SUNU Assurances Nigeria Plc

2023 Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

SUNU Assurances Nigeria Plc

Rating Assigned:

Bbb

Outlook: Stable
Issue Date: 31 October 2023
Expiry Date: 30 June 2024
Previous Rating: N/A

Industry: Insurance

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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.

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

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

PROFILE

SUNU Assurances Nigeria Plc ('**SUNU Assurances**' or '**the Insurer**' or '**the Company'**) was incorporated as Equity Assurance Plc on 13 December 1984 and was licensed to underwrite non-life businesses. Following the acquisition of a majority stake by SUNU Group, the name was changed to SUNU Assurances Nigeria Plc in March 2018. SUNU Group was established in 1998 and it is the fastest-growing Pan-African insurance group, through acquisition, with operations in 14 West and Central African countries and 25 office locations.

The Insurer operates through nine branches spread across major cities in Nigeria with circa 50 agents. The Company also leverages SUNU Group's vast network, financial strength, corporate governance and technical resources in differentiating its offerings and services in the Nigerian marketplace. The Insurer's clientele cuts across the corporate segment, public sector, financial institutions and individuals.

Subsidiaries & Associates

As at 31 December 2022, SUNU Assurances has two subsidiaries; EA Capital Management Limited (wholly owned subsidiary) and SUNU Health Nigeria Limited (partly owned subsidiary). EA Capital Management Limited is a wholly-owned subsidiary of the Insurer and provides finance lease services. During the year under review, EA Capital Management Limited recorded a spike in profit after tax to ₦10.8 million (FY 2021: ₦302,000). SUNU Health Nigeria Limited provides health management services. The Insurer holds a 67.3% equity stake in SUNU Health Nigeria Limited which recorded ₦106.5 million (FY 2021: ₦136.8 million) as profit after tax in FY 2022. In 2010, the Ogun State Government granted SUNU Assurances a concession right to manage Gateway Hotel, Ijebu-Ode. Thus, the name was subsequently changed to Equity Resort Hotel, Ijedu-Ode. The Company renovated the hotel with a sum of ₦1.2 billion representing its concession investment. During the year, Equity Resort Hotel, Ijebu-Ode posted losses and the Insurer's share of the losses amounted to ₦5.6 million from a ₦11.5 million profit in the prior year.

Actuary

Logic Professional Services provides actuarial services to SUNU Assurances Nigeria Plc. The most recent valuation of the Insurer's non-life business was completed in December 2022.

Ownership and Board of Directors

As at 31 December 2022, SUNU Group ultimately controlled 83.3% of the Insurer's 5.8 billion paid-up shares while other 41,580 investors held the remaining equity stake. SUNU Assurances is governed by a nine-member Board of Directors chaired by Mr Kyari Bukar. The Board comprised seven Non-Executive Directors (including three Independent Non-Executive Directors) and two Executive Directors. The Board carries out its oversight functions through four standing committees: the Audit and Compliance Committee; Board Finance, Investment And General Purpose Committee; Board Remuneration, Nomination And Governance Committee; and the Board Enterprise Risk Management Committee.

Current Directors	Designation
Mr Kyari Abba Bukar	Chairman (Independent Non-Executive Director)
Mr Samuel Ogbodu	Managing Director and Chief Executive Officer
Miss Taizir Ajala	Vice Chairman (Independent Non-Executive Director)
Mr Philippe Ayivor	Non-Executive Director (Independent Non-Executive Director)
Mr Mohamed Bah	Non-Executive Director
Mrs Olajumoke Bakare	Non-Executive Director
Mr Karim-Franck Dione	Non-Executive Director
Hajia Aisha Abubakar	Non-Executive Director
Mr Adeleke Hassan	Executive Director

Management Team

Mr Samuel Ogbodu was appointed as the Managing Director of SUNU Assurances Nigeria Plc in 2018. He has over 30 years of professional experience transversing sales, business development, strategy and leadership within the insurance industry. He started his career at Nigerian Life and Pension Consultants and later joined Law Union and Rock Insurance Plc (now Tangerine General Insurance Limited). He was also a pioneer staff of Sovereign Trust Plc and rose to the rank of executive director before joining SUNU Assurances as an Executive Director.

Mr Ogbodu is a Chartered Insurer and a member of the Society of Fellows of the Chartered Insurance Institute of Nigeria. He is an alumnus of Lagos State University, Lagos Business School, and the University of Lagos, Akoka.

