MUR 416 million through a rights issue and part of the proceeds from the rights issue was utilized for financing the acquisition of Saham Kenya.

Bond Issues

In June 2021, MUA Ltd proposes to issue a bond of MUR 100 million to repay its preference shares (MUR 100 million).

In September 2019, MUA Ltd issued a bond of MUR 500 million, partly (MUR 200 million) extended to MUACL to repay an existing bond in MUACL (MUR 200 million) and the balance (MUR 300 million) for part financing of the acquisition of Saham Kenya in July 2020.

The interest and principal of the bonds is to be repaid out of cash flow to be received as interest and dividend from MUACL, MUA Life and MUA Insurance (Kenya) Limited.

CRAF has analysed the operational and financial performance of MUACL, MUA Life and MUA Kenya, to assess the debt repayment capability of MUA Ltd as issuer.

CREDIT RISK ASSESSMENT

Strong financial and operational parameters of MUACL

Management – MUA, regulated by the Financial Services Commission ("FSC"), has a diversified shareholder base (with the top 5 shareholders collectively holding approximately 42% of the share capital of the company) and has a strong profitability track record extending across decades. In line with changes in the insurance legislation in Mauritius introduced in 2011–pertaining to insurance companies not being able to undertake both life (long term) and non-life/general insurance (short term) business, MUA segregated its insurance business between MUACL (managing the general insurance business) and its wholly owned subsidiary MUA Life (managing the life insurance business).

Professional and highly qualified management team - MUACL has a highly qualified and experienced employee base with vast experience in their respective fields. Each business segment is managed by an experienced individual with a team of committed professionals. The CEO reports directly to the Board.

Financial position - MUACL has consistently made profits over the years. Management has put in place different processes, reviews, digitalisation, and innovative solutions to achieve sustained growth in revenue and profitability. Strong growth strategies and technological initiatives have allowed increased efficiency and effective risk control. The underwriting performance of MUACL is as below:

Particulars	FY18	FY19	FY20
	MUR Million	MUR Million	MUR Million
Gross Premium Earned	2,228	2,291	2,370
Operating Profit (including depreciation)	196	233	311
PAT	153	193	256
Loss Ratio	60%	59%	54%
Expense Ratio	22%	21%	20%
Commissions Ratio	12%	12%	12%
Combined Ratio	93.9%	93%	87%

In FY19 & FY20, the Gross Premium Earned (GPE) registered a growth of 3% and 4% respectively. Motor, accident & health and property insurance are major revenue contributing segments for MUA. During FY20, these three segments collectively contributed 72% [FY 19: 74%] of the total GPE, respectively. In FY20 MUACL's PAT has increased significantly by 33% (26% in FY19) on account of lower claims ratio.

Sound investments portfolio - MUACL had an investment portfolio of MUR 1,212 million as on December 31, 2020 (MUR 1,403 million as on Dec 31, 2019), whose break up is as under:

	FY18		FY19		FY20	
	MUR Million	%	MUR Million	%	MUR Million	%
Govt. Securities	598	38%	624	45	625	52
Listed Equity	313	24%	282	20	211	17
Un-listed Equity	22	2%	22	2	20	2
Unlisted Bond	29	2%	30	2	-	0
Listed Bond	22	2%	23	2	25	2
Mutual Funds	60	5%	64	5	64	5
Corp Bond and Fixed Deposits	90	7%	117	8	79	7
Loans to customers	282	20%	241	16	188	15
Total	**1,313**	**100%**	**1,403**	**100%**	**1,212**	**100**

On the liquidity front, given that 52% of investments comprise of Govt. Bonds which are readily marketable in nature, this provides a sufficient liquidity cushion for the Company. This apart, as at Dec 31, 2020, the company has MUR 335 million in cash at bank (FY19: MUR 154 million) and MUR 79 million in Fixed deposits (FY19: MUR 117 million). Investments in Govt. Securities and rated bonds & equities (Corporates rated A category and above) formed 62% (FY19: 55%) of total portfolio as on December 31, 2020. It also has the following investments in property and subsidiary companies:

Particulars (**MUR Million)**	**FY18**	**FY19**	**FY20**
Property	79	79	90
Subsidiaries	910	353	390

Investment in subsidiaries over permitted concentration limit: As at Dec 31, 2020 total investment in subsidiaries (related companies) was MUR 390 million (MUR 326 million as at Dec 31, 2019), which is well within the concentration limit of MUR 409 million (10% of the Total Asset as on December 31, 2020, i.e. MUR 4,093 Million).

