



## GCR affirms Sovereign Trust Insurance Plc's rating of A<sub>(NG)</sub>; Outlook Stable

Lagos Nigeria, 4 March 2019 - Global Credit Ratings has affirmed the national scale claims paying ability rating assigned to Sovereign Trust Insurance Plc of A<sub>(NG)</sub>, with the outlook accorded as Stable. The rating is valid until September 2019.

### **SUMMARY RATING RATIONALE**

Global Credit Rating ("GCR") has accorded the above credit rating to Sovereign Trust Insurance Plc ("STI" or "the insurer") based on the following key factors:

STI's risk adjusted capitalisation remained strong supported by a sizeable capital base, with the regulatory solvency coverage registering above the statutory benchmark. The capital base grew by 4.5% to N5.5bn at FY17, with a further growth to N6bn reported at 3Q FY18, underpinned by sound internal capital generation. However, given an increase in the earned risk base at 3Q FY18, risk adjusted capitalisation lowered to 110% (FY17: 142%, FY16: 133.6%). Going forward, risk adjusted capitalisation is expected to remain at strong levels, supported by sound internal capital generation, along with a relatively limited market risk exposure. Furthermore, the reinsurance panel consists of counterparties with an intermediate level of aggregate credit rating strength. The maximum net deductibles per risk and event equated to a moderate 5.5% of capital at FY17 (at current exchange rates).

The insurer's liquidity profile remained moderately strong. This is a function of sound cash flow generating capability, coupled with a conservative asset allocation strategy. Accordingly, key liquidity metrics remained moderately strong, with cash coverage of average monthly claims equating to 27 months at FY17 (FY16: 19 months), while after adjusting cash and equivalents to exclude borrowings, cash coverage of net technical provisions measured at a stable 0.9x. Liquidity metrics are expected to remain within a moderately strong range over the rating horizon, supported by sound cash flow generation and a conservative asset allocation.

Notwithstanding the underwriting loss reported during FY17, net profit after tax rose more than six folds to N157.9m. This was supported by healthy investment returns and foreign exchange gains during the year. Accordingly, return on average equity amounted to a higher 2.9% in FY17 from 0.5% previously. Going forward, earnings capacity might remain susceptible to volatility associated with the core business lines.

STI's share of total short term insurance industry gross premiums registered at a higher 4.2% in FY17 (FY16: 3.4%). Having recorded a decline in the premium base between FY13 and FY16, cumulatively amounting to 9.6%, the insurer repositioned itself for growth during FY17 amidst increasing competitive dynamics and various regulatory pronouncements. The insurer's market position is supported by brand recognition and acceptance as well as established broker relationships.



An upward rating movement may follow a persistent increase in market share, accompanied by a sustained improvement in profitability and liquidity metrics. Conversely, the rating is sensitive to a protracted deterioration in key credit protection metrics and/or earnings capacity.

#### **NATIONAL SCALE RATINGS HISTORY**

Initial rating (November 2007)

Claims paying ability: A<sub>(NG)</sub>

Rating outlook: Stable

Last Rating (January 2018)

Claims paying ability: A<sub>(NG)</sub>

Rating outlook: Stable

#### **ANALYTICAL CONTACTS**

##### **Primary Analyst**

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#### **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Short Term Insurance Companies, Updated May 2018

Glossary of Terms/Ratios (February 2016)

STI rating reports, 2007- 2017

Nigeria Short Term Insurance Industry Bulletin, 2017

#### **RATING LIMITATIONS AND DISCLAIMERS**

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### **SALIENT POINTS OF ACCORDED RATINGS**

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The rating was solicited by, or on behalf of, Sovereign Trust Insurance Plc, and therefore, GCR has been compensated for the provision of the rating.

Sovereign Trust Insurance Plc. participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating above was disclosed to Sovereign Trust Insurance Plc.

The information received from Sovereign Trust Insurance Plc and other reliable third parties to accord the credit rating included:

- Audited financial results to 31 December 2017
- Four years of comparative audited financial statements
- Unaudited interim results to 30 September 2018
- Budgeted financial statements for 2018
- 2018 reinsurance cover notes
- Actuarial valuation to 31 December 2017
- Other related documents.