Other members of the senior management team include:

Mr Emmanuel Adeleke Hassan	Executive Director, Technical and Operations
Mr Oladokun, Oladipupo Lateef	Head, Technical
Mr Siwoku Eric Rotimi	Group Head, Strategy and Retail Business
Mr Ewuzie Robert Onyemauche	Head, Business Development
Mr Omitaomu, Yakub Olusegun	Head, Special Risks and Underwriting
Mr Ogunduyilemi Fola Joshua	Head, Branch Operations
Mr James Babatunde	Head, Financial Institution and multi-client
Mr Oginni Olusegun Michael	Chief Finance Officer
Mr Simidele Lawal	Chief Risk Officer
Mr Elie Ogounigni	General Manager, Risk and Internal Control
Mr Anthonia Odegbaro	Group Treasurer
Mr Taiwo Olubunmi Kuku	Company Secretary/Head, Legal

In FY 2022, SUNU Assurances employed an average of 102 persons, higher than 99 persons in the previous year. The average cost per staff increased by 18.4% to ₦4.8 million mainly due to the increase in the number of staff and remunerations. Notwithstanding, the operating profit per employee improved by 36.1% to ₦4.5 million and covered staff cost per staff 0.9 times (FY 2021: 0.8 times) which compared less favourably to Regency Alliance Insurance Plc’s (Regency Insurance) 1.6 times and Universal Insurance Plc's (Universal Insurance) 0.8 time.

In our opinion, SUNU Assurances possesses an experienced management team, however, there is room for improvement in staff productivity.

PROFITABILITY

SUNU Assurances Nigeria Plc underwrites non-life risks including motor, oil and gas, marine, general accident, engineering, aviation and fire risks, leveraging both its legacy domestic brand and international presence. In the financial year ended 31 December 2022, SUNU Assurances' gross premium income (GPI) grew by 18.5% to ₦5.8 billion propelled by direct marketing activities, partnerships with financial institutions and business relationships with insurance brokers. The Insurer is wholesale-focused with 82.4% of business generated from the corporate segment, 13.9% from the public sector and the remaining 3.8% from the retail segment.

Supporting the growth of the premium during the year under review is a significant 41.4% increase in engineering business premium, reflecting its relatively low portfolio size. The oil and gas premium was stagnant due to the inability to consummate business during the year given the intense competitive environment while the aviation premium contracted given the macroeconomic challenges which moderated activities of the airlines. Subsequent to the year-end, in the first six months of 2023, the GPI amounted to ₦4.5 billion representing 67.4% of the forecasted premium for 2023 supported by the upward reprising of fire and motor policies by the Professional Re-Insurers Association of Nigeria (PRAN) and NAICOM respectively. Special incentives for non-marketing staff, development of additional motor products, partnerships and deepening relationships with the insurance brokers are expected to support the 16% GPI projected for FY 2023.

Figure 1: GPI by Business Line (FY 2022)

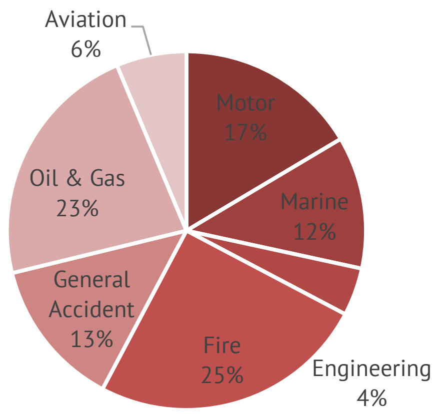
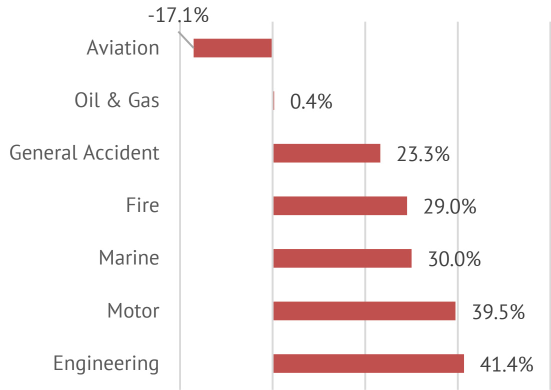