***Satisfactory Solvency Position* -** As on last three account closing dates, MUACL has a satisfactory solvency position against the statutory limit of 150% as per Insurance (General Insurance Business Solvency) Rules 2007. Going forward, MUACL intends to maintain minimum solvency margin of over 200%.

In addition to the aforementioned MCR requirements, the company is required to comply with Section 3 of the Insurance Risk Management Rules (2016) which is aligned with Own Risk and Solvency Assessment (ORSA) Regulations in terms of its risk management framework ("RMF") policy. The Board ensures compliance through the Statutory Actuary (appointed under Section 40 of the Insurance Act). The Appointed Actuary is required to review and report to the Board on the effectiveness of the RMF at least once a year.

***Re Insurance* –** The general insurance business is sufficiently protected through a carefully designed reinsurance programme consisting of both proportional and non-proportional treaties with highly rated and internationally recognised reinsurers in line with the Company's risk appetite. MUACL has taken re-insurance from international reputed re-insurance companies with high credit ratings.

<u>SUMMARY OF FINANCIALS: The Mauritius Union Assurance CY Ltd</u> **(MUR Million)**

Financial Year Ending December 31,	**2018**	**2019**	**2020**
Gross Premium Earned	**2,228**	**2,291**	**2,370**
Net Premium	**1,715**	**1,752**	**1,828**
Net Claims Incurred	1,028	1,034	985
Net Commission	-203	-212	-226
Operating expenses	411	423	370
Net Underwriting Profit	**483**	**506**	**617**
Net Investment Income	125	149	123
Finance Cost	17	20	16
PBT	179	213	295
PAT	**153**	**193**	**256**
Tangible Net worth	**1,555**	**978**	**1,029**
Claims Outstanding	**849**	**820**	**892**

Financial Year Ending December 31,	2018	2019	2020
Investments	**2,116**	**1,321**	**1,382**
Cash & bank balances	**114**	**154**	**335**
Total assets	**3,929**	**3,524**	**3,805**
Ratios			
GPE growth (%)	6.70	2.80	3.45
NPE growth (%)	5.41	2.00	4.34
GPE/ Tangible Net worth (%)	145	240	242.76
NPE/Tangible Net worth (%)	112	183	184.31
Claims/Loss Ratio (Net Claims Incurred/ NPE) (%)	60	59	54
Commission Ratio (Comm/ NPE) (%)	12	12	12
Expense Ratio (Net Exp / NPE) (%)	22	22	20
Combined Ratio (%)	93.9	93.0	87
RONW (%)	9.94	15.21	25.55
ROTA (%)	4.49	6.32	8.84

Strong financial and operational parameters of MUA Life Ltd

MUA Life is a wholly owned subsidiary of MUACL, which in turn is a wholly owned subsidiary of MUA Ltd. In FY10, MUACL acquired La Prudence Mauricienne Assurances Ltée, a composite insurance company in Mauritius. MUA Life is regulated by The Insurance Act 2005 (as amended in 2007) of the Financial Services Commission.

In 2011, with the change in the Regulation, the Life Insurance business was consolidated into MUA Life and the General Insurance business was consolidated into MUACL.

MUA Life has a wide range of products in traditional, non-linked products (42% of investment in Dec 20) and unit-linked insurance business (58% of investment in Dec 20). MUA Life operates only in Mauritius and sources business largely through an agency model (there are more than 60 agents).

Strong Minimum Capital Requirement (MCR) Position

As per the Mauritius Long-term Insurance Act and associated Regulations, MUA Life is required to report Minimum Capital Requirement (MCR), which is a measure of "risk-based capital" in excess of reserves to provide a cushion in the event that future experience diverges adversely from the best estimate assumptions. ***The company is required to maintain a shareholders fund to cover the MCR by at least 1 time.*** In order to demonstrate solvency, the company must have sufficient shareholder assets (i.e. assets in excess of liabilities) to cover the MCR at all times. As on last three account closing dates, MUA Life has a satisfactory solvency position against the statutory limit.

