

CREDIT RATING ANNOUNCEMENT

GCR affirms NEM Insurance Plc's national scale financial strength rating of AA_(NG); Outlook Stable

Rating action

Lagos, 31 July 2024 – GCR Ratings (GCR) has affirmed NEM Insurance Plc's national scale financial strength rating of AA_(NG); with a Stable Outlook.

Rated entity	Rating class	Rating scale	Rating	Outlook
NEM Insurance Plc	Financial strength	National	AA _(NG)	Stable

Rating rationale

The rating affirmation reflects NEM Insurance Plc's (NEM or the insurer) strong competitive position in the non-life insurance segment and stable financial profile characterised by strong risk-adjusted capitalisation, adequate liquidity and good earnings.

NEM is one of the top non-life insurers in Nigeria, accounting for 10.2% of the segment's gross written premiums (GWP) in 2023 (2022: 8.0%). In the same year, NEM's insurance revenue grew by 65.8% to register at NGN52.1 billion (USD5.8 million), supported by the acquisition and retention of high-value accounts across major business lines, strong brand franchise and well-established relationship with brokers. The insurer's premium base is well diversified across eight lines of business, although single market concentration remains given that premiums are wholly generated in Nigeria. NEM's business diversification plans, including the successful acquisition of a life insurance license as well as other organic growth strategies could further support premium scale and market share over the short to medium term.

Earnings remain sound despite pressures on underwriting performance. In 2023, the insurer registered a review period high combined ratio of 100.5% compared to 3-year historical average of 85.6% (2020-2022), largely attributed to the switch to IFRS 17 financial reporting and increased technical and acquisition expenses associated with growth, particularly in the oil and gas business. However, investment income improved to NGN7.6 billion in 2023 (2022: NGN1.7 billion), translating to higher investment yield of 26.2% (2022: 12.0%). Additionally, the impact of naira devaluation resulted in sizeable foreign exchange gains of NGN11.4 billion (2022: NGN297.1 million). Overall, net profit after tax spiked by 139.7% to NGN12.9 billion (USD14.4 million), resulting in a return on revenue of 35.7% in 2023 (2022: 26.6%). Looking ahead, we expect the insurer's underwriting business to be profitable and one of the best among peers, with a combined ratio below 100% predicated on the improved position in the first six months of 2024.

Risk-adjusted capitalisation remains the major rating strength, underpinned by strong internal capital generation and retention. Consequently, the GCR capital adequacy ratio (CAR) was good at 2.1x as at 31 December 2023 (31 December 2022: 2.2x). From a statutory solvency standpoint, the solvency margin improved to 8.8x in December 2023 (December 2022: 6.1x), well above the regulatory minimum of 1x. While there could be downward pressure on capital as the insurer expands, we expect the GCR CAR to remain above 2x over the next 12-18 months, underpinned by high earnings

retention and a sustained minimal market risk exposure from its investment strategy. We will assess the impact of planned expansion on capitalisation metrics over the rating outlook.

Liquidity is a positive rating factor. NEM's investment portfolio is liquid with 13.9% of investments in highly liquid securities and term deposits as of 31 December 2023. Thus, GCR liquidity coverage ratio registered at 1.7x in December 2023 (December 2022: 1.6x) and is expected to remain at this range, barring any liquidity strains from the insurer's expansion plans.

Outlook Statement

The Stable outlook is premised on our expectation that NEM will sustain its market position supported by expansion and a strong underwriting performance. We also expect the risk-adjusted capitalisation and liquidity ratios to be maintained above 2.0x and 1.5x respectively over the next 12-18 months.

Rating triggers

An upward rating movement could result from sustained levels of capitalisation, and liquidity metrics despite the planned business expansion, while registering positive underwriting margins. Conversely, a negative action may follow a material deterioration in earnings, such that the GCR CAR and liquidity ratio measures below 1.5x each respectively. Also, sustained pressure on underwriting performance with a combined ratio maintained over 100% could lead to a negative rating action.

Analytical contacts

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Related criteria and research

- Criteria for GCR Ratings Framework, May 2024
- Criteria for Rating Insurance Companies May 2024
- GCR Ratings Scale, Symbols & Definitions, May 2023
- GCR Country Risk Scores, June 2024
- GCR Insurance Sector Risk Score, February 2023

Ratings history

NEM Insurance Plc					
Rating class	Review	Rating scale	Rating	Outlook	Date
Claims Paying Ability	Initial	National	A-(NG)	Stable	June 2009
Financial Strength	Last	National	AA(NG)	Stable	July 2023

Risk score summary

Rating Components & Factors	Risk scores
Operating environment	6.75
Country risk	3.50
Sector risk	3.25
Business profile	0.50
Competitive position	0.50
Sustainability assessment	0.00
Financial profile	2.75
Earnings	0.75
Capitalisation	1.50
Liquidity	0.50
Comparative profile	0.00
Group support	0.00
Peer comparison	0.00
Total Risk Score	10.00

Glossary

Affirmation	See GCR Rating Scales, Symbols and Definitions.
Broker	One who represents an insured in the solicitation, negotiation or procurement of contracts of insurance, and who may render services incidental to those functions. By law the broker may also be an agent of the insurer for certain purposes such as delivery of the policy or collection of the premium.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Combined Ratio	Measures the ability to conserve profits through the expense line.
Coverage	The scope of the protection provided under a contract of insurance.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Insurance	Provides protection against a possible eventuality.
Investment Income	The income generated by a company's portfolio of investments.
Investment Yield	Measures the investment return achieved relative to funds invested in financial instruments, excluding unrealised gains/losses.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.

Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Retention	The net amount of risk the ceding company keeps for its own account.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Statutory	Required by or having to do with law or statute.
Term Deposit	A savings account held for a fixed term. Also called a time deposit. Generally, there are penalties for early withdrawal.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to NEM Insurance Plc. The ratings above were solicited by, or on behalf of, NEM Insurance Plc

NEM Insurance Plc participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from NEM Insurance Plc and other reliable third parties to accord the credit rating included:

- Audited financial results as at 31 December 2023
- Management account as at 30 June 2024
- Reinsurer cover notes
- Other related documents
- Exchange rate source: Central Bank of Nigeria; USD1.00=NGN899.39 (31 December 2023)

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