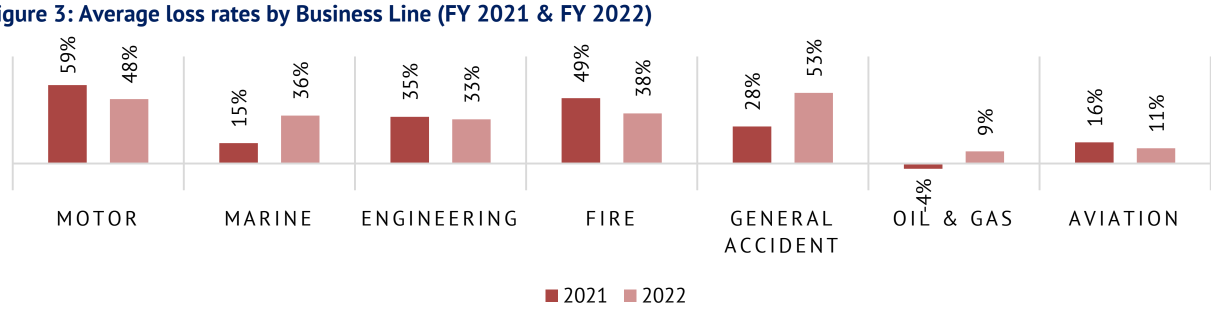
Figure 2: Growth by Business Line (FY 2022)



In line with the dominance of insurance brokers in the Nigerian Insurance Industry, 72.6% (FY 2021: 74%) of the GPI in the year under review was sourced through insurance brokers, 23.2% (FY 2021: 22.8%) from other financial institutions while agents (1.8%) and direct sales (2.4%) accounted for the remaining premiums in FY 2022. SUNU Assurances intends to continue leveraging partnerships with brokers, financial institutions, its online platform and the strategic setting up of profitable branches to boost premiums. Furthermore, the Insurer plans to focus on the motor insurance business by training and deploying agents to drive business and also creating new products to drive the retail business.

In FY 2022, SUNU Assurances' net claims amounted to ₦1.2 billion, up by 41.4%, mainly propelled by the 190.5% surge in claims from the marine business to ₦173 million as risk crystalises and resulted in an average loss rate of 35.9% (FY 2021: 15.2%). General accident and oil and gas business line loss rates also increased during the period while other business lines recorded reduced loss rates. In contrast, the strength of the reinsurance treaties resulted in significant recoveries in the fire segment, thus, claims from the business line dipped by 14% to ₦262.3 million and moderated the surge in total claims. Overall, SUNU Assurances' average loss rate increased to 33.3% (FY 2021: 26.9%) but remained lower than Regency Insurance's 52.4% but compared less favourably to Universal Insurance's 26.1%. In the near term, we expect claims to be moderated by growth in premiums given the Insurer's initiatives to improve the topline. Subsequent to the year-end, in the half year ended 30 June 2023, the average loss ratio improved to 16.5% supporting our stance. Notwithstanding the increase in policy rates, we believe the raging inflationary wave and the persistent naira devaluation will continue to threaten the loss rate, albeit at a lower rate.

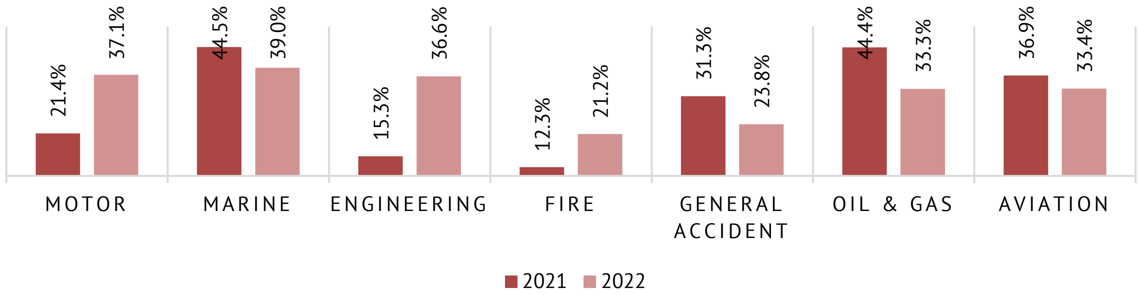
Figure 3: Average loss rates by Business Line (FY 2021 & FY 2022)



In FY 2022, SUNU Assurances' other underwriting expenses, comprising maintenance, acquisition, and staff costs, rose by 18.2% to ₦1.7 billion, mainly driven by higher commissions paid to brokers and staff remuneration review. Notwithstanding, the underwriting expense ratio remained unchanged at 35.3% compared to the previous year given the relative increase in net premium. This was higher than Regency Insurance's 22.7% but lower than Universal Insurance's 44.9%. However, due to an increase in claims and the resulting spike in average loss rate, the combined ratio rose to 68.6% (FY 2021: 62.2%), better than Regency Insurance's 75.1% and Universal Insurance's 71%.