In addition to the aforementioned MCR requirements, the company is required to comply with Section 3 of the Insurance Risk Management Rules (2016) which is aligned with Own Risk and Solvency Assessment (ORSA) Regulations in terms of its risk management framework ("RMF") policy. The Board ensures compliance through the Statutory Actuary (appointed under Section 40 of the Insurance Act). The Appointed Actuary is required to review and report to the Board on the effectiveness of the RMF at least once a year.

MUA Life has taken re-insurance from international reputed re-insurance companies with high credit ratings, to cover majority of its basic claims.

Strong asset quality

MUA Life had an investment portfolio of MUR 9,265 million (MUR 9,788 million as at Dec 31, 2019) as at December 31, 2020 out of which 36% (31 December 2019: 33%) was attributable to unit linked policies. The remaining assets are attributable to non-linked and shareholders' funds. The breakup of investment for the past 3 years are as follows: **(MUR Million)**

Investment for the year ended Dec 31,	2018	% of total investment	2019	% of total investment	2020	% of total investment
Government Securities	4,911	55%	5,332	54%	4,750	51%
Listed equity/mutual funds/ listed bonds	3,071	34%	3,258	33%	3,291	36%
Loans and advances to customers	584	7%	607	6%	535	6%
Fixed Deposit/Short term Deposit/Cash with banks	219	3%	198	2%	188	2%
Investment in Property	129	1%	129	1%	131	1%
Corporate Bonds	26	0%	264	3%	370	4%
	8,940	**100**	**9,788**	**100**	**9,265**	**100**

The detailed breakup of the unit linked funds are as under: **(MUR Million)**

Investment for the year ended Dec 31,	2018	% of total unit linked inv.	2019	% of total unit linked inv.	2020	% of total unit linked inv.
Listed equity (Mauritius)	2,079	68%	2,068	63%	1,603	49%
Unquoted securities	537	17%	736	23%	1,077	33%
Listed bonds (Mauritius)	455	15%	454	14%	611	19%
	3,071		**3,258**		**3,291**	

As at Dec 31, 2020, around 49% (FY19: 63%) of the investments attributable to the unit linked policies are invested in equities, of which 47% are invested in MCB and SBM shares (FY19: 56%). As at Dec 31, 2020, 51% of MUA life portfolio were invested in Government Securities (FY19: 54%) and 6% extended as loan & advances to the customers (FY19: 6%).

The balance is majorly invested in mutual funds (local and foreign) and listed bonds issued by Mauritius based entities. A substantial portion of MUA Life's investments (around 80% as on Dec 31, 2020) are readily marketable thereby extending it good liquidity support.

Strong systems

Innovative IT systems and platforms designed to scale service are capable of handling high customer transaction volumes and have helped the company improve the productivity and efficiency of operations. All the operations of the Group are digitalised and real time back up is maintained. The Group has a Disaster Recovery Site located at Ebene. The company has its Business Continuity Plan located at Rose Hill, which was operational pre COVID lockdown and facilitated the company to be fully operational through its online platform even during lockdown.

The company has put in place a system for timely communication to policyholders during different stages of the life cycle of a policy (advanced renewal intimation, grace period notifications, notifications upon policy lapse and before revival ending period & discontinuance). As part of customer engagement facilities, the company has introduced a mobile phone application for activation of auto-mailer for account statement, income tax certificate and to seek nearest branch location details. The company has a risk management framework which identifies, evaluates, mitigates and monitors risks that potentially have a material impact on the value of the company.

