# ABC COMPANY

Rating Date: XX[th] XXX 2025
Rating Validity: 1 Year
Report Type: New Rating Assignment

## SUMMARY

ICRA assigned an "A" rating with a "Evolving" outlook to "ABC Company" on XXX 2025, assuming no material adverse events affecting the business activities occur during the validity period. The assigned rating reflects a balanced assessment of the company's business model, competitive advantages, market conditions and overall financial stability, which contribute to the overall creditworthiness of the company based on ICRA credit rating methodology for insurance entities. Below are the key points, including credit strengths as well as credit challenges, reflected in the assigned rating.

The assigned rating reflects ABC's strong business profile, high quality investment portfolio, maintenance of low leverage capital structure, robust capital adequacy and XXX in XXX insurance segment in Uganda. However, working on declining profitability trend over the last three years and managing the challenges of XYZ Company XXX in positive manner realizing the synergies are critical factors for ABC's to focus on during short to medium term period.

## OUTLOOK

The 'Evolving' outlook reflects positive yet challenging phase of sustaining short to medium term operating performance amidst headwinds faced due to claim inflationary environment as a result of post pandemic impact, and managing volatility in XYZ Company post the XXX as recent performance of XYZ Company was highly volatile.

## RATING UPGRADE TRIGGERS

– Enhanced underwriting performance: Sustained improvement in underwriting margins through refined risk selection and pricing strategies.
– Realisation of XXX synergies: Successful integration with XYZ Company, leading to accelerated profitability, broader market reach, and operational efficiencies.
– Improved liquidity and financial resilience: More stable and enhanced liquidity position, coupled with consistent profitability and strong capitalisation, would reinforce credit strength.
– Effective expense management: Implementation of corrective actions such as repricing and strategic underwriting to counter rising insurance expenses.
– Supportive operating environment: Continued stability in Uganda's economic and insurance industry outlook would provide a favourable backdrop for ABC's growth

## RATING DOWNGRADE TIGGERS

– Deterioration in underwriting performance: Continued underwriting losses due to poor risk selection, inadequate pricing, or adverse claims experience.
– Failure to realise XXX synergies: Inability to effectively integrate with XYZ Company, resulting in missed profitability targets, limited market expansion, and operational inefficiencies.
– Weakening liquidity and financial resilience: Decline in liquidity position, inconsistent profitability, or erosion of capital buffers that undermines financial stability.
– Ineffective expense management: Escalation in insurance operating costs without adequate corrective measures, such as repricing or strategic underwriting adjustments.
– Unfavourable operating environment: Deterioration in Uganda's macroeconomic conditions or insurance sector outlook that negatively impacts ABC's growth prospects.

## Rating Assignment

| Rating | Outlook |
|---|---|
| AA | Evolving |

*Table 1*

## Key Financials

| UGX bn | FY23 | FY24 |
|---|---|---|
| Insurance Revenue | XX | XX |
| Insurance & Investment Results | XX | XX |
| Net Profits | XX | XX |
| Assets | XX | XX |
| Investments | XX | XX |
| Reserves | XX | XX |
| Debt | XX | XX |
| Equity | XX | XX |

*Table 2*

## Key Ratios

| % | FY22 | FY24 |
|---|---|---|
| Underwriting Margin | XX | XX |
| Expense Ratio | XX | XX |
| ROE | XX | XX |
| ROA | XX | XX |
| High Risk Assets | XX | XX |
| Investment Yield | XX | XX |
| Cash to Reserves | XX | XX |
| Capital Adequacy | XX | XX |

*Table 3*

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## BUSINESS PROFILE

ABC Company is a XXX headquartered in Kampala and regulated by the Insurance Regulatory Authority of Uganda. Operating since XXX, ABC Company is part of the ABC Group—one of XXX organisations with a footprint in over XX countries across Africa, Asia, and beyond. The company offers a comprehensive range of XXX insurance products, including motor, property, personal accident, travel, marine cargo, and liability insurance, tailored to meet the diverse needs of individuals, businesses, and institutions.

ABC's revenue model is anchored in underwriting profits, which contribute XX% of operating income, complemented by XX% from investment returns. This balanced approach reflects strong risk management and effective asset allocation, enabling the company to sustain profitability amid market volatility.

As the XXX player in Uganda's XXX insurance market, ABC Company operates in a competitive landscape where the top five insurers control XX% of market share. The company continues to differentiate itself through customer-centric solutions and operational excellence.

In XX, ABC Company completed a strategic XXX with XYZ Company, following the broader ABC Company – XYZ Company XX across XX African countries. The XXX , approved by the regulator, consolidated operations under the ABC brand, enhancing service delivery, operational efficiency, and market reach. By combining ABC's local expertise with XYZ's global capabilities, the unified entity is well-positioned to drive industry growth and deliver greater value to policyholders across Uganda.

