STERLING ASSURANCE NIGERIA LIMITED

FINANCIAL CONDITION REPORT AS AT 31 DECEMBER 2023

PREPARED BY

OAHAC

O & A Hedge Actuarial Consulting

(FRC/2019/00000012909)
(Actuaries & Chartered Insurers)
Suite 24, Motorways Centre
1 Motorways Avenue
Opposite 7up Bottling Plant
Alausa Ikeja, Lagos – Nigeria

August 2024

O & A Hedge Actuarial Consulting

(FRC/2019/00000012909)

(Consulting Actuaries and Chartered Insurers)

Suite 21, 1st Floor, Motorways Centre1 Motorways Avenue

Reg. No.: BN 2262019 FRC/2016/NAS/00000015764 Tel: +234(0)9079471359

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Sterling Assurance Nigeria (Non-life insurance): Financial Condition Report as at 31 December 2023

Key Features

Company Name: Sterling Assurance Nigeria Limited

Country of Operation: Nigeria: Sovereign Credit: S & P (B)

Table 1: Non-life Life insurance contract liabilities and net asset value

In NGN'000	2021	2022	2023
Total Insurance Revenue	4,646,308	4,966,566	**5,041,051**
Total Admissible assets	4,881,036	5,428,290	**7,109,012**
Insurance Contract Liabilities:			
General Accident	118,705	115,144	**172,171**
Motor	87,848	37,775	**99,856**
Marine	24,358	99,082	**14,699**
Aviation	-	59.28	**56.22**
Engineering	18,492	12,020	**111,445**
Bond	12,224	4,423	**16,295**
Fire & other damage to property	186,425	66,844	**173,315**
Oil & Gas	17,706	15,869	**18,110**
Agriculture	6,490	21,529	**46,456**
Risk Adjustment	61,468	28144.23	**130,155**
Total	**533,715**	**400,889**	**782,558**
Total Liability for Remaining Coverage	665,746	623,547	**1,785,539**
Net Insurance Acquisition Cashflows	(417,245)	(72,550)	**(396,148)**
Loss Component	0	41.40	**4,650**
Total gross non-life insurance contract liabilities	**782,216**	**951,927**	**2,176,599**
Less Asset for Reinsurance on Incurred Claims	214715	149,328.10	**313,167**
Less Asset for Remaining Coverage reinsurance	545,009	221,829.38	**696,473**
***Net non-life insurance contract liabilities**	**22,491**	**580,770**	**1,166,959**
Other Admissible liabilities	635,095	517,849	**585,692**
Total net Liabilities	657,586	1,098,619	**1,752,651**
Net Admissible assets value	3,463,725	3,958,514	**4,346,721**
Minimum Required Capital	3,000,000	3,000,000	**3,000,000**
Solvency Margin	3,463,725	3,958,514	**4,346,721**
Solvency Capital Ratio*	**115.46%**	**131.95%**	**144.89%**

Source: Actuarial valuation reports and Sterling Audited Accounts

Conclusions

1.1 On regulatory solvency basis, as at 31st December 2023, Sterling had a total asset for its non-life operation of **NGN7.11bn** as admissible assets to meet its estimated accrued Gross non-life (General business) insurance contracts liabilities of **NGN2.18bn** and Other admissible Liabilities of **NGN585.69mn**. The said available assets provide a level of solvency cover of **144.89%** of the total non-life insurance and other admissible liabilities of **NGN2.77bn**. The 2023 solvency capital ratio is 12.94% higher than its prior year level and an improvement.

1.2 The capital covers the required minimum solvency capital is considered adequate under the current capital requirements for non-life insurance companies that write general businesses, including oil and energy Insurance. A solvency cover of at least 150% of the accrued liabilities would be considered more preferred for an insurance company in some jurisdiction.

1.3 The company returned a profit of NGN794.31mn [2022: NGN601.97mn before taxation at year end 2023. The company's insurance contracts underwriting strategy and investment, and other income may have been the key sources of contribution to the profit element. This is because the Insurance result of NGN640.39mn [2022: NGN1.30bn] might have been largely offset by the non-underwriting expenses such as management, employee benefit, finance and other costs totalling NGN1.22bn [2021: NGN0.91bn] for that year. [see table in par. 5.4]

2. Development Since Previous Financial Year End

2.1 The company has changed its leadership between an acting Managing Director /Chief Executive Officer and A substantive Managing Director /Chief Executive Officer.

2.2 Sterling Assurance Nigeria Limited has complied with regulatory requirement to Implement International Financial Reporting Standard 17 (IFRS17) Insurance contracts. Adopting a full retrospective approach the application of IFRS17 has resulted in changes to its accounting policies and presentation, mainly:

- **Reclassification of Items**. For example, Deferred Acquisition is now reclassified to Insurance acquisition cashflows, Unearned Premium Reserve (UPR) is now Liability for Remaining Coverage, Outstanding Claims is now reclassified as Liability for Incurred Claims, etc.