SUNU Assurances' underwriting profit dipped by 7.3% to ₦1 billion in FY 2022, given the spike in claims and translated to an underwriting profit margin of 17.3% (FY 2021: 22.2%). At this level, the Insurer's underwriting profit margin was better than Regency Insurance's 9.8% but lower than Universal Insurance's 22.2%. We believe SUNU Assurances' underwriting business performance in the year 2022 was acceptable considering the pressures from the harsh operating climate. In the near term, we expect the underwriting profit margins to improve based on several initiatives to further drive premium income, particularly in the motor and oil and gas business while strengthening the risk underwriting activities to moderate claims.

Figure 4: Underwriting Profit/Loss Margin by Business Line (FY 2021 and FY2022)



During FY 2022, SUNU Assurances' operating expenses remained at ₦1.2 billion. Overall, post-tax profits increased significantly by 160.3% to ₦330 million and translated to improved profitability ratios; post-tax return on average assets (ROA) of 0.7% (FY 2021: 0.3%) and a post-tax return on average equity (ROE) of 4.8% (FY 2021: 2.4%). At this level, the Insurer's profitability compared less favourably to Regency Insurance's (ROA: 1.1% and ROE: 7.6%) and Universal Insurance's (ROA: 5.2% and ROE: 6.6%) in the same period.

We consider the Insurer's profitability to be low. Given the various initiatives to grow premiums while moderating the operating costs and claims, we expect a marked improved profitability in FY 2023. Revaluation gains from the investment portfolio foreign currency-denominated premiums will also support profitability. In the six months ended 30 June 2023, the Insurer recorded ₦2.1 billion as profit after tax, translating to an annualised ROA of 7.7% and ROE of 51.8%; in line with our expectation.

INVESTMENT MANAGEMENT

SUNU Assurances Nigeria Plc's investment portfolio is managed to provide liquidity to meet its claims obligations while also supporting profitability. The investment portfolio is also used to induce risk underwriting business given that financial institutions are a major source of premiums for the Insurer. As at 31 December 2022, SUNU Assurances Nigeria Plc's investment portfolio stood at ₦4.5 billion, a 12.2% year-on-year uptick on account of additional investments and improved returns. Placements with financial institutions dominated the Insurer's investment portfolio which grew by 25.5%, given the high liquidity needs on account of the volatile nature of claims in the non-life business. Based on Agusto & Co.'s assessment, 96% of the placements were held with investment-grade financial institutions. Placements with speculative-grade financial institutions are solely for business considerations and high returns. In our view, an internal rating model will be more accurate and remove ambiguities in the assessment of counterparties.

Figure 5: Investment Portfolio Composition as at FYE 2022

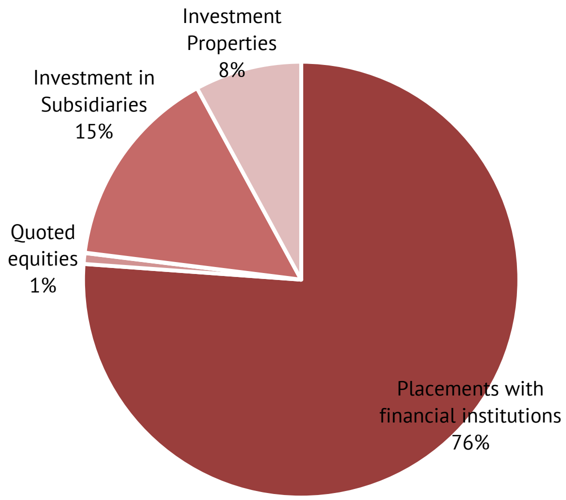
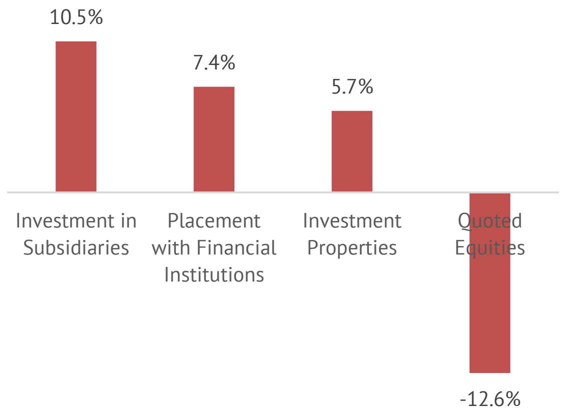


