

SUNU Assurances Nigeria Plc

2023 Abridged Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

SUNU Assurances Nigeria Plc

Rating Assigned: *A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.*

Bbb

Outlook: Stable

Issue Date: 31 October 2023

Expiry Date: 30 June 2024

Previous Rating: N/A

Industry: Insurance

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RATING RATIONALE

Agusto & Co. hereby assigns a 'Bbb' rating to SUNU Assurances Nigeria Plc ('SUNU Assurances' or 'the Insurer' or 'the Company') reflecting its experienced management team, strong capitalisation and solvency margin, strong shareholders' support and membership of a Pan African insurance group. However, suppressing the assigned rating is the Insurer's low investment returns, weak liquidity profile, weak macroeconomic fundamentals and low insurance uptake in Nigeria.

SUNU Assurances Nigeria Plc was licensed by the National Insurance Commission (NAICOM) on 29 March 2018 to carry out non-life insurance business following the acquisition of a majority stake in Equity Assurance Plc by SUNU Group (a Pan-African insurance group with a presence in 14 African countries). SUNU Group provides financial support as reflected in the resolution of its lingering disputed JPY-denominated borrowings and private placement in 2021. Business leads, technical resources and governance support are also extended by the ultimate Parent to the Insurer.

SUNU Assurances has maintained strong capital indicators on the back of good shareholders' support and full profit retention. A private placement exercise by SUNU Group in the prior year and full profit retention spurred a ₦7.1 billion shareholders' funds for the Insurer as at 31 December 2022, more than twice the ₦3 billion regulatory minimum for non-life insurers. The solvency margin at 212.7% was also significantly above the 100% regulatory minimum. Agusto & Co expects an improvement in capitalisation in the near term on the back of the anticipated improvement in profitability and full earnings retention.

Since the inauguration of the new management team in 2018, the Insurer's gross premium income (GPI) has maintained an upward trajectory. The Company's performance also remained profitable since FY 2020. During the financial year ended 31 December 2022, the GPI grew by 18.5% to ₦5.8 billion, backed by strong broker relationships, partnerships with financial institutions and direct marketing efforts. The Insurer is most prominent in the corporate segment with the oil and gas, fire and motor dominating the GPI. A 41.4% uptick in claims resulted in an increase in the average loss rate of 33.3% (FY 2021: 26.9%), the highest since FY 2018, albeit lower than the industry average during the year under review. An 18.2% increase in the

underwriting expenses on the back of increased staff remunerations, and a 16.8% increase in acquisition and maintenance costs resulted in a higher 68.6% (FY 2021: 62.2%) combined ratio, the highest in the last four years. While the operating expenses remained relatively unchanged during the period, the increase in investment income and other non-operating income also supported the remarkable 160.3% rise in post-tax profits to ₦330 million. This translated to an improved post-tax return on average assets (ROA) of 0.7% (FY 2021: 0.3%) and post-tax return on average equity (ROE) of 4.8% (FY 2021: 2.4%). In the near term, we believe the Insurer's profitability ratio will improve, spurred by the various initiatives adopted to grow GPI, moderate claims and operating expenses. Revaluation gains on the foreign currency (FCY) denominated bank placements and premiums coupled with the regulatory-induced increase in policy rates will also support profitability. Subsequent to the year-end, the annualised ROA and ROE spiked to 7.7% and 51.8% respectively in H1 2023, in line with our expectations.

In FY 2022, SUNU Assurances experienced a notable 68.4% growth in investment income, amounting to ₦566.4 million. This increase was driven by gains in foreign exchange (FX) on foreign currency (FCY) denominated placements with financial institutions, higher investment rates, and dividend income. Consequently, the Insurer achieved an average return of 13.4% (FY 2021: 6.2%) on its investment portfolio. In the near term, we anticipate a further increase in investment income from FX gains following the harmonisation of foreign exchange.

As at 31 December 2022, SUNU Assurances liquid assets pool stood at ₦3.8 billion and covered outstanding claims 2 times which was at par with the previous year. While the operating cash flow declined during the period due to the payment of outstanding claims, it further provided 0.4 time (FY 2021: 1.8 times) coverage. In our view, the Insurer's liquid assets capacity to provide a sufficient buffer to meet claim obligations could be better. We also believe that the operating cash flow is low.

Based on the aforementioned, we attached a **stable** outlook to the rating of SUNU Assurances Nigeria Plc.

Strengths

- Good shareholders' support
- Good capitalisation and solvency margin
- Membership of a Pan-African Insurance Group

Weaknesses

- Low investment returns
- Low market share
- Relatively low liquid assets

Challenges

- Weak macroeconomic environment
- Low acceptability of insurance by many Nigerians
- Retaining good quality staff in view of the raging wave of migration

BACKGROUND INFORMATION

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|-----------------------------|---|
| Paid-up Capital: | ₦2.9 billion |
| Shareholders' Funds: | ₦7.1 billion |
| Corporate Office: | SUNU Place, Plot 1196, Bishop Oluwole Street Victoria Island, Lagos |
| Number of Offices: | 9 |
| Principal Business: | Non-Life Insurance |



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