- **Remeasurement**: For example, calculation of Risk Adjustment (RA) for Nonfinancial Risk, Interest Accretion on Liability for Incurred Claims, Discounting of future fulfilment cashflows, etc

2.3 The company maintained the same level of paid capital at NGN4.06bn. Thus, total assets increased over the prior year to NGN8.92bn. The company's total liabilities increased to NGN2.87bn from NGN1.44bn, yield NGN6.04bn shareholders 'funds. Thus, in relation to the industry, the company can be said not to be well capitalised enough to increase its risk appetite.

2.4 For proper accountability and monitoring, it has separated the marine and aviation classes in its revenue accounts, departing from the past practice which it used to combine them.

2.5 Overall, the total technical result reduced significantly by half, compared with the previous year due to high insurance acquisition cashflows and maintenance expenses (55% of net insurance revenue for both).

2.6 The General Accident class returned the largest per class overall technical profit of NGN 104.46mn [2022: NGN253.05; 2021: minus NGN44.92mn]. This contrast with the net technical profit from Oil and Gas class of NGN 2.70mn which is the dominating business of the company with 41% of total net earned insurance revenue, so we advise that this later class should be monitored with attention paid to risk selection process and reinsurance strategy that could return the class to profit.

2.7 We consider the high net operating ratio at 86.2% over year 2023 (year 2022:85%) and with a net profit margin of 19.5% [2022:15%] as not an unimpressive change considering the harsh economic situation that pervaded the period under review and well, compared to those we have seen in well-established general insurance companies.

2.8 The retention and limits under the XL reinsurance treaty for oil and gas class has been expanded.

2.9 The huge unquoted investment concentration in private organization has been reduced considerably.

2.10 The company has implemented our recommendation that it should restructure the considerable amount of investments in low income generating assets – cash and cash equivalents and Federal Government bonds to match its liabilities and improve returns. The investment result has shown significant improvement leaping from NGN683.61mn to NGN1.58bn.

3. Business Overview and Information Requirements

3.1 The FCR forms part of the new requirements for the risk-based supervision of insurance companies issued by the National Insurance Commission (NAICOM). This FCR is addressed to the Board of Directors of Sterling.

3.2 Sterling, a Nigerian insurer, was licensed to write non-life insurance. The Sterling group is a private limited liability company. The authorized share capital is presently NGN5bn with issued and paid capital of NGN4.06bn and total shareholders' fund of NGN6.03bn.

3.3 To govern the company the shareholders have constituted a 7-member Board of Directors ("the Board"), Including non-executive directors; One director is an independent director [see Sterling's audited accounts for details].

3.4 The Chairman of the Board of Directors of Sterling Group is Professor T.A.J Ogunbiyi.

3.5 The day-to-day activities of Sterling have been delegated to the executive management which is led by Dr. Fatai Kayode Lawal as Managing Director. From the company's management profile provided, by Dr. Fatai Kayode Lawal as Managing Director is a professionally qualified Chartered Insurer and well-respected for technical soundness in insurance, reinsurance, and management of and finance related matters.

3.6 The Sterling Board has a governance structure that splits into committees which are mixed with other persons to form:

- Governance and Establishment Committee, which assists the Board to oversee the Sterling's policy and the structure of remuneration of the directors and senior executive management, size and succession plan of the Board, human resources and capital management, implementation of key policies and ensure best practices.

- Financial Performance and Enterprise Risk Management Committee, which assists the Board to oversee Sterling's group financial strategy and performance and, enterprise-wide risk management (ERM).

- Finance and Investment Committee, which assists the Board to oversee the formulation of investment policies and principles and their implementation and monitoring.

- Statutory Audit Committee, which ensures audit functions are carried out in compliance with the relevant company laws and, code of corporate governance for public companies.

- IFRS17 Implementation committee was formed to implement the new Insurance contracts financial reporting standards.

4. Data and information provided.

4.1 For the Non-life business, Sterling has provided the following information and data:

- Copies of the actuarial report for years 2013-2023. The recent 6 years' actuarial reports, including transition values for conversion to IFRS17 were prepared by OAHAC.
- Premium data for policies written during years 2016 to 2023.
- Claims paid data for years 2016 to 2023.
- Details of total number of non-life policies written over 2015 to 2023
- Details of Reinsurance Treaties for year 2015 to 2023
- Copies of products specifications and marketing material for all non-life insurance products.
- The company's audited annual financial statements and statement of comprehensive and other income for 2013 to 2023 and the Audit account for year 2023.
- Supplementary information was taken from the company's official web site address: **https://www.sterlingassure.com.**

4.2 Checks were conducted on the data and information provided to determine their level of reasonableness, accuracy, completeness, internal consistency and appropriateness and to determine if the policy data provided form reasonable data at an acceptable level of granularity for preparing the FCR. We confirm that the data provided were appropriate for the FCR exercise. A few errors and omissions in the data were detected and these were brought to the attention of Sterling for corrective action. Some of the error checking findings include incomplete dates, reconciliation of policy data amounts with the figures in the accounts.