Figure 6: Investment Yield on Asset Class (FY 2022)



The performance of SUNU Assurances' two subsidiaries; EA Capital Management Limited and SUNU Health Nigeria Limited continue to support the overall performance of the Insurer's investment portfolio. As at 31 December 2022, SUNU Assurances had an investment of ₦677 million in the subsidiary companies and posted a dividend income of ₦71.4 million which further bolstered investment income. The Insurer plans to obtain a full asset management license for EA Capital Management Limited to allow it to operate as a full-fledged asset management company. In our opinion, with the right initiatives and the international profile of SUNU Assurances, the non-insurance business can become a prominent contributor to the Insurer's performance through dividend payments and cross-selling opportunities.

During FY 2022, SUNU Assurances' investment income grew by 68.4% to ₦566.4 million, buoyed by foreign exchange (FX) gains on foreign currency (FCY) denominated placements held with financial institutions, increase in investment rates and dividend income. The FX gains increased by 152.7% to ₦246.1 million on FCY placements which account for 76.4% of the total investment portfolio while interest income on bank placements increased by 34.3% to 251.8 million supporting total investment income. An increase of 158.9% in rental income to ₦20.2 million during the period under review also reinforced the growth in investment income. Overall, this translated to a higher average return on the investment portfolio of 13.4% (FY 2021: 6.2%) in FY 2022. The Company's average investment yield was better than Regency Insurance's 6.3%, Universal Insurance's 6% and the Industry's non-life segment's 6.3%. While we view positively the quality of the Insurer's investments, in our opinion, the Insurer's investment yield can be improved given the negative real returns recorded in the review year when compared to the average inflation rate of 18.9% recorded during the period.

Subsequent to the year-end, based on the unaudited financial statement ending 30 June 2023, the Insurer recognised an FX gain of ₦1.8 billion due to the devaluation of naira. This further supported the half-year profit and translated to an average return on investment of 34.7%. We believe this will be maintained in FY 2023.

Furthermore, SUNU Assurances' investment in Equity Resort Hotel yielded a profit of ₦3 million following a loss of ₦5.6 million recorded in FY 2022.

Capital Adequacy

As at 31 December 2022, SUNU Assurances' shareholders' fund stood at ₦7.1 billion, more than twice the ₦3 billion current regulatory minimum for non-life insurers in Nigeria. SUNU Assurances shows a strong financial strength and capacity to withstand unforeseen shocks with a solvency margin of 212.7% (FYE 2021: 224%) and was comfortably better than the 15% regulatory minimum. As at the same date, the equity cushion of 61.5% stood at par with the prior year, better than Regency Insurance's 57.2%, but lower than Universal Insurance's 78.5%. In the medium term, SUNU Assurance plans to inject additional capital to support its subsidiary business and further expansions.

The Insurer's insurance funds to net premium income ratio, indicating the capacity to cover current business risks, improved slightly to 98.8% (FYE 2021: 97.7%) as at FYE 2022. Overall, we consider SUNU Assurances' capital to be good for the current level of business risks undertaken.

Cash Flow And Liquidity

As in the financial year ended 31 December 2022, SUNU Assurances' operating cash flow (OCF) before payments to the providers of financing declined by 78% to ₦746.8 million due to payment of outstanding claims. Consequently, the OCF coverage for the insurer's outstanding claims moderated to 0.4 time (FY 2021: 1.8 times), lower than Regency Insurance's 2.9 times and Universal Insurance's 1.4 times.

During the year under review, the Insurer's liquid assets, including cash and equivalents, bank placements, and quoted securities, expanded to ₦3.8 billion (FYE 2021: ₦3.1 billion) and covered outstanding claims 2 times, at par with the previous year. This was lower than Regency Insurance's 14.4 times and Universal Insurance's 5.8 times. In our view, the Insurer's liquid assets capacity to provide a sufficient buffer to meet claim obligations is just acceptable while we believe that the operating cash flow is low.