*Exhibit 1*

## DETAILED CREDIT RATIONALE

### Business Profile: Strong business profile with market leadership position:

ABC Company demonstrates a strong business profile underpinned by its leading market position as XXX player in Uganda's XXX sector. The company benefits from the strategic support of its parent, whose extensive regional footprint enhances brand recognition, operational resilience, and market access. This backing has enabled ABC Company to sustain its competitive edge and reinforce its leadership in the local market. Furthermore, the anticipated XXX with XYZ Company is expected to accelerate market dominance through increased scale, broader distribution capabilities, and operational synergies. The integration is likely to strengthen ABC's business profile by enhancing underwriting capacity, diversifying product offerings, and improving cost efficiencies. These developments position ABC Company to consolidate its market share and drive long-term growth in the XXX segment. In XX, ABC Company and XYZ Company XXX under the ABC Company brand, following the wider ABC Company – XYZ Company XX from XX across XX African countries. Approved by Uganda's Insurance Regulatory Authority, the XXX fully integrated both firms' operations, boosting ABC's market position and service capacity. It combined ABC's local insight with XYZ's global reach to build a stronger, more competitive insurer, aligned with regulatory goals for sector stability. The move is set to expand product offerings, enhance efficiency, and deliver more value to Ugandan policyholders.

## Management Quality: Strong management quality with good governance

ABC Company demonstrates strong management quality through a well-balanced governance structure and a highly experienced executive team. The board, chaired by seasoned lawyer XXX, comprises XX non-executive directors and XX executive director, ensuring clear separation between oversight and operations. Its composition reflects deep expertise across law, finance, insurance, and HR, reinforcing strategic alignment and regulatory compliance. Active participation in core committees—Investment, Audit & Risk, and HR/Remuneration—enhances governance effectiveness and risk resilience.

The leadership team is equally robust. CEO XXX, with XX+ years of industry experience, has driven strategic growth and chairs XXX. CFO XXX, an MBA holder and FCCA fellow, brings strong financial stewardship from top-tier institutions. CRO XXX adds depth in compliance and enterprise risk management, backed by XX+ years of experience. Together, they've delivered key milestones in portfolio diversification, underwriting profitability, and regional integration.

ABC's management quality is anchored in transparency, accountability, and strategic foresight. The agent–principal relationship is clearly defined, with management accountable to the board and shareholders. This synergy between board oversight and executive execution positions ABC Company as a resilient, forward-looking insurer committed to sustainable growth and operational excellence.

## Profitability & Performance: Decline in overall performance amidst high insurance expenses

ABC Company faced performance headwinds in FY24, with net profits down XX% y/y, driven by elevated expense pressures and deteriorating underwriting margins. Insurance service results declined XX% y/y, while net insurance and investment results fell XX y/y, reflecting the impact of claim inflation and rising loss severities. Despite a XX% y/y increase in insurance revenue to UGX XXbn—supported by growth across most segments—this topline momentum was offset by a sharp XX% y/y rise in insurance service expenses to UGX XXbn. Expense surges were most notable in Liabilities (+XX%), Engineering (+XX%), General Accident (+XX%), and Motor (+XX%), though Fire segment costs declined (-XX%). This expense trend mirrors FY23's XX y/y spike, signalling persistent cost pressures. Net XX expenses also rose XX% y/y to UGX XXbn, reversing a XX% decline in FY23, largely due to increased costs in Fire (+XX%) and General Accounts (+XX%). To restore profitability and competitiveness, ABC Company must recalibrate underwriting assumptions, refine pricing strategies, and strengthen claims management. Without strategic intervention, margin erosion may continue to undermine the company's otherwise positive revenue trajectory and market position in Uganda's XXX sector.

| Profitability (%) | | | | | |
|---|---|---|---|---|---|
| | FY20 | FY21 | FY22 | FY23 | FY24 |
| Underwriting Margin | na | na | XX | XX | XX |
| Total Expense Ratio | na | na | XX | XX | XX |
| Net Earnings Ratio | na | na | XX | XX | XX |
| ROE | XX | XX | XX | XX | XX |
| ROA | XX | XX | XX | XX | XX |

*Table 4*

*Exhibit 2*

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## Asset Quality: Strong and improving high-quality investment portfolio driven by low-risk assets:

ABC Company maintains strong asset quality, supported by a conservative investment strategy and regulatory compliance. Risky assets—limited to unlisted equities—have consistently remained below XX% of total investments, declining to XX% in FY24 from XX% in FY23 and XX% in FY22. This trend reflects prudent portfolio management and minimal exposure to volatile instruments. The only exception is a regulator-mandated stake in XXX.

