

MOODY'S

RATINGS

Rating Action: **Moody's Ratings upgrades ATIDI's IFSR to A2, outlook stable**

24 September 2024

London, September 24, 2024 – Moody's Ratings (Moody's) has today upgraded to A2 from A3 the insurance financial strength rating (IFSR) of The African Trade Insurance Agency (trading as African Trade & Investment Development Insurance or ATIDI) and changed the outlook to stable from positive.

RATINGS RATIONALE

The upgrade of ATIDI's rating reflects continuing growth in its membership base, leading to a more diversified portfolio and stronger capital adequacy, and good profitability, even amidst the challenging operating environment across a number of African countries. Despite the incurring increased gross losses in 2024 to date, primarily due to defaults from members Ghana and Niger, ATIDI's preferred creditor status (PCS) and extensive reinsurance coverage are expected to ultimately protect its net results.

The rating also reflects ATIDI's high quality and conservative investment portfolio and strong relationships with a number of global reinsurers, which offer significant risk mitigation. These strengths are partially offset by the inherently high risk nature of its exposures, dependence on reinsurance for underwriting capacity and limited direct access to capital markets.

ATIDI's capital has continued to grow rapidly, to \$763 million at June 2024 (from \$558 million at December 2022), reflecting retention of profits and a continually growing membership base. We expect capital to reach the \$1.0 billion mark by 2027. This capital growth, against the backdrop of ATIDI's conservative underwriting risk appetite given the challenging operating environment, has resulted in a low net exposure leverage of under 2x, a trend expected to persist as capital grows.

ATIDI bears limited underwriting risk on its own balance sheet thanks to the recoveries from members due to its PCS and extensive reinsurance protection (more than 80% of gross exposure is ceded to reinsurers). Enforcement of PCS and access to good quality reinsurance protection are key to ATIDI's current rating level. While we have limited concerns based on ATIDI's current experience, negative developments in either could be highly credit negative.

Despite having limited direct access to capital markets, ATIDI maintains good relationships with large development finance institutions that have regularly funded a portion of the capital contribution required for countries to become members, or extend their memberships. This support has been an indirect but steady source of capital for ATIDI. ATIDI also benefits from a number of institutional members, including large international DFIs and private insurers, which diversify its membership base outside of Africa.

OUTLOOK

The stable outlook reflects our expectation that ATIDI will continue to generate underwriting profits, supported by conservative underwriting, enforcement of its preferred creditor status with members

and strong reinsurance protection, and continue to grow its capital base supported by ongoing membership growth and retention of profits.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Considered unlikely given recent upgrade, but the following factors could lead to an upgrade: (i) significant strengthening of franchise including expanded membership, greater diversification and higher market shares; (ii) ongoing enforcement of preferred creditor status leading to minimal claims, net of recoveries, on a sustained basis; (iii) strong capital adequacy, with net portfolio leverage remaining comfortably below 3x; (iv) demonstrated ability to retain strong reinsurance support.

The following factors could lead to a downgrade: (i) an increase in net insured portfolio leverage to be consistently above 4x shareholders' equity or a reduction in shareholders' equity of more than 10% over a one-year basis; (ii) a sustained increase in claims, net of recoveries; (iii) significant reduction in reinsurance availability or quality of reinsurers; (iv) deterioration in ATIDI's franchise, including its standing with members and ability to enforce its preferred creditor status.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Trade Credit Insurers published in April 2024 and available at <https://ratings.moodys.com/rmc-documents/418357>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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