4.3 Whilst OAHAC has used practical national and international professional actuarial and insurance knowledge and experience to ensure lofty standards in our analysis of the company's data and presentation of the results, the accuracy and reliability of this FCR depends on the extent to which the company's data and information provided are accurate and credible.

Description of principal activities and products

4.1 **General Accident insurance**, which provides financial compensation to the victim of an accident or a specified event which results in bodily injury or loss of money. The General accident class covers a wide range of events, including Product and Public liability, Directors and Officers liability, Fidelity guarantee (FG), Workmen's compensation (WC), Goods-in transit (GIT), Money-in transit (MIT), Personal accident and Group personal accident (GPA), Burglary (private homes and business premises), Professional indemnity (PI), All risks and other miscellaneous insurances.

4.2 **Fire,**which provides indemnity to the policyholder against the uncertainty of financial losses that may occur because of fire damage and associated perils. This coverage provides protection for personal and commercial properties.

4.3 **Motor,** which provides indemnity to the policyholder against the uncertainty of financial losses that may occur because of accident damage and associated perils to their own or others' car, including injury to their person and/or legal liability to any third- party as set out in the terms of the policy.

4.4 **Engineering,** which provides indemnity against financial losses that may arise from accidental damages from engineering and construction activities as set out in the terms of the policy.

4.5 **Bond,** which provides indemnity against financial losses that may arise from financial guarantees on the repayment of the principal and all associated interest payments to the bondholders in the event of default.

4.6 **Marine & Aviation,** which provides indemnity against financial losses arising from accidental damage from perils that may affect marine and aviation transportation and other related activities.

4.7 **Oil and Gas,** which provides indemnity against accidental financial losses that may arise from accidental damage to oil and gas installations and assets as well as, other oil and gas high-tech based activities, including exploration.

4.8 **Agricultural Insurance,** which provides indemnity against accidental financial losses that may arise from bad weather, outbreak of animal diseases or other conditions resulting in poor harvest or accidental damage to machine and equipment, installations and assets as well as, other Agriculturally based activities

4.9 Sterling provides application forms for each of the main class of insurance and for their components and as well issues policy document which are the evidence of contract. All the policies have their few exclusions.

4.10 Sterling combines several of the products to offer the customers better value for their money. The products are also offered as stand alone.

4.11 The premium rates are stated on the marketing materials containing the key features, thereby promoting transparency.

Description of distribution methods

4.12 Sterling has branch offices and sales outlets in at least 10 locations spread across its national jurisdiction. Each branch office is headed by a qualified professional in insurance or related disciplines.

4.13 The branch offices are coordinated by Branch Managers of the rank of Senior Manager.

4.14 All the branch reinsurances are handled centrally by the Reinsurance Unit in Lagos.

4.15 Sterling uses only registered Insurance brokers and Insurance Agents that are trained, registered, and licensed by the National Insurance Commission.

4.16 Sterling uses cheque and cash at its offices only, and card payments, bank direct debit and standing order for its premium collection.

5. Recent Experience and Financial Performance

5.1 Table 2 below sets out the direct general insurance business written by the company over the last four years.

Table 2: Trend of Key Non-life written Business Statistics
General Insurance business – direct