Profitability

MUA Life has been successfully and consistently reporting profit over the past few years. The Life entity's gross premium grew by 19% from MUR 1,100 million in FY19 to MUR 1,311 million in FY20, with new business growing by 35% to reach an all-time high record despite the lockdown restrictions. However, PAT has witnessed a decline of 55% in FY20 compared to the growth of 7% in FY19. The company reported net profit of MUR 85 million on NPE of MUR 1,145 million in FY20 (PAT of MUR 187 million on NPE of MUR 963 million in FY19). The company's PAT was significantly impacted by an increase of MUR 108 million in reserves mainly due to the lower investment yields, linked to declining interest rates and equity values, as a result of the Covid-19 pandemic.

SUMMARY OF FINANCIALS: MUA Life Limited **(MUR Million)**

Financial Year Ending December 31,	**2018**	**2019**	**2020**
Gross Premium Earned	**1,034**	**1,100**	**1,311**
Net Premium Earned	**922**	**963**	**1,145**
Net Claims Paid	534	590	1,017
Net Change in contract liability	468	631	50
Net Claims Incurred	**1,002**	**1,222**	**1,067**
Direct Commission Paid	55	63	77
Net Commission	**-21**	**-22**	**-34**
Operating exp. related to insurance business	132	144	152
Net Underwriting Profit	**-233**	**-424**	**-108**
Income from Investments	**414**	**621**	**206**
PBT	**175**	**186**	**85**
PAT	**175**	**186**	**85**
Tangible Net worth	849	999	1,195
Technical Reserve (Policyholders Fund)	7,229	7,794	7,778
Investments	**8,176**	**8,782**	**9,274**
Cash & bank balances	**178**	**130**	**148**
Total assets	**9,042**	**9,919**	**10,298**
Ratios			
GPE growth (%)	17.93%	6.39%	19.17
NPE growth (%)	17.87%	4.50%	18.90
GPE/ Tangible net worth (%)	121.83%	110.16%	109.74
NPE/Tangible net worth (%)	108.62%	96.47%	95.88
Claims Ratio (Net Claims paid/ NPE)	57.93	61.29	88.75
Expense Ratio (Net Expenses / NPE)	14.37	14.98	13.31
RONW	22.48	20.15	7.73
ROTA	2.01	1.96	0.84

Moderate financial and operational parameters of MUA Insurance (Kenya) Limited

In FY14, MUA Ltd expanded its presence in Africa by acquiring 100% in Phoenix Transafrica Holdings Limited (now MUA Transafrica Holdings Public Limited Company), having a controlling stake (66%) in MUA Insurance (Kenya).

Since 1912, Phoenix of East Africa Assurance Company Limited has been providing General Insurance products in Kenya and has further developed its insurance activities in Tanzania, Uganda and Rwanda. The company provides all types of non-life conventional products (including Aviation, Marine hull, Medical and Travel). MUA Insurance (Kenya) Limited is regulated by The Insurance Regulatory Authority (IRA), which is a statutory government agency established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya to regulate, supervise and develop the insurance industry.

On July 2020, MUA acquired Saham Kenya, through its subsidiary MUA Kenya at an aggregate cost of USD 12.325 million (financed by funds raised from the Bond issue in 2019 and Rights Issue in 2020). Saham Kenya, formerly known as Mercantile Insurance Company Ltd, was established in 1993 as a composite insurance company. Saham Kenya, previously owned by the pan-African insurance group Sanlam Pan Africa, is one of the most dynamic insurance company in Kenya. With an experienced management team, a strong reputation in the market and extensive operational knowledge, Saham Kenya's integration into MUA is complimentary and opportune. While Saham Kenya assurance has both life and general insurance business, MUA has acquired only the general insurance business. MUA has received approval from the Insurance Regulatory Authority (IRA, Kenya) and both the companies are in the process of getting being merged. The current standing of MUA's East African subsidiaries in the various countries is as follows:

Country	Market Share	Position	Revenue (MUR Million)		PAT/(Loss) (MUR Million)		Combined ratio	
	2020	2020	2020	2019	2020	2019	2020	2019
Kenya*	3%	MUA Kenya -35th out of 38 Insurers Saham Kenya-22nd out of 38 Insurers	724	266	(51) #	3	128%	116%
Tanzania	5%	5th out of 26 Insurers	567	457	58	68	90%	87%
Rwanda	15%	4th out of 9 Insurers	285	249	32	26	92%	94%
Uganda	3%	8th out of 21 Insurer	218	181	9	21	100%	99%

**Including MUA Kenya and Saham Kenya*
#MUA Kenya (standalone) reported a loss of MUR 71 million and Saham Kenya reported a PAT of MUR 20 million.