The company's investment portfolio is predominantly composed of low-risk, income-generating XXX, aligning with capital preservation and liquidity goals. Average investment yields remained stable at XX% in FY24 and FY23, after peaking at XX% in FY22 and FY21. Despite market pressures, this consistency signals sound asset selection and effective portfolio oversight, supporting earnings stability and reducing strain on underwriting margins.

Investment income continues to be a key contributor, accounting for approximately XX% of total insurance and investment earnings. ABC's disciplined allocation strategy ensures predictable cash flows and reinforces its risk management framework. The combination of declining risky asset ratios, stable yields, and a defensive investment mix positions the company to absorb underwriting volatility and maintain financial resilience. Overall, asset-side risks are low, and the portfolio remains well-aligned with long-term sustainability and regulatory expectations.

| Asset Quality | | | | | |
|---|---|---|---|---|---|
| | FY20 | FY21 | FY22 | FY23 | FY24 |
| Risky Assets to Investments | XX | XX | XX | XX | XX |
| Average Investment Yield | XX | XX | XX | XX | XX |

*Table 5*

*Exhibit 3*

## Liquidity: Slightly declined yet sustained liquidity position

ABC Company maintained a strong liquidity position in FY24, supported by robust reserve coverage and XX debt exposure. The cash-to-reserve ratio stood at XX%, down from XX% in FY23 but still above historical levels, reflecting reduced cash holdings due to increased investments. More notably, cash and investments to reserves improved to XX% in FY24 from XX% in FY23, indicating enhanced coverage of technical reserves through liquid, income-generating assets. This trend reinforces balance sheet strength and shock absorption capacity. The company's funds are predominantly allocated to low-risk, high-quality assets, aligning with its conservative investment approach. ABC's asset-liability management remained sound, with no refinancing risk or repayment pressure. The combination of adequate cash buffers and high reserve coverage ensures financial flexibility and operational continuity, even under stressed conditions. Overall, liquidity is considered strong and well-aligned with regulatory expectations and ABC's long-term financial sustainability goals.

| Liquidity | | | | | |
|---|---|---|---|---|---|
| | FY20 | FY21 | FY22 | FY23 | FY24 |
| Cash to Reserve | XX | XX | XX | XX | XX |
| Cash & Investments to Reserves | XX | XX | XX | XX | XX |

*Table 6*

Exhibit 4

### Capital Adequacy: Robust capital adequacy with an improving capital buffer.

ABC Company continues to exhibit strong capital adequacy, consistently exceeding the regulatory threshold of 200% under the RBZ framework. In FY24, the capital adequacy ratio rose to XX%, up from XX% in FY23 and XX% in FY22, with the capital buffer widening to XX percentage points from XX ppts. This upward trend reflects enhanced internal capital generation and prudent risk management. Despite market volatility, ABC's capital position remained resilient, with the lowest buffer recorded at XX ppts in FY22. The company's robust solvency profile provides a solid cushion against credit, market, operational, and insurance risks, ensuring business continuity and policyholder protection. ABC's disciplined financial governance and strategic capital planning support long-term sustainability and regulatory compliance. The strong capital base reinforces stakeholder confidence and positions the company to absorb shocks while pursuing growth in Uganda's XXX market.

| Capital Adequacy | | | | | |
|---|---|---|---|---|---|
| | FY20 | FY21 | FY22 | FY23 | FY24 |
| Capital Adequacy | XX | XX | XX | XX | XX |
| Regulatory Requirement | 200% | 200% | 200% | 200% | 200% |
| *Capital Buffer (ppts)* | XX | XX | XX | XX | XX |

Table 7

## OTHER CONSIDERATIONS

### ABC Company & XYZ

In XXX, ABC Company and XYZ Company finalised XXX, marking a pivotal moment in Uganda's insurance sector. This followed the broader ABC Company – XYZ Company XX of XX, which unified operations across XX African countries, forming XXX networks with an enterprise value nearing USD XXbn. Approved by the Insurance Regulatory Authority, the Uganda XXX involved full integration of both companies' operations, products, and teams. ABC Company, already the XXX in Uganda, further strengthened its market position, enhancing its ability to deliver innovative solutions and improved customer service.

The XXX aimed to combine ABC's deep local market knowledge with XYZ's global expertise, fostering a more resilient and competitive insurer aligned with regulatory goals for sector stability. XXX, the unified entity operates under the ABC Company brand, offering a broader portfolio of XXX products.

However, despite the positive outlook, XYZ Company recorded losses in two of the past three years, indicating performance volatility. If this trend persists, ABC Company may need to absorb a certain level of losses XXX, potentially impacting short-term performance. Strategic integration and operational discipline will be key to mitigating these risks.

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## REFERENCES


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