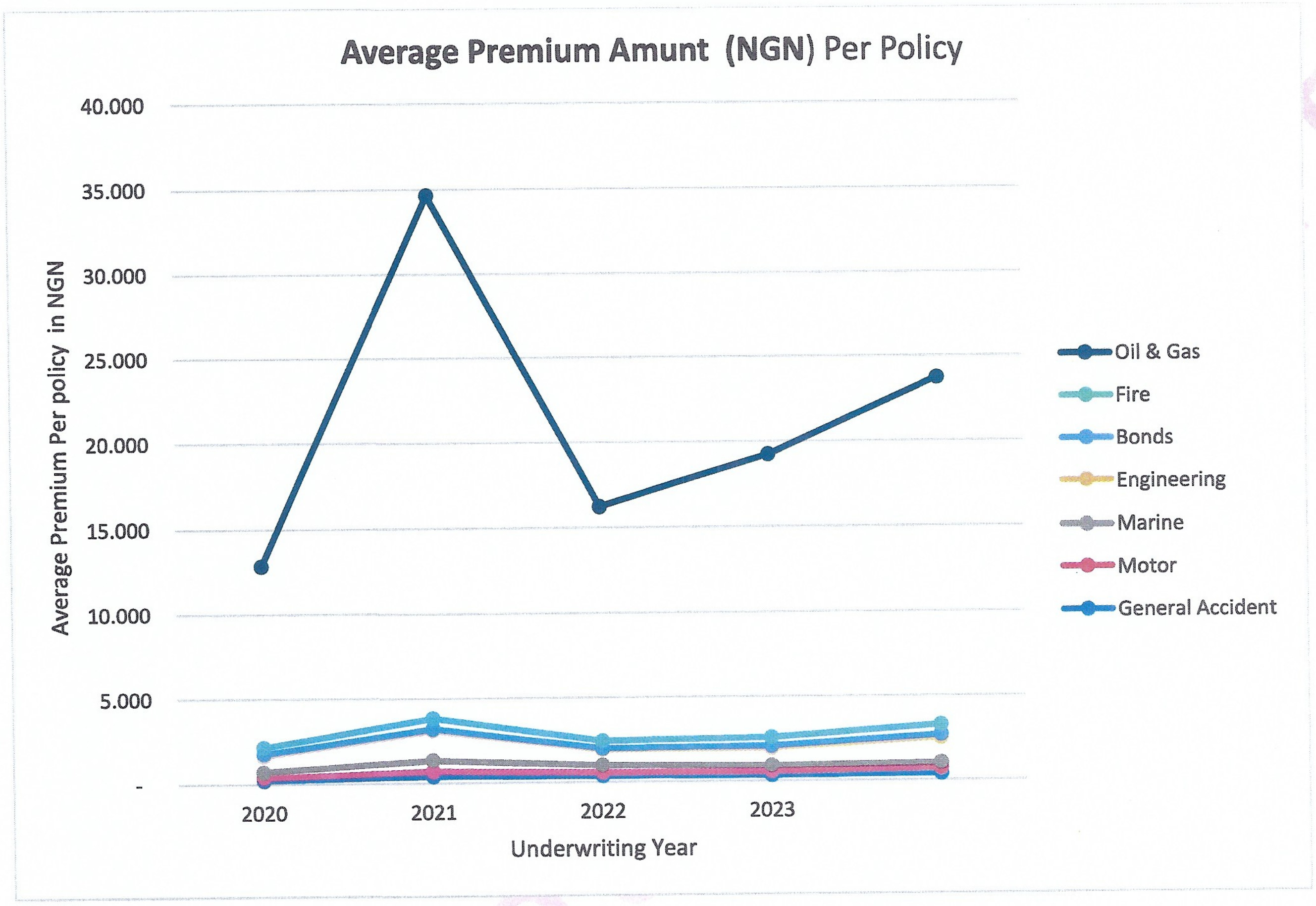
	2020	2021	2022	2023
Number of policies written				
General Accident	877	1.263	1.251	1.163
Motor	2.403	3.320	3.065	3.009
Marine	419	662	718	681
Engineering	176	356	353	305
Bond	1.249	2.520	2.635	1.767
Fire	963	1.670	1.500	1.390
Oil & Gas	51	137	123	123
Agriculture	-	7	11	2
Aviation	-	-	8,00	1,00
Total	**6.138**	**9.935**	**9.664**	**8.441**
Year on year % increase	**-39,41%**	**61,86%**	**-2,73%**	**-12,66%**

Gross written premiums (NGN'000)	2020	2021	2022	2023
General Accident	339.992	446.166	394.577	438.670
Motor	715.321	620.395	687.248	906.943
Marine	276.428	296.746	262.270	231.167
Engineering	305.639	322.522	355.014	433.715
Bonds	142.648	221.421	352.399	387.111
Fire	597.512	732.991	767.655	819.265
Oil & Gas	1.571.539	1.888.875	2.049.113	2.516.607
Agriculture	-	147.892	59.817	1.827
Aviation		-	1.815	599
Total	**3.949.079**	**4.677.009**	**4.929.908**	**5.735.903**
Year on year % increase	**2%**	**18%**	**5%**	**16%**

Average Premium (NGN'000)	2020	2021	2022	2023
General Accident	388	353	315	377
Motor	298	187	224	301
Marine	660	448	365	339
Engineering	1.737	906	1.006	1.422
Bonds	114	88	134	219
Fire	620	439	512	589
Oil & Gas	30.814	13.787	16.659	20.460
Agriculture	-	21.127	5.438	913
Aviation	-	-	227	599
Total	**643**	**471**	**510**	**680**
	68%	**-27%**	**8%**	**33%**

Source: ***Figures in the tables were taken from Sterling Premium Production Data***

5.2 The year-to-year growth change in the total number of general insurance policies written decreased by 12.66% over the year 2023. The average amount of policies written increased to 33% over year 2023 from minus 8% in 2022. The total number of policies reported by class masks some noteworthy features:



- Overall, Sterling appears to have experienced average annual growth rate of 9.78% in gross written premiums but some equivalent volatility in the average per policy premium

- Except the Marine and Aviation and Agriculture classes, all other classes experienced some growth in per policy average premium. Given the inflation rate in Nigeria in 2020 to 2023, the average premium in 2023 would normally be much higher than in 2021 and 2022. However, all classes except Bond class seem to have experienced below the average annual national consumer price inflation (CPI: 2019-23:18.59%) increases in per policy average premium to end of year 2023, reflecting possibly the impact of unhealthy competition in the market with consequential effect on premium charged. The decrease in number of policies written might also impact on the average per policy premium.

