



**AN AFFILIATE
OF MOODY'S**

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The Role of Ratings on the Insurance Sector and its Regulation

The Role Of Ratings On The Insurance Sector

- Ratings fit into insurance regulation by providing an independent assessment of the solvency and stability of insurance companies.
- **Credibility:** Ratings provide an independent and rigorous assessment of credit worthiness that is easily understood by Regulators, capital markets investors, market players and consumers.
- Ratings provide critical information that steers and quite possibly guides investor decisions to capitalise insurers, enabling them to better protect consumers.
- Ratings provide input for strategic decisions for Insurers such as product offering and geographical expansion.
- **Surveillance -** Ongoing monitoring during the life of the rating of the insurer:
 - Provides a continuous view of the insurer and the market
 - It serves as a tool to allow the insurer to improve their operations.
 - Ratings provide an overarching assessment of the insurer in light of peers and prevailing market conditions.

The Impact Of Ratings On Regulators

- Feedback from Ratings can provide input into Regulatory policy and framework formulation.
- Ratings provide a Regulator with insights into the financial strength of an Insurer assisting the Regulatory with its oversight function.
- The research provided Ratings agencies provides sector insights and provides a comparison to regional and global markets.
- A Rating can also provide capital relief in certain markets which strengthens the position of the insurer so that they can better protect policy holders.

AI and its impact on Reinsurers and Credit Rating Agencies

- The rise of AI positively impacts the reinsurance industry and the credit rating industry.

Impact on Credit Rating Agencies

- It improves access to information used in the models used to produce credit ratings.
- AI models can analyse a wider range of data, including non-traditional sources, leading to more accurate risk assessments and improved prediction of defaults.
- There are some AI tools currently in use that produce credit ratings (e.g. Martini AI).
- While AI can assist in the quantitative aspects, a credit rating still involves the discussion and deliberation of a human credit committee in providing a balanced outcome that accounts for qualitative factors.

Impact on Reinsurers

- It helps insurers more accurately model risk by analysing large datasets and hence refine pricing models.
- This is particularly important as climate change has increased the likelihood of catastrophic events like droughts, floods, and cyclones.
- AI can streamline risk assessment: Improve underwriting decisions through data-driven insights and analysis of the current risk profile as well as the past performance.
- AI can enhance claims analysis by generating snapshot reports from loss adjuster documentation to accelerate claims processing.
- These benefits increase the operational efficiency of insurers.

Conclusion

- Overall, you have to view rating through your lens as a consumer, as a regulator or market stakeholder and ask the question: can I assess and attain the following from a rating?
- Does it provide your business or you as policy holder or you as Regulator with the requisite level of comfort that the investments and interests of all stakeholders are secure?
- Is it a forward-looking opinion on the creditworthiness of an insurer which will allow for a peer analysis in the local market, regional market and on a global scale?
- As GCR our ratings can assure you of the following:
 1. GCR ratings are Globally comparable.
 2. As an African Credit Ratings Agency, we are expected to provide more accurate and relevant ratings that consider the economic and financial context of African economies.
 3. GCR's ratings framework allows for this and provides some level of cross-border comparability. A unique feature.
 4. There is a need for increased transparency. A local credit ratings agency is expected to increase transparency and have a detailed understanding of African markets and therefore reducing reliance on foreign agencies that may not fully comprehend the local context.
 5. GCR Ratings neutralise sovereign/country risk to allow greater credit differentiation and our methodology is continuously being revised in line with the macro and micro risks which the African continent faces.
 6. In conclusion Ratings can facilitate inclusive economic growth through financial inclusion as they are the inflection point of the interests of the Regulator, the consumer and market stakeholders and GCR Ratings remains committed to Zimbabwe, SADC and the broader African continent.