East African operations have gained scale of operations and have shown a strong increase in revenue, with marked improvement in Kenya (also due to the acquisition of Saham Kenya) and satisfactory results for Uganda and Rwanda. Saham Kenya contributed 18% to the total growth of gross premiums earned by the East African subsidiaries. These results were negatively affected by one-off transaction costs related to the acquisition of Saham Kenya (MUR 24 million), foreign exchange loss (MUR 12 million) on loan from MUA Ltd to finance the acquisition of Saham Kenya and the changes in the accounting policy in Kenya and Tanzania resulted in a further negative impact of MUR 27 million (non-cash expenditure). This lead to a significant increase in the expense ratio for FY20 and hence lower PAT. Expenses related to the changes in accounting policies of Kenyan operations was the notional loss, thus, if excluded this would have resulted in a PAT as projected last year. Lower interest rates in FY20 also lead to lower investment income and hence lower PAT for the year.

Key major areas of focus for the company included marketing and communication actions around the new brand, creation of close partnership with some of the large local companies, local brokers and agents have boosted business and secured some good clients.

MUA Rwanda: The Rwandan entity produced a satisfactory set of results, with a 14% growth in gross written premiums, an increase of 26% in profits after tax and an improved combined ratio. The results were driven by a strong growth in investment income.

MUA Tanzania: Whilst there was a 24% increase in gross written premiums, the entity recorded a 14% decrease in profits after tax. This is mainly attributable to a one-off cost driven by a change in the deferred acquisition cost methodology. Some aviation business was lost due to grounding of flights, travel restrictions and lockdowns. The company adopted some new distribution networks through the collaboration with 16 new brokers.

MUA Uganda: An encouraging 20% increase in gross written premiums was reduced by significant tax audit expenses, impacting profits after tax with a decrease of 57% recorded. There was an expansion of the company's distribution network with the opening of 2 branches. The company entered into a new partnership with DFCU Bank with the development of exclusive products.

A challenge in the Kenyan insurance market is the non-payment of insurance premiums by brokers to insurance companies, even though the issuance of the policy is by the insurance company. Previously, insurance law allowed brokers to receive premium payments, which they held before releasing to the insurance firms. However, in July 2019, there was a change in the Insurance Act in Kenya, stating that all premiums are to be paid directly to insurance companies. The change in the Act was taken to minimise insurance fraud according to the Insurance Regulatory Authority Report of 2018. The Brokers have gone to the Court against this law and Court has given verdict in favor of the Brokers.

However, the company has itself shaped a policy where in, if the insurance premium is not paid by the broker within a period of one month, the policy is cancelled. Thus, leading to the reduction in loss of income in the Kenyan operations.

This apart, the management also informed that as per the Report submitted by Kenbright Actuaries at the opening of the Actuarial Society of Kenya's (TASK) Actuarial Convention 2017 in Nairobi, the majority of insurance companies in Kenya are operating in the red with almost no disposable capital in case of any shocks in the market. Insurers have been spending more cash than necessary in spreading their risks at the expense of policyholders. According to the survey, while the market risk demands a

Capital Adequacy Ratio (CAR) of at least 200% as per the Insurance Regulatory Authority (IRA) requirements, the industry operates at an average of 131% for General Insurers.

The insurance sector in Kenya is undergoing one of the most challenging eras in its operating environment due to new Capital Adequacy Requirements for insurance companies to raise their capital. Short-term insurers are required to raise their capital from Ksh 300 million to Ksh 600 million. Insurers are required to comply with these requirements by 2020. These developments aim to make the insurance sector in Kenya more stable.

Strong Minimum Capital Requirement (MCR) Position

The solvency margin as set out in the Kenyan Insurance Act (CAP 487) is used as an indicator of the financial soundness of the insurance companies operating in Kenya.