Table 1: Liquidity & Cash Flow Indicators

Key Indicators	SUNU Assurances 2021	SUNU Assurances 2022	Regency Insurance 2022	Universal Insurance 2022
OCF/Premium Income	69.9%	12.9%	31%	13.2%
OCF/Outstanding Claims (times)	1.8 times	0.4 time	2.9 times	1.4 times
Liquid assets/Outstanding Claims (times)	2 times	2 times	14.4 times	5.8 times
Liquid Assets/Total Assets	28.7%	33%	68.5%	24.6%

REINSURANCE

SUNU Assurances considers regulatory guidelines, financial and technical capacity, previous experience in terms of claims settlement and credit ratings when selecting reinsurers. During the year under review, the Insurer had reinsurance agreements with the following companies:

Reinsurers	Credit Ratings
African Reinsurance Corporation	Rated **'A'** by AM Best
ZEP-RE (PTA Reinsurance Company)	Rated **'BBB'** by AM Best
Continental Reinsurance Plc	Rated **'Bbb-'** by AM Best
WAICA Reinsurance Corporation	Rated **'Bb+'** by AM Best
CICA-Reinsurance	Rated **'B+'** by AM Best
Nouvelle Compagnie Africaine de Réassurance	Rated '**CCC**+' by GCR
Nigeria Reinsurance Corporation	Unrated

Figure 7: Breakdown of Reinsurance Expenses (FY 2022)

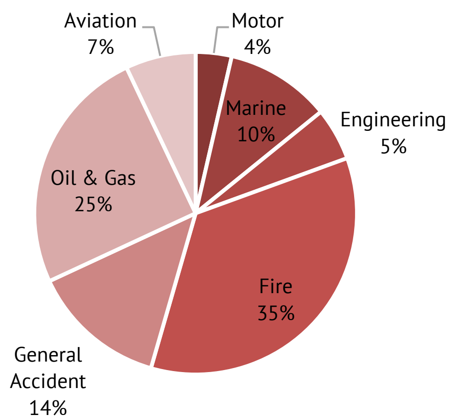
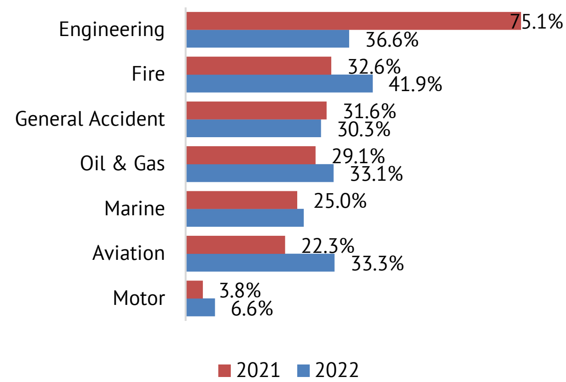


Figure 8: Risk Cession Rate (FY 2021 & FY 2022)



In FY 2022, SUNU Assurances ceded 29.9% (FY 2021: 27.3%) of underwritten risks to reinsurers. The fire segment, engineering, aviation, oil and gas, general accident and marine which typically have a huge impact when risks crystallise had the highest cession rates. Conversely, the Insurer retained 93.4% (FY 2021: 98.3%) of its gross premium income on the motor business given the relatively low claims from crystallised risks in the business line. SUNU Assurances maintains a maximum retention limit of $500,000 (about 3.3% of shareholders' funds) on its oil and gas policies.

In FY 2022, total inflows from reinsurance contracts (commission income and reinsurance claim recoveries) as a percentage of outflows (reinsurance costs) was 40.3%, lower than the 146.3% recorded in the prior year mainly due to lesser inflows from the oil and gas segment and aviation. The highest value from the corresponding treaties was derived from the motor and engineering business lines. Overall, we consider SUNU Assurances' risk exposure to be acceptable for the current level of underwriting capabilities.

Table 2: Analysis of Profitability of Reinsurance Activities by Business Line

	Motor	Marine	Engineering	Fire	General Accident	Oil & Gas	Aviation	Total FY 2022	Total FY 2021
	₦'mill	₦' mill	₦'mill	₦' mill	₦' mill	₦'mill	₦'mill	₦'mill	₦'mill
OUTFLOWS									
Reinsurance Cost	62	183	91	605	235	430	122	1,729	1,329
INFLOWS									
Reinsurance Commissions	8	56	31	131	76	1	0	304	217
Reinsurance Claims	81	118	62	71	54	6	0	393	1,728
TOTAL INFLOWS	**89**	**174**	**93**	**202**	**131**	**7**	**0**	**697**	**1,945**
Inflow/Outflow	143%	96%	102%	33%	56%	2%	0%	40%	146%

MARKET SHARE

SUNU Assurances has been steadily increasing its market share in the insurance industry over the past few years, reflecting its commitment to becoming a major player in the sector. While the market share remained low, the Company's growth strategies and performance indicators suggest a positive trajectory. With a focus on niche expansion in the motor insurance business, agent deployment, and the introduction of retail-friendly products, SUNU Assurances is strategically positioning itself to capture a larger portion of the market, leveraging competencies and opportunities with the SUNU Group and the associated brand equity.