- Sterling appears to have continued to grow its market share strength in the Oil and Gas class (the dominant line of business in terms of Gross premiums written about 43.9% of the total company's production) with a total of 123 policies in year 2023(same as in prior year 2022). Underwriting cycle in this market had been upswing with hard premium (average premium increased year to year by 23% over year 2023). However, increased attraction of this class is beginning to be affected by competition, as the average premium appears to be steadily weakening: NGN30,814 in 2020, compared with NGN13,787 in 2021, and rising to NGN16,659 in 2022 and NGN20,460 in year 2023 respectively. Year 2023 NGN2.52bn gross premium written in the Oil and Gas class represents a modest increase of 23% over the company's 2022 amount. The Oil and Gas class is mostly transacted in US ($) dollars at NGN461 2022 and NGN645.92 2023.

- General Accident Class number of policies written decreased by 7% over 2023 but experienced has an annual increase rate of 7% over prior 4 years remaining steady at an average of 1,139 per year for last 4 years and, with a moderate annual increase of 6.58% in the average premiums.

- Bond Class appears to be exceptionally growing for the company at an average annual growth rate of 28.30% over the last 4 years to year 2023 in number of policies written. Underwriting cycle for this class might have experienced some volatility in trend moving from a softening of the market with average premium per policy decreasing to NGN 88, then to slight hardening of the premium, increasing to NGN134 over the last 2 years to end of 2022 and further hardening at 219 per policy in year 2023. The trend shown in gross premium written volume has been increasing at 17.68% a year in the last 4 years. This may reflect the effects of Government attention on infrastructural development and construction.

- Motor class has remained a steady business for the company with an average premium per policy of NGN253, 000. The number of policies sold has been around 2,950 with average annual premium volume of NGN732,477.

- Engineering Class appears to have experienced some growth in Gross written premiums at an average 9.14% a year with modest annual increase of -4,87% in average premium at NGN1,268 per policy over the last 4 years to 2023. The number of policies written have increased at annual rate of 9.14% over year 2020-2023. The average per policy premium over last 4 years to end of 2021 was NGN354,222.

- For the Marine Class, we have an average per policy premium of NG453 over the last 4 years, the number of policies written with annual decrease rate of 4.37% has remained steady around 266 per year for the last 4 years and, with a moderate annual decrease rate of 12.0%in the last year to 2023.

- Aviation class appears have to have suffered some setback after picking up in number of policies at 8 in 2022 and declining to 1 with a total annual gross written premiums of NGN599mn and average of NGN599,000 over the year 2023.

- Agriculture insurance, a relatively new business class for sterling has not been developed much. It is advised that Sterling consider its underwriting skill and capital allocation strategy into the class as it has been experiencing high loss ratio in it.

- The Fire and Property class appears may have regained its momentum in average number (rising by 7% in 2023 and volume of written premiums (increasing slightly by 8.2% in 2023.

Furthermore, the data and information suggest that Sterling might have reduced its risk appetite taking in some lines of business, possibly refusing renewal of "killer risks" of the past. The company has complied with IFRS17 on segregation of insurance contracts, the company appears to have demerged aviation from marine policies, We advise that the company takes the current relative calmness in the marine and aviation industry to increase its appetite in these areas. The company is advised to consider its underwriting capability; capital adequacy and the relatively low loss ratios being experienced by other operators in the aviation industry to see whether it can explore the potential further opportunities in that class.

The table below shows the revenue generated by Sterling in the last four years

Table 3 : General business revenue account

NGN'000	2021	2022	2023

Net Insurance Revenue	3,373,639	4,096,304	4,078,304
Insurance Service Expense:			
Net Liability for claims incurred	(925,320)	(1,742,635)	(1,814,830)
Net loss component & Net interest accretion		(41)	(4,609)
- Commission and Acquisition expenses	(166,845)	(1,048,816)	(1,618,477)
- Maintenance	(389,304)	-	-
- Reinsurance commission	153,109	-	-
Insurance result	**2,045,280**	**1,304,812**	**640,386**
Net non underwriting expenses:			
- Management expenses	(966,591)	(888,443)	(1,192,492)
- Employee Benefit	(781,691)	-	-
- Finance Costs	(20,866)	(23,472)	(24,959)
Allowance for impairment of receivables	(122,952.00)		
Net insurance finance income/(expense)		(21,036)	(15,879)
Impairment loss on non-financial assets		(453,510)	(192,459)
Total Net non underwriting expenses:	**(1,892,100)**	**(1,386,460)**	**(1,425,789)**
	(0.56)	(0.34)	(0.35)
Investment result:			
Investment Income	89,802	90,519	248,102
Net realized gains/loss (Dividend on quoted equities)	71,510	476,733	1,305,843
Other operating income	17,981	116,362	25,762
Fair value change in financial assets	-	-	-
Fair value change in investment in property		-	-
Investment Operations	**179,293**	**683,614**	**1,579,708**
Overall result before tax	332,473	601,965	794,305
Acquisition cost as a % of net premium	5%	26%	40%
Maintenance expense as % of net Earned premium	12%	0%	0%
overall Net claim ratio*	27.4%	42.5%	44%
overall Net expense ratio*	68%	59%	75%
Management expense ratio	52%	22%	30%
Overall Operating ratio*	90.1%	85.3%	80.5%
Net profit margin*	9.9%	14.7%	19.5%