Under section 41 of Insurance Act CAP 487, “An insurer carrying on insurance business in Kenya shall at all times keep total admitted assets of not less than its total admitted liabilities and the capital adequacy ratio as may be determined by the Authority.” Insurance companies are required to maintain a minimum solvency margin (i.e. CAR of 200%). Presently, an insurer undertaking general insurance business in Kenya shall keep at all times admitted assets of not less than the aggregate value of its admitted liabilities and KSHS 10 million or 20% of its net premium income during its last preceding financial year, whichever is greater. Sections 41 and 42 of the Act defines what are admissible assets and liabilities for the purpose of determining the solvency margins.

Minimum Capital Requirement (MCR) is a measure of “risk based capital” in excess of the reserves to provide a cushion in the event that future experience diverges adversely from the best estimate assumptions. MUA Insurance (Kenya) Limited’s MCR more than adequately meets the requirement as on last three account closing dates.

Reinsurance

MUA Kenya has taken re-insurance from international reputed re-insurance companies with high credit ratings. Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the Group. The basis of these purchases is underpinned by the Group’s experience, financial modelling, and exposure concentration to the reinsurance. Reinsurance is placed with providers who meet the Group’s counter party security.

Strong asset quality

The Group engages in short term insurance contracts and funds the insurance liabilities with a portfolio of equity and debt securities. MUA Kenya (including the East African subsidiaries) had an investment portfolio of MUR 2,400 million as at 31 December 2020. The breakdown of investment for the last 3 years is as follows:

Period	**December 31, 2018**		**December 31, 2019**		**December 31, 2020**	
Particulars	**MUR Million**	**MUR Million**	**MUR Million**	**% of total**	**MUR Million**	**% of total**
Government Securities	669	807	807	43	1,230	51
Equity & Corporate bonds	56	64	64	4	100	4

Period	December 31, 2018		December 31, 2019		December 31, 2020	
Particulars	**MUR Million**	**MUR Million**	**MUR Million**	**% of total**	**MUR Million**	**% of total**
Deposit with Financial Institution	457	454	454	29	651	27
Investment in Property	265	264	264	17	289	12
Cash & Bank	112	139	139	7	130	5
Total	**1,558**	**1,728**	**1,728**	**100**	**2,400**	**100**

A substantial portion of Group's investments (around 84% as on Dec 31, 2020) are readily marketable thereby extending it good liquidity support. Around 51% (P.Y.: 47%) of the investments were in Government Securities (G-Sec) & Deposits with Financial Institutions is 27% (FY17: 26%).

Strong systems

Risk management: The Group has a risk management framework which identifies, evaluates, mitigates and monitors risks that potentially have a material impact on the value of the company through the use of underwriting guidelines and capacity limits, reinsurance planning and credit policy. Investment policies are in place which help manage liquidity.

Insurance Risk: The Group's underwriting strategy has been developed in order to ensure that the underwritten risks are well diversified in terms of type, amount and industry.

Good profitability

MUA Kenya (Group) has been reporting profit consistently. The group reported net profit of MUR 39 million (MUR 110 million in FY19) on NPE of MUR 909 million in FY20 (MUR 637 million in FY19). The MUA East African subsidiaries had a positive 2020 where it saw an increase in total revenue by 43% leading to a PAT of MUR 39 million. However, PAT in FY20 has declined by 65% compared to FY19. The main reason for the decline was the one-off costs related to the acquisition of Saham Kenya (MUR 24 million), foreign exchange loss (MUR 12 million) on loan from MUA Ltd to finance the acquisition of MUA Kenya and the changes in the accounting policy in Kenya and Tanzania resulted in a further negative impact of MUR 27 million. This led to a significant increase in expense ratio for FY20 and hence lower PAT.

