



AIICO INSURANCE PLC

Financial Condition Report as at 31 December 2022

February 2023

1. Executive Summary

This Financial Condition Report ("FCR") sets out the results of the analysis of the financial condition of the life and non-life insurance businesses of AllCO Insurance PLC ("AllCO" or "the Company") as at 31 December 2022.

The Company has contracted Zamara Consulting Actuaries Nigeria Limited to provide actuarial services. In terms of this arrangement, Nikhil Dodhia, FIA, is the appointed actuary for the life insurance business and Jay Kosgei for the Non-life insurance business.

1.1. Capital Management and Solvency

1.1.1. Solvency Assessment

The table below summarises the solvency position of AllCO over the past 3 years based on the capital requirements as prescribed by the National Insurance Commission of Nigeria ("NAICOM"):

Solvency Margin Assessment	2020	2021	2022
Total Net Admissible Assets**	23,895	28,837	33,065
Minimum Solvency Capital Requirement***	7,821	8,681	10,494
Excess Net Admissible Assets	16,075	20,155	22,571
Solvency Margin Ratio	306%	332%	315%

** Excess of the total admissible asset over and above the admissible liabilities

***Maximum of the premium based capital and minimum capital requirement

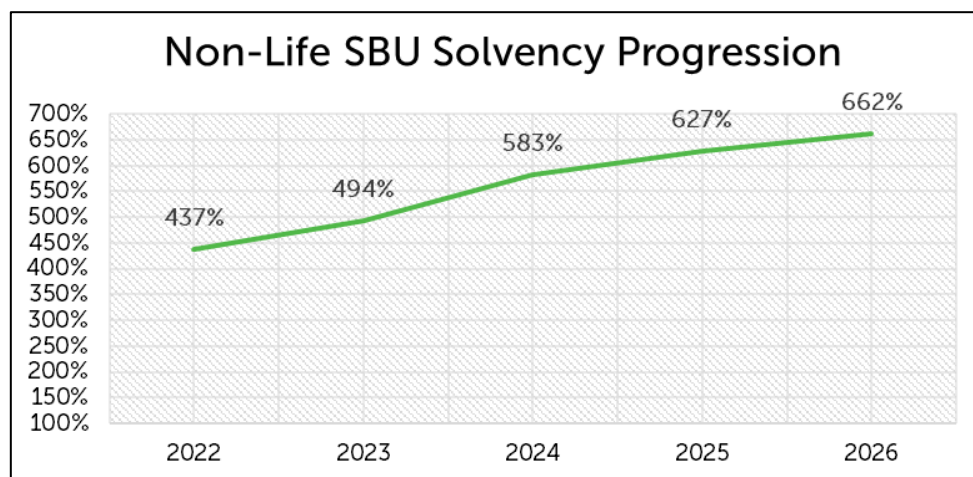
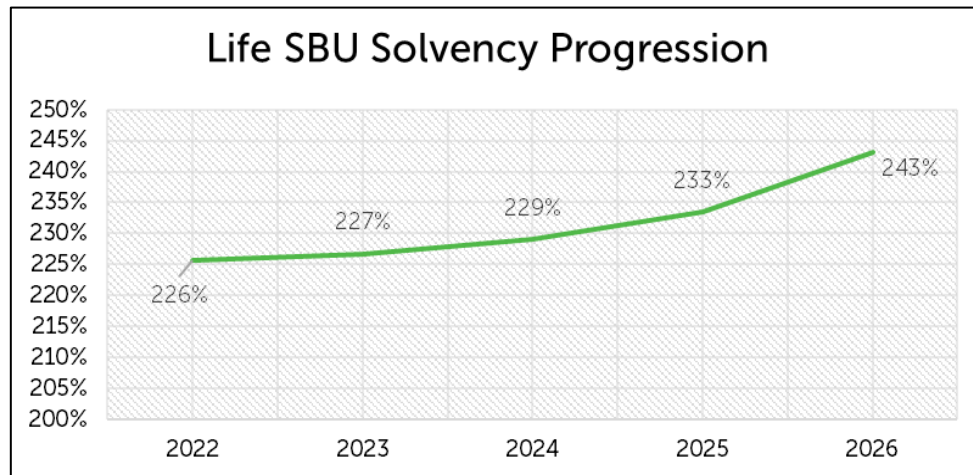
In line with the prescribed regulations, AllCO's minimum capital requirement as at 31 December 2022, was determined as the higher of the volume based capital requirement and the minimum paid up capital requirement. The volume-based capital requirement determined as 15% of the net written premium, amounted to NGN 10.5 billion and the minimum paid up capital was NGN 5 billion being the sum of the minimum paid up capital of NGN 3 billion and NGN 2 billion required for the non-life and life insurance businesses, respectively. The Company's Net Admissible Assets, available to meet the regulatory capital requirement, amounted to NGN 33.1 billion resulting in excess admissible assets of NGN 22.6 billion and a solvency ratio of 315%.