Source: Annual report and Accounts

Note: - Net claims ratio = net claims incurred/net earned premiums

- *Net expense ratio = net operating expenses/net earned premiums*
- *Overall Operating ratio = 1- (overall result/net earned premiums)*
- *Net Profit margin = insurance profit/ net written premium*

5.3 The Insurance result shown in the table above shows that Sterling's underwriting has been providing a technical profit increasing its performance at an average annual growth rate of 25%, over last most recent 3(three) years to end of 2023. This was during a significant rise in consumer price inflation globally that has impacted on the activities of insurance and reinsurance companies. Against such difficulty, it is worth noting that the insurance revenue less reinsurance contract held premium increased at an average annual rate of 10.28%.

5.4 While the technical result was a positive feature for the last three years, the overall result or insurance profit before tax increased by 33.68% a year over last 3 years. It is worth noting that the profit before tax declined from NGN1.13bn in year 2020 down to NGN332.47mn in year 2021 but increased to NGN601.96mn over year 2022 and to NGN794.31 in year 2023. There was a 61% increase in profit before tax between the year 2021 and 2022.

5.5 Sterling investment result returned an increase of 131,08% from its value over the preceding trading year [up from NGN683.6mn in 2022 to NGN 1.58bn in 2023]. This would suggest some possible gains of value in some of the company's investments. Dividend received from investment in equities might have contributed 83% of the investment result. The company has very strong underwriting skills across its products with resultant positive underwriting result supported by good returns from investments.

5.6 However, as in year 2023, the positive impact of the investment profit might have been more than offset by a combination of factors, including:

- Relatively high actual net claim payment at NGN1.47bn], which is 46.6% of the net earned premium. This issue is addressed further in the section dealing with claims experience analysis below.

- Relatively, the insurance service expense consisting mainly acquisition cost, maintenance has increased significant6ly over the last three years. Commission ratio was around average of 10% of net earned premium in the review year. The net commission rate seems to be consistent with what we have seen in other similar non-life companies and might suggest that the company has firm control over its channels of business acquisition, which might not have changed substantially. The relatively stable acquisition costs at 25% of net premium, including sales commission payment rate during each of the last 2 years would suggest that Sterling' sources of business and business mix and marketing strategy might not have altered greatly to create an unusual impact on either side.

- Allowing for reinsurance commission received and ignoring finance income, the total net combined expense ratio, including management expense, employee benefit expense and finance costs would be 96%[2022: 81%] of the net revenue and 69% [2022:55% of Gross written premiums (GWP)].If interest accretion element of finance expense is included the net expense ratio might increase to 102%. The illustrates the impact of implement IFRS17 Accounting Standard on the nonlife business. The bulk of the expenses appear to be in the management costs which combined with employee benefit expense to constitute about 60.71%[2022: 62.7%] of the total non-insurance related net expenses of Sterling Assurance. The trending level of Sterling's management expenses at an average of 43% of net revenue earned appears to be not inconsistent with those of many of the companies that we have seen in the highly segregated Nigerian Insurance market. Combined with an overall claim ratio of 28%[2022:15%] of net revenue earned would yield a combined ratio of 124%[2022:90%], leaving small no trading profit (if effects of investment activity and reinsurances were ignored) and hence little or no return to shareholders. This appears to have been the trend each year.

5.7 We consider the high net operating ratio at 86.2% [2022: 84.4%] over year 2023 as a relatively stable improvement over past years when its level made us to raise some concern about its sustainability, compared to those we have seen in well-established general insurance companies.

Results by class:

5.1 The tables below summarise some key figures for each class of general business written by Sterling, first for 2022 and then for the prior years. Please note that the net technical results in the tables below exclude non-underwriting and management expenses.