Table 3: Market Share Indicators

Key Indicators	SUNU Assurances FY 2021	SUNU Assurances FY 2022	Regency Insurance FY 2022	Universal Insurance FY 2022
Gross Premium Income	0.8%	0.7%	0.7%	0.7%
Investments	0.3%	0.3%	0.5%	0.4%
Total Assets	0.6%	0.5%	0.6%	0.6%
Underwriting Profit	1.6%	1.0%	0.5%	1.2%

RISK MANAGEMENT

SUNU Assurances Nigeria Plc's enterprise-wide risk management (ERM) framework is responsible for identifying and managing both inherent and residual risks. In the process of managing its credit risk, the insurer evaluates its investment counterparts based on a policy framework to assess the feasibility of placing funds in financial institutions. SUNU Assurances determines the maximum allowable placement with each counterparty by evaluating factors such as management quality, historical performance, profitability, capital, and adherence to the 20% maximum regulatory threshold.

The insurer exercises caution when selecting risks to underwrite, ensuring it does not provide coverage for high-loss-rate businesses on a standalone basis. Additionally, SUNU Assurances conducts weekly evaluations of its brokers to gauge their loss rates and ensure the provision of profitable business opportunities. Adequate checks and controls are implemented to prevent fraudulent claims.

While we recognise the positive aspects of SUNU Assurances' current risk framework, we anticipate further strengthening of this framework in light of the planned expansion of business operations. Overall, we believe that the insurer's risk management framework is adequate for its current level of business operations.

OUTLOOK

SUNU has set ambitious objectives to solidify its presence as a major industry player within the next three years. The Insurer is determined to enhance its current level of gross premiums, surpassing its industry peers by creating a niche in the motor business line, and strategic deployment of agents to drive business and improve customer engagement. The Company intends to focus on customer optimisation, emphasising both upselling to existing clients and attracting new ones while developing innovative retail insurance products. In our view, we believe that the two profitable subsidiaries and anticipated improvement in the performance of Equity Resort Hotel will continue to contribute positively to the Insurer's profitability and diversify the revenue streams.

SUNU Assurances plans to continue leveraging its online portal, strategic setting up of profitable branches and partnerships with brokers amongst others to improve its near-term performance. The Insurer also aims to maintain its leading profile through targeted marketing campaigns to bolster brand awareness while maintaining quality employees. SUNU Assurances has forecasted a 16% growth in gross premiums to ₦6.7 billion which we consider to be achievable considering that the Insurer had already achieved 67.4% of the full-year GPI target in H1 2023. Overall, we believe profitability will improve in the near term backed by rate hikes for some business lines including motor and fire and the expected improvement in the subsidiaries' performance. We also believe the harmonisation of exchange rates should propel FX gains on the Insurer's FCY-denominated placements to support performance. However, the growing underwriting and operating expenses in an inflationary regime would remain a constraint.

Based on the foregoing, Agusto & Co. hereby attaches a **stable** outlook to the rating of SUNU Assurances Nigeria Plc.

FINANCIAL SUMMARY

SUNU ASSURANCE PLC

	BALANCE SHEET AS AT	**31-Dec-20**		**31-Dec-21**		**31-Dec-22**	
		₦'million		**₦'million**		**₦'million**	
1	Cash & equivalents	118	1.2%	172	1.6%	319	2.8%
2	Other Current Assets	1,603	15.9%	2,179	19.9%	2,023	17.7%
3	Investments	6,853	68.0%	3,995	36.5%	4,483	39.2%
4	Fixed assets	363	3.6%	3,429	31.4%	3,419	29.9%
5	Other long term assets	820	8.1%	842	7.7%	865	7.6%
6	Statutory deposit	315	3.1%	315	2.9%	315	2.8%
7	**TOTAL ASSETS**	**10,072**	**100.0%**	**10,931**	**100.0%**	**11,423**	**100.0%**
	LIABILITIES & EQUITY						
8	Current Liabilities	2,489	24.7%	2,943	26.9%	2,705	23.7%
9	Other Liabilities	3,060	30.4%	49	0.4%	49	0.4%
10	Insurance Funds	863	8.6%	1,217	11.1%	1,617	14.2%
11	Shareholders' equity	3,661	36.3%	6,722	61.5%	7,052	61.7%
12	**TOTAL LIABILITIES & EQUITY**	**10,072**	**100.0%**	**10,931**	**100.0%**	**11,423**	**100.0%**

