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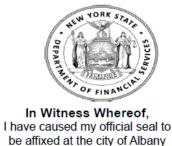
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EFFECTIVE DATE: August 25, 2021 EXPIRATION DATE: August 24, 2023

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Linda A. Lacewell Superintendent



# Insurance Agent License



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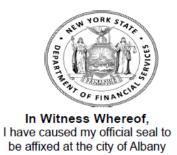
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Linda A. Lacewell Superintendent



# Ratings



#### Rating Action: Moody's assigns Caa3 IFS ratings to Klapton

Reinsurance; outlook stable

30 June 2022

London, June 30, 2022 – Moody's Investors Service ("Moody's") has today assigned Caa3 Insurance Financial Strength (IFS) ratings to Klapton Reinsurance Limited (KlaptonRe). The outlook is stable.

KlaptonRe is a new reinsurer, based in Zambia, with a focus on treaty and facultative reinsurance business across Africa, Asia, the Middle East and Latin America. KlaptonRe is affiliated with – through common ultimate ownership - Klapton Insurance Company (KIC), an insurer and reinsurer registered in the Autonomous Island of Anjouan, Union of Comoros and formed in 2005.

#### **RATINGS RATIONALE**

KlaptonRe's Caa3 IFS ratings reflect its standalone credit profile as well as the constraint deriving from its linkages to the credit profile of the Government of Zambia (Zambia, Ca stable) as a result of its domicile and its significant cash and investment holdings in banks and government debt in Zambia.

KlaptonRe's standalone credit profile reflects its good business profile, with exposures that are well diversified by cedant and geography, and a market position that benefits from long-standing relationships with cedants and brokers in its regions of operation. Albeit KlaptonRe is a new entity, it benefits from its association with KIC and an agreement to transfer KIC's existing reinsurance business to KlaptonRe on a renewal basis. The business being transferred to KlaptonRe has performed well, with 5 year average combined ratio of 51.5% from 2016 to 2020, and Moody's expects KlaptonRe's profitability to benefit from the good performance of this business.

KlaptonRe's capitalisation is good and it has benefited from capital infusions from its shareholders as it has built its platform and assumed an increasing amount of business. That said, Moody's expects that capital levels will need to be strengthened further to comfortably comply with the risk based capital requirements expected to be introduced in Zambia.

Moody's stated that the strengths reflected in KlaptonRe's standalone credit profile are offset by its small size in the context of the global reinsurance market and lack of track record as a new reinsurer operating from Zambia. Asset quality is weakened by the concentrated exposure of its cash and invested assets to Zambia, and its panel of reinsurers which are largely unrated, albeit that it has longstanding relationships and a history of claim recoveries with these reinsurers (via KIC). While KlaptonRe benefits from assuming KIC's existing reinsurance book, it is exposed to the risk that not all this business will renew with KlaptonRe, which could have a negative impact on profitability. Furthermore, the company plans to grow its premium volume quite significantly, which gives rise to higher underwriting risk, particularly to the extent that it expands into new geographic regions. While KlaptonRe does not currently have any financial debt outstanding, its financial flexibility is limited by lack of direct access to capital markets, and private ownership.

KlaptonRe's Caa3 IFS ratings are one notch higher than the Zambian sovereign rating, reflecting: (i) KlaptonRe's good capital buffers, based on current regulatory capital requirements, that allow it to absorb stress at the sovereign level, (ii) the significant portion of US Dollar based reinsurance premiums that are received from countries outside of Zambia which moderate the risk related to its

local cash and assets, and (iii) its expectation of ongoing capital support from its owners, albeit that no formal guarantees or capital support agreements are in place. Moody's believes that KlaptonRe is strategically important to the shareholders of KIC because it is the entity that they will use to continue serving their existing reinsurance clients as business is transferred out of KIC on renewal.

The rating takes into account KlaptonRe's governance as part of Moody's environmental, social and governance considerations. The company benefits from regulatory oversight in Zambia and an experienced management team, however its enterprise risk management framework is still developing and governance risk is negatively impacted by concentrated ownership.

#### **OUTLOOK**

The stable outlook for KlaptonRe reflects the stable outlook for Zambia, and our expectation that the company will successfully transfer renewing reinsurance business from KIC, and maintain good capitalisation sufficient to help it absorb potential stress at the sovereign level.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's stated that the following factors could lead to upward pressure on the ratings: (i) an upgrade of Zambia sovereign debt rating, and/or (ii) significant diversification of KlaptonRe's cash and invested assets to those not linked to Zambia and held in countries outside of Zambia, with stronger credit profiles, while continuing to source a significant majority of its reinsurance premium revenue from outside of Zambia.

Conversely, Moody's stated that the following factors could lead to a downgrade of KlaptonRe's ratings: (i) a downgrade of the sovereign debt rating, (ii) weakening of capitalisation relative to in-force business and reserves that reduces KlaptonRe's ability to absorb potential stress at the sovereign level, (iii) inability to successfully transfer a significant portion of the KIC business on renewal, leading to pressure on profitability and market position, and (iv) significant weakening of the operating environment in Zambia, including our assessment of the country's fiscal, institutional and economic strength.

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Reinsurers Methodology published in November 2019 and available at <a href="https://ratings.moodys.com/api/rmc-documents/65391">https://ratings.moodys.com/api/rmc-documents/65391</a>. Alternatively, please see the Rating Methodologies page on <a href="https://ratings.moodys.com">https://ratings.moodys.com</a> for a copy of this methodology.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <a href="https://ratings.moodys.com/rating-definitions">https://ratings.moodys.com/rating-definitions</a>.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at <a href="https://ratings.moodys.com/documents/PBC\_1288235">https://ratings.moodys.com/documents/PBC\_1288235</a>.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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