Table 3a :- Key figures by class- General business - 2023

(NGN'000)	General Accident	Motor	Marine	Engineering	Bond	Fire	Oil & Gas	Agriculture	Aviation	Total
Gross earned premiums	374,464	803,215	206,016	375,876	329,101	805,644	2,141,126	5,608	-	5,041,050
Gross claims incurred	183,040	265,118	101,887	209,653	47,593	372,845	633,802	892	-	1,814,830
Claims ratio*	49%	33%	49%	56%	14%	46%	30%	16%	0%	36.00%
Net technical result	102,462	345,286	23,857	51,387	49,985	57,373	2,702	7,334	-	640,386

3a Table b: Key figures by class- General business – 2022

Table 3a :- Key figures by class- General business - 2022

(NGN'000)	General Accident	Motor	Marine	Engineering	Bond	Fire	Oil & Gas	Agriculture	Aviation	Total

Gross earned premiums	397.511	692.358	266.050	357.654	355.019	773.363	2.064.349	60.262	0	4.966.566
Gross claims incurred	112.203	233.726	177.922	(20.507)	5.616	259.480	31.560	116.417	0	916.415
Claims ratio*	**28%**	**34%**	**67%**	**-6%**	**2%**	**34%**	**2%**	**193%**	**0%**	**18,45%**
Net technical result	**253.045**	**277.249**	**95.963**	**197.627**	**239.063**	**369.944**	**672.253**	**(54.626)**	-	**2.050.518**

Table 4b: Key figures by class- General business – 2021

Table 3b :- Key figures by class- General business - 2023

(NGN'000)	General Accident	Motor	Marine & Aviation	Engineering	Bond	Fire	Oil & Gas	Agriculture	Aviation	Total
Gross earned premiums	442.522	623.640	299.457	302.581	225.763	740.977	1.868.295	143.074	0	4.646.308
Gross claims incurred	438.854	249.294	16.382	45.568	(2.974)	234.852	270.157	13.417	0	1.265.550
Claims ratio*	99,2%	40,0%	5,5%	15,1%	-1,3%	32%	14,5%	9,4%	0,0%	27,2%
Net technical result	**(44.922)**	**340.905**	**205.562**	**147.376**	**164.133**	**579.075**	**594.453**	**58.698**	-	**2.045.280**

5.8 The key features of the general business are:

- Overall, the total technical result reduced significantly, compared with the previous year due to high insurance acquisition cashflows and maintenance expenses (53% of net insurance revenue for both).

- With the exemption of the Bond, Aviation, Oli and Gas Classes, all the line of businesses yielded technical profit in 2023. However, the Agriculture class had yielded technical loss in the preceding year. Agricultural insurance has been introduced into the market by the company in 2021, so it has neither company's specific nor Industry collateral experience to benchmark. The Aviation class has just begun to be separated from the Marine class, so it's difficult to be assessed from historical perspective.

- The gross earned premiums on the General Accident class reduced by 6% over year 2023, but the gross claim ratio for this class appears to have increased improved significantly from 28% in 2022 up to 42% in 2023. The net claim ratio had been 99% in the year 2021. The General Accident contributed the largest gross technical result at NGN171.08 mn. To ensure continuous improvement in the class's result, the company should continue to reconsider its risk selection and especially its strategy of retaining almost all the premiums earned with little or no reinsurance arrangements for that class.

- The Oil and Gas class returned the largest per class overall technical loss of NGN 371mn [2022: NGN 672.25mn; 2021: NGN594.45mn]. This class is the dominating business of the company with 41% of total net earned insurance revenue. The Oil and Gas Class net earned premiums have increased by 10% over year 2023. The company should review its strategy on the risk selection process for the oil and gas class to curb future losses.
- For the Fire class, the gross earned premiums on the fire account decreased by 4% [2022: 3%], compared to prior year. The Fire account of the company has been highly volatile with gross claim ratio rising to 32% in 2021 before to 50% in 2023. The company recorded 17% [2022: 16%] of the gross earned premiums from Fire business and returned an underwriting profit of NGN 35.8mn [2022: NGN369.94mn] in the year 2023.

- For the Marine, the net earned insurance revenue account took NGN 161.18mn 5.1% [2022:5.0%] of the total company's net earned premium for year 2023, which represented 11.02% decrease over prior year. The company recorded an increase in net claims ratio: 32% in 2023 as against 24% in 2022 and returning a technical profit ofNGN143.35mn [2022: NGN95.96mn;2021: NGN205.56mn].

- Motor business reported 143.35mn (14%) of total gross earned insurance revenue and 14% of the total gross technical insurance result t, with decreased net premiums of 11.01% above from the 2022 level. The Motor gross claim ratio appears to have increased from 37% in year 2021 to 42% in year 2023.

- The Bond class yielded net technical loss of NGN74.07mn [as against profit in 2022: NGN239.06mn; 2021: NGN164.13mn]. Bond's gross earned insurance revenue of NGN 237.53mn was 5.1% of total gross insurance earned premium but 33% lower than produced in year 2022. Bond class has shown high level of claims volatility with claims ratio ranging between 1% to19% over the last 3 year to end of 2023.

- For the Engineering business, it has maintained 8% of the total company's net earned premium and yielding NGN9.57mn technical profit.

5.9 The history of the paid claim's settlement delay pattern as at end of year 2023 is set out in the table below. We have paid claims data for 2023 whose analysis appear to support the previous table and comments as shown below.

