S&P Global
Ratings

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Research Update:

African Trade Insurance Agency 'A' Rating Affirmed; Outlook Remains Stable

April 26, 2024

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Overview

- An increase in arrears has prompted us to negatively reassess African Trade Insurance Agency's preferred credit treatment to adequate from strong.
- Still, the agency continues to consolidate its market presence and increase its membership, reinforcing its strong role and public policy mandate.
- Also, we positively reassessed African Trade Insurance Agency's financial risk profile to strong, from adequate, capturing the agency's very strong capital and earnings, moderate risk exposure, and exceptional liquidity.
- We therefore affirmed our 'A' issuer credit rating on African Trade Insurance Agency. The outlook is stable.

Rating Action

On April 26, 2024, S&P Global Ratings affirmed its 'A' issuer credit rating on African Trade Insurance Agency, now operating commercially as African Trade & Investment Development Insurance (ATIDI). We also affirmed our financial strength and enhancement ratings at 'A'. The outlook remains stable.

Outlook

The stable outlook balances the potential for ATIDI to continue consolidating its role and relevance in Africa and improving its risk management functions, against the potential for arrears to rise further or if the agency's immunity and privileges as a multilateral lending institution are not upheld.

Downside scenario

We could lower the ratings if we were to see evidence of fading shareholder support, such as a further weakening of preferred credit treatment (PCT), indicated by an additional increase in arrears, or if ATIDI's immunity and privileges as a multilateral lending institution are not upheld by member states.

Upside scenario

We could raise the rating in the event of significant expansion of the shareholder base that leads to an increase in the agency's regional market penetration and strengthening of its credit fundamentals.

We could also raise the rating if we obtained much greater comfort on the risk profile of ATIDI's exposures and the capacity of the entity to minimize risks deriving from its countries of operations.

Rationale

We expect ATIDI to continue consolidating its role and relevance in Africa by steadily expanding its shareholder base and underwriting activities while strengthening key managerial and risk functions.

In 2023, ATIDI paid claims relating to road and hospital projects in Ghana. As per ATIDI's business model, the agency expects to recover any noncommercial claim payment it makes in a member state from the respective government. Although the Ghanaian government says it will reimburse this amount, it has yet to do so, citing liquidity constraints and the ongoing restructuring of its external debt (see the full analysis: "Ghana," published Nov. 27, 2023, on RatingsDirect). Nevertheless, since these claims were not reimbursed within our 180-day recovery period, we assess them as having fallen into arrears, as per our criteria. Consequently, ATIDI's calculated PCT arrears ratio rises from 3.9% in 2022 to 7.1% in 2023, becoming commensurate with a lower PCT score of adequate, versus strong previously.

Because our PCT assessment is based on a 10-year period, we also include past arrears events from members such as Kenya, Malawi, Tanzania, and Zambia. We acknowledge, however, these sovereigns are now current with the agency. Presently, ATIDI has claims outstanding in Niger that are still within our 180-day reimbursement period. We expect that Niger will uphold the agency's PCT, but a failure to do so in a timely manner could add further downside to ATIDI's PCT.

Notwithstanding challenging macroeconomic dynamics, ATIDI has maintained its strong role and public policy mandate, underpinning its strong enterprise risk profile. ATIDI continues to consolidate its market presence, with gross exposure growing to $9.6 billion at year-end 2023, from $8.1 billion at year-end 2022. The entity's focus on political risk insurance (about 80% of total gross exposure), whereby noncommercial claims can be subrogated to respective member states, also confers the institution a competitive advantage and facilitates entry into reinsurance arrangements.

ATIDI's strength and relationship with shareholders remain a pillar of the rating. Its shareholder base has grown to 24 member states, from seven initially. Angola, Burkina Faso, Chad, and Mali are the latest sovereign members to join, while additional equity was received by Ethiopia ($22.9 million). Japan's NEXI and ZEP-RE, two of 12 institutional shareholders, also subscribed with capital injections of $14.9 million and $120,000, respectively. Collectively, these helped boost ATIDI's equity to $699 million at year-end 2023, from $558 million at year-end 2022. Key institutions and multilaterals, such as the International Development Association, African Development Bank, European Investment Bank, and KfW Development Bank, continue to provide concessional financing to support members joining ATIDI--further reinforcing our view of ATIDI's unique role and growing relevance.

Although no shareholder is dominant, a majority of shareholdings from countries with low average governance standards (according to World Bank indicators) potentially creates agency risks, in our view. At year-end 2023, ATIDI's largest sovereign shareholders were Kenya (6.7%), Benin (6.2%), Togo (5.6%), Uganda (5.4%), and Ethiopia (5.1%). ATIDI also has non-sovereign shareholders representing about 14% of the voting rights, which, in our view, could dilute its developmental mandate. The African Development Bank is the largest non-sovereign shareholder (3.3%).

On May 20, 2019, then-CEO George Otieno filed a constitutional petition against ATI in Nairobi's Employment and Labour Relations Court challenging the expiry of his fixed-term employment contract. While we expect 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 shareholder assessment of ATIDI.

ATIDI has paired its entrance into new markets and deepening presence in its member countries with the development of a more sophisticated and integrated enterprise risk management framework. The new framework, jointly devised alongside PwC Kenya, adopts tools to improve the efficiency of risk monitoring and reporting. These include new departmental risk registers, scoring matrices, and reporting templates. We view these key risk controls as sufficient and the controls appropriate for the entity's key underwriting and investment risks.

We view ATIDI's management as appropriately skilled and having a sufficient track record in operating the business at the current business volumes. The small management team and degree of key man risks are commensurate with the size of the entity.

Our strong assessment of ATIDI's financial profile, versus adequate previously, reflects the entity's very strong capital and earnings, moderate risk exposure, and exceptional liquidity. ATIDI posted net profit of $69 million at year-end 2023, compared with $23 million under IFRS 17. The agency also demonstrated strong top-line growth, recording gross premiums of $226 million at year-end 2023, compared with $133 million at year-end 2022. On an IFRS 17 basis, insurance revenue grew to $156 million from $136 million during the same period. This increase was supported by renewed and new underwriting deals across the continent, with notable expansion in Angola, Senegal, Tanzania, and Nigeria.

Both commercial and noncommercial risks are protected against weakening economic fundamentals in the region, in part by appropriate reinsurance, both treaty and facultative, with net exposure at $1.2 billion at year-end 2023.

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

Ratings Score Snapshot

Issuer credit rating:	A/Stable/--
Stand-alone credit profile	a
Enterprise risk profile:	Strong
Policy importance:	Strong
Governance and management expertise:	Adequate
Financial risk profile:	Strong

Capital adequacy:	N/A
Funding and liquidity:	N/A

N/A--Not applicable.

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Ghana, Nov. 27, 2023
- Supranationals Special Edition 2023: Capital Optimization At The Forefront for MLIs, Oct. 13, 2023
- Supranationals Special Edition 2023, Oct. 12, 2023
- Supranationals Edition 2023: Comparative Data For Multilateral Lending Institutions, Oct. 12, 2023
- Introduction To Supranationals Special Edition 2023, Oct. 11, 2023

Ratings List

Ratings Affirmed	
African Trade Insurance Agency	
Issuer Credit Rating	
Foreign Currency	A/Stable/--
Financial Enhancement Rating	
Local Currency	A/--/--
Financial Strength Rating	
Local Currency	A/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of

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