AllCO's Net Admissible Assets, available to meet the regulatory capital requirement, increased to NGN 33.1 billion as at 31 December 2022 from NGN 28.8 billion as at 31 December 2021 driven by profitable growth of the businesses and the acquisition of Tangerine's annuity portfolio during the year 2022. There was however a reduction in the solvency margin ratio to 315% as at 31 December 2022 from 332% solvency ratio reported in 31 December 2021. The reduction in the solvency ratio between the two years was driven by the combined effect of the higher increase in the applicable minimum solvency capital requirement of about 21% relative to the increase in total net admissible assets of about 15%. We also note that inadmissible assets increased by 21% from 2021 to 2022.

We note that the Company is in the process of developing and refining an internal economic capital model. The capital assessment based on the economic model was therefore not considered in this report.

Solvency Projections

Based on the Company's business projections, AllCO is expected to be solvent on a regulatory basis over the Company's 4 -year business planning horizon. The graphs below summarise the projected solvency ratios for the life and non-life businesses of AllCO:



AllCO is expected to have adequate admissible net assets comprising largely of quality assets expected to be predominantly invested in treasury bonds and bills of the Federal Government of Nigeria to meet the regulatory capital requirements. The regulatory solvency cover ratio is expected to significantly rise over the projection period as the net admissible assets grow faster than the regulatory capital requirement for both life and non-life businesses. The growth of the Net Admissible Assets over the projection period is largely driven by the projected profitable growth of the insurance businesses where reward for risk is expected to exceed the risk taken. For the life business, the regulatory capital requirement remains the volume-based solvency capital requirements of 15% of net written premiums given the volumes of business written. For the non-life business however, the regulatory capital requirement remains constant at N3bn (being the higher of 15% of the net written premium and the minimum capital requirement) from 2022 to 2024, after which it references the volume-based solvency capital requirements of 15% of net written premiums, due to its dominance over the minimum capital requirement for these periods.

The Company's risk appetite regulatory capital coverage ratio is 200%. Based on the solvency projections, AllCO's insurance businesses are expected to remain solvent over its business planning period.

1.2. Pricing and Premium Adequacy

A comparison of AllCO's premium rates to the corresponding to industry average rates in respect of the Company's short-term businesses (i.e. both group-life and non-life), shows that the applicable AllCO premium rates are priced appropriately.

Similarly, on the retail life insurance business, AllCO's premium rates are adequately priced. This is evidenced in the Value for New Business margin analysis, which has historically been positive.

1.3. Financial Performance

From AllCO's historical technical analysis (based on audited financial statement for 5 years), we note that AllCO's Non-life and Group-life business performance improved significantly over the year 2022, relative to the average of the preceding 4 years period. The improved financial performance was driven by AllCO's implemented strategies to improve its underwriting margin at both net and gross of reinsurance. This is evidenced and observed in the year-on-year improvement in the net operating ratio (allowing for investment margin). AllCO's assessment shows that the operating ratio for non-life increased significantly from -8% as at 31 December 2021 to 8% as at 31 December 2022. For Group life business the operating ratio improved significantly from -5% as at 2021-year end to 11% as at 31 December 2022.

On the retail life business, an abridged income statement for the past 4 years was analysed; AllCO's profit before tax (PBT) reduced as at 31 December 2022 relative to the average of the past 3 years by about 28%. The decline in profit was largely driven by high claims outgo attributable to the economic downturn.

1.4. Asset Liability Management (ALM)

AllCO's ALM approach is robust with a strong governance framework and controls to ensure the overarching ALM objectives are achieved. The primary objective of AllCO's ALM process is the management of Market risk to maximize the market-consistent balance sheet (mark-to-market value of assets less market consistent value of the liabilities) over a three-to-five-year period (i.e. medium-to long-term target)

AllCO's liabilities are largely backed by fixed income assets such as federal government bonds since the value of the liabilities are dependent on the movement of the FGN Bonds yields. It can be observed that the life business mainly invests in fixed income assets (majorly the Nigerian government securities) with the asset class constituting above 91% of the total assets in the financial period (i.e., 2020 – 2022). The asset composition is consistent with the company's strategy of investing in assets that match the term, nature, and duration of the liabilities.

The Non-life business, however, has its assets majorly invested in fixed income assets (majorly the Nigerian government securities) and Cash and Cash equivalents (CACE) with these asset classes constituting approximately 32% and 45% respectively of total invested assets as of 31 December 2022.

AllCO measures and monitors its net exposure to market risk using immunization approaches such as money duration, convexity, and sensitivity analysis to maintain a high level of matching of assets and liabilities.

1.5. Reinsurance Management Strategy

Overall, AllCO's reinsurance strategies have been profitably adequate for its Group Life and General insurance business.

1.6. Development since the previous year

We note that AllCO's last financial condition report was prepared as at 31 December 2016. Until October 2022 when prudential guidelines were updated, there was no regulatory requirement to prepare the financial condition report.

1.7. Conclusion

In our capacity as the Appointed Actuaries of AllCO Insurance PLC, certify that, as at 31 December 2022, this Financial Condition Report for AllCO Insurance PLC has been prepared in accordance with the guidelines issued by the National Insurance Commission ("NAICOM") and generally acceptable actuarial principles.



Nikhil Dodhia FIA
AllCO Insurance PLC
Appointed Actuary

FRC No. FRC/2021/004/00000024023



Jay Kosgei FIA
AllCO Insurance PLC
Appointed Actuary

FRC No. FRC/2021/004/00000023786

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