Summary of the Financials of MUA Insurance (Kenya) Limited (Consolidated) **(MUR Million)**

Financial Year Ending December 31,	2018	2019	2020
Gross Premium Written	**1,028**	**1,154**	**1,796**
Net Premium Written	**590**	**637**	**909**
Less: Reserve for unexpired risks	0.0	0.0	0.0
Net Premium Earned	**539**	**623**	**851**
Net Claims Incurred	**226**	**250**	**396**
Direct Commission Paid	140	146	164
Add : Reinsurance accepted	-	-	-
Less: Commission on reinsurance ceded	104	109	164
Net Commission	**(37)**	**(37)**	**(38)**
Operating exp. related to insurance business	**311**	**322**	**516**
Net Underwriting Profit	**(35)**	**13**	**(100)**
Net Investment Income	**127**	**133**	**186**
Operating Profit/ (Loss) (A-B)	**92**	**146**	**86**
PAT	**68**	**110**	**39**
Tangible Net worth	1,099	1,186	1,254
Claims Outstanding	542	516	988
Cash & bank balances	548	603	783
Total assets	2,348	2,738	4,594
Ratios			
GPW growth (%)	12.3%	12.2%	55.63%
NPW growth (%)	17.9%	8.0%	42.70%
GPW/ Tangible net worth (%)	93.6%	97%	143%
NPW/Tangible net worth (%)	53.7%	54%	72%
Loss Ratio (Net Claims Incurred/ NPE)	41.9%	40%	47%
Commissions Ratio (Commission/ NPE)	6.8%	6.0%	4.5%
Expense Ratio (Net Expense / NPE)	57.7%	51.7%	60.7%
Combined Ratio	106.4%	97.9%	111.7%
Net Earnings ratio	12.6	18.36	4.50
RONW	6.4	9.57	3.40
ROTA	2.8	4.52	1.44

Industry Risk

The Mauritian insurance industry is regulated and supervised by the Financial Services Commission (FSC) under the Insurance Act 2005, with a regulatory framework aligned with International Association of Insurance Supervisors (IAIS) standards and principles. The industry caters for long-term insurance business (life insurance, pension and health insurance) and general insurance business (accident, health, engineering, guarantee, liability, property, transportation etc.). There are also providers offering external insurance business, restricted solely to non-Mauritian policies.

General Insurance business in Mauritius

In Mauritius there are 15 General Insurance companies, which generated a gross-premiums of MUR 10.3 billion and net premiums of MUR 9.1 billion in CY19. The key players in general insurance are Swan General (30%), MUA (23%), Eagle Insurance (12%) and SICOM (10%). Motor insurance made up the lion's share of general insurance business, accounting for 74% of total policies. Motor and Accident & Health segment is shared between 13 insurers, the major players being Swan (30%), MUA (21%), SICOM (9%), Mauritius Eagle (9%), Phoenix insurance (7%), NIC (5%) and New India insurance (5%). Property (14%), Miscellaneous (6%), Liability (6%), Engineering (3%), Transportation

(5%) and Guarantee (<1%) insurance make up the remaining general insurance business. While number of Guarantee and Accident & Health insurance policies grew by 17% and 26% respectively, the total number of general insurance policies witnessed a 1.3% increase from 2018 to 2019 mainly on account of less transportation (-19%) and Engineering and Liability (-10%) insurance policies. Growth of GPW for general insurance business is:

CY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
GPW Growth (%)	10.6	6.5	12.1	-1.0	13.7	2.5	5.4	5.8	9.2	4.4	9.8

General Insurance business in East Africa countries

There are 37 general insurers and 4 general reinsurers in the Kenyan insurance market, generating GPW of KES 130 M in 2019 (MUR 45 billion) in 2018. Motor (20%) and Medical (18%) insurance are the major segments of general insurance. Class-wise detailed GPW for the last 6 years:

Class of business	GPW (KSH Million)						
	2013	2014	2015	2016	2017	2018	2018
Aviation	1,127	1,200	1,484	1,476	1,726	2,134	2%
Engineering	2,776	3,547	3,794	3,473	4,190	3,692	3%
Fire Domestic	1,272	1,347	1,388	1,482	1,570	1,596	1%
Fire industrial	7,637	8,757	9,547	10,062	11,130	10,824	8%
Liability	1,560	1,891	2,191	2,520	2,817	2,729	2%
Marine	2,775	2,726	2,852	2,604	3,555	3,370	3%
Motor Private	13,909	16,382	18,430	20,460	21,484	22,495	18%
Motor Commercial	19,536	22,553	24,091	24,025	23,226	23,593	19%
Personal Accident	3,250	3,604	3,882	3,997	3,516	3,157	2%
Theft	3,289	3,553	3,786	3,774	3,784	3,863	3%
Workmen's Compensation	4,666	5,174	5,346	5,601	5,675	6,225	5%
Medical	20,507	25,315	29,516	38,520	38,337	40,195	32%
Miscellaneous	2,456	3,120	3,487	3,710	3,763	3,635	3%
Total	**84,765**	**99,176**	**109,800**	**121,710**	**124,779**	**127,511**	**100%**
Growth (%)		**17.0**	**10.7**	**10.8**	**2.5**	**2.2**	