	INCOME STATEMENT FOR THE YEAR ENDED	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**
13	Premium Income	3,270	4,871	5,774
14	Reinsurance Premium	(928)	(1,329)	(1,729)
15	**Net Premium Income**	**2,342**	**3,542**	**4,045**
16	Claims	(393)	(859)	(1,214)
17	Unexpired Risks	(185)	(354)	(400)
18	Commissions (Net)	156	217	304
19	Other Underwriting Expenses	(1,144)	(1,466)	(1,733)
20	**Underwriting Profit**	**777**	**1,080**	**1,002**
21	Life Surplus (Deficit)	-	-	-
22	Investment Income	313	239	320
23	Other Operating Expenses	(1,032)	(1,239)	(1,183)
24	**Operating Profit**	**58**	**80**	**139**
25	Other Income	179	245	317
26	Interest Expenses	(22)	-	-
27	**Profit Before Tax**	**215**	**325**	**455**
28	Tax	(34)	(198)	(125)
29	**Profit After Tax**	**181**	**127**	**330**

	CASH FLOW STATEMENT FOR THE YEAR ENDED	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**
30	Operating cashflow after providers of funds	55	3,404	747
31	Cash from (used) in investing activities	(119)	(339)	(600)
32	Cash from (used) in financing activites	22	(3,011)	-
33	**INCREASE (DECREASE) IN CASH**	**(42)**	**54**	**147**

SUNU ASSURANCE PLC

	KEY RATIOS - LEVEL	31-Dec-20	31-Dec-21	31-Dec-22
	EXPOSURE & RISK RETENTION			
34	Net premium income / insurance funds	91%	102%	101%
35	Risk reserves/Net premium income	267%	287%	273%
36	Retention rate (net premium / gross premium)	72%	73%	70%
37	Capital/net premium income	156%	190%	174%
	GROWTH			
38	Premium growth rate	46%	49%	19%
39	Real premium growth rate	26%	29%	-2%
40	Asset growth rate	-1%	9%	4%
	PROFITABILITY			
41	Average loss rate	18%	27%	33%
42	Net premium earned/Net premium written	92%	90%	90%
43	Underwriting expenses/Net premium written	42%	35%	35%
44	Combined ratio	60%	62%	69%
45	Average underwriting profit margin	24%	22%	17%
46	Average return on investment portfolio	5%	4%	8%
47	Operating profit margin	2%	2%	2%
48	Return on operating assets	1%	1%	1%
49	Effective tax rate	16%	61%	28%
50	Return on average assets	0.45%	0%	1%
51	Return on average equity	5.1%	2%	5%
52	ROR	2%	2%	4%
	LIQUIDITY & CASH FLOW			
53	Cash from operating activities (after financing payments)	55	3,404	747
54	Liquid assets/Total assets	59%	29%	33%
55	Liquid assets/insurance funds	231%	91%	94%
56	Liquid assets/Outstanding claims (times)	4	2	2
57	Operating cash flow/Outstanding claims (times)	0	2	0
58	Operating cash flow/Premium Income	2%	70%	13%
	INVESTMENT MANAGEMENT			
59	Cash & liquid investments/Total investment portfolio	85%	75%	78%
60	Other investments/Total investment portfolio	15%	25%	22%
61	Market/Book value of listed investments	1017%	0%	0%
62	Investments/Insurance provisions	808%	342%	297%
	CAPITAL ADEQUACY			
63	Equity cushion (with revaluation)	36%	61%	62%
64	Equity cushion (without revaluation)	36%	61%	62%
65	Insurance funds/Total assets	26%	32%	35%
66	Risk reserves/Total assets	45%	73%	76%
67	Insurance funds/Net premium income	110%	98%	99%
68	Statutory solvency margin	192%	224%	213%
69	Stressed capital Ratio	145%	259%	284%
	ADDITIONAL INFORMATION			
70	Staff costs (₦'million)	378	400	488
71	Average number of employees	83	99	102
72	Costs per staff (₦'million)	5	4	5
73	Net earnings per employee	3	3	4
74	Gross Premium per employee	39	49	57

RATING DEFINITIONS

Aaa	A financial institution of the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
Aa	A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
A	A financial institution of good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.
Bbb	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.
Bb	A financial institution with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
B	A financial institution with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
C	A financial institution with very weak financial condition and very weak capacity to meet obligations as and when they fall due are relative to all other issuers in the same country.
D	In default.

A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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