While there are no insurers with over 10% market share, participants with significant market share are UAP Insurance) (7.11%), Jubilee Insurance (6.04%), CIC General (8.0%), Britam Insurance (6.29%) APA Insurance (7.15%) and GA insurance (5.00%). Over the recent years the Kenyan general insurance has been growing at a diminishing rate, with GPW growing by 2.36% from 2018 to 2019. The Insurance Regulatory Authority of Kenya is the sole authority charged with regulation and supervision of the Kenyan insurance industry. It ensures compliance by insurance/reinsurance companies, protects consumers, and promotes a high degree of security for policyholders.

Prospects

The prospects of MUA Limited depends on operational & financial performance of dividend paying subsidiaries (MUACY and MUA Life), turnaround in General Insurance business in Kenya and ability to maintain performance in other East African countries.

Financial Performance

MUA Limited (Holding company: Standalone) **(MUR Million)**

Financial Year Ending Dec 31,	FY19	FY20
	Audited	
Dividend received	136	144
Interest and other income	4	33
Total Income	**140**	**177**
Administrative expenses	**7**	**13**
Interest	6	22
PAT	127	140
Dividend	127	137
Tangible Net worth	1,851	2,266
Borrowings	500	500
Ratios in %		
PAT growth	-	10%
Gearing Ratio	27%	22%
RONW	7%	6%

MUA Limited (Consolidated) **(MUR Million)**

Financial Year Ending December 31,	FY18	FY19	FY20
Gross Premium Earned	4,256	4,480	5,237
Net Premium Earned	3,179	3,334	3,825
Net Claims	2,237	1,940	2,369
Investment Income	669	918	571
Operating Profit/ (Loss)	422	521	496
PAT	354	444	365
Dividend	121	127	137
Tangible Net worth	2,490	2,862	3,453
Borrowings	300	605	504
Investments	10,008	11,279	11,437
Cash & bank balances	532	612	1,247
Total assets	14,425	16,770	19,202
Ratios in %			
GPW growth (%)	9.3%	5.3%	17%
PAT growth (%)	10.2%	25.2%	(18)%
NPW growth (%)	9.0%	4.9%	15%
GPW/ Tangible net worth	1.71	1.57	1.48
NPW/Tangible net worth	1.28	1.16	1.11
Gearing ratio	0.12	0.21	0.15
Net Earnings ratio	11.15	13.30	10.00
RONW	14.60	16.60	12.00
ROTA	2.48	2.90	2.00

Adjustments

1. Tangible net worth is calculated by netting off revaluation reserve, deferred tax and intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT + Depreciation + deferred tax.
3. Overall Gearing ratio is calculated as total debt (long-term & short-term debt)/Tangible Net worth.
4. Total assets is calculated by netting off deferred tax and intangible assets
5. Net underwriting Profit = Net Earned Premium + Fees & Commission Income +Revenue from Contract with customers -Net claims & benefits – Commission & brokerage fees paid

Details of Instrument

1. Details Bond Issue in September 2019

Instrument	Amt. (MUR Million)	Repayment (MUR Million)
Long term Bond	500	10th year – 500 (September 2029)

The repayment terms are as follows: *MUR Million*

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	500.0

2. Details of the Proposed Bond Issue in June 2021

Instrument	Amt. (MUR Million)	Repayment (MUR Million)
Long term Bond	100	10th year – 100 (June 2031)

The repayment terms are as follows: *MUR Million*

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0