Table 5: Proportion of ultimate claims paid as at 31 December 2023

Table 5	Number of claims	Average Amount paid (NGN'000)	Maximum single claim amount (NGN'000)	Average payment delay (days)	Maximum payment delay (days)	Average payment delay (years)	Maximum payment delay (years)	Total Claims Paid (NGN'000)
General Accident	164	901.865	14.860.336	495	4.847,00	1,36	13,28	147.905.846
Motor	501	427.603	8.101.578	92	1.750,00	0,25	4,79	214.229.113
Marine	23	3.579.581	67.235.121	419	1.215,00	1,15	3,33	82.330.365
Engineering	49	3.457.370	80.382.157	343	1.521,00	0,94	4,17	169.411.152
Bond	3	12.818.742	21.328.353	1.577	4.481,00	4,32	12,28	38.456.225
Fire	233	1.293.040	35.839.901	251	4.615,00	0,69	12,64	301.278.283
Oil & Gas	9	56.905.019	266.674.799	1.174	3.128,00	3,22	8,57	512.145.167
Agriculture	2	359.920	674.525	267	429,00	0,73	1,18	719.840
Aviation	-	-	-	-	-	-	-	-
TOTAL	**984**	**79.743.139**	**495.096.770**	**4.618**	**21.986**	**13**	**60**	**1.466.475.990**

Figures may not add up due to round and use of data.
Source: Company's paid claims data

Comments:

- Overall, Sterling has a good reputation of settling claims quickly with 100% of claims settled within an average period of around 5 years with exception of a few General Accident, Bond, Fire and Oil and Gas claims where the company data shows some claims might have suffered up to 12 years delay [in very few cases]. Differences in pattern between the major classes might reveal varying claim payment delay periods. For Motor claims (more than 90%) are settled fastest and within 2 years with least settlement delay period of Ninety (90) days. The average maximum settlement delay period for Motor class is 3 to 5 years. For example, by 31 December 2023, all Motor claims incurred in accident year 2020 have been fully settled, while 97% of claims incurred in accident year 2021 have been settled; and 59% of claims incurred in 2022; 55% were settled of claims incurred in 2023.
- Most of the claims in the Oil and Gas appears to be 'short tailed' and would have been settled within 1 to 9 years.

Reinsurance ceded

5.10 The following two tables summarises the proportion of gross premiums retained by the company after reinsurance, for each class of business, first for 2022 and then for the previous year.

Reinsurance ceded.

Table 6a: Retention by class- General business 2023

(NGN'000)	General Accident	Motor	Aviation	Marine	Engineering	Bond	Fire	Oil & Gas	Agriculture	Total
Gross written premiums	438.670	906.943	599	231.167	433.715	387.111	819.265	2.516.607	1.827	5.735.903
Reinsurance premiums	17.785	108.172	-	76.073	129.686	118.724	210.177	820.321	-	1.480.940
Net written premiums	420.885	798.771	599	155.093	304.029	268.387	609.088	1.696.286	1.827	4.254.964
Retention	96%	88%	100%	67%	70%	69%	74%	67%	100%	74%

Table 6b: Retention by class- General business 2022

(NGN'000)	General Accident	Motor	Aviation	Marine	Engineering	Bond	Fire	Oil & Gas	Agriculture	Total
Gross written premiums	394.577	687.248	1.815	262.270	355.014	352.399	767.655	2.049.113	59.817	4.929.908
Reinsurance premiums	17.785	108.172	-	76.073	129.686	118.724	210.177	820.321	-	1.480.940
Net written premiums	376.792	579.076	1.815	186.197	225.328	233.674	557.477	1.228.792	59.817	3.448.968
Retention	95%	84%	100%	71%	63%	66%	73%	60%	100%	70%

Table 6c: Retention by class- General business 2021

(NGN'000)	General Accident	Motor	Aviation	Marine	Engineering	Bond	Fire	Oil & Gas	Agriculture	Total
Gross written premiums	446.166	620.395	-	296.746	322.522	221.421	732.991	1.888.875	147.892	4.677.009
Reinsurance premiums	22.861	27.776	-	78.729	93.089	46.994	146.327	753.892	103.000	1.272.668
Net written premiums	423.306	592.619	-	218.018	229.433	174.426	586.664	1.134.983		3.359.449
Retention	95%	96%	0%	73%	71%	79%	80%	60%	0%	72%

**Source: Sterling's audited accounts*

5.11 It is not possible to make detailed observations based only on the premiums retained but it is seen that the company's level of retention on all classes (74% [2022:70%] of written premiums) have either been slightly increased or maintained at their prior level with exception of the Marine Class. Two classes worth noting are the General Accident and Motor, Aviation and Agriculture where most of the premiums 85% or more are retained. Overall, the company retained over 70% for majority of the classes. The low historical loss ratio of the Oil and Gas class supported by modest net asset value of the company might have provided motivation for keeping the retention in that class at relatively high level. The high retention while preventing the company from giving away sizeable portion of its profits to the reinsurers, should be monitored and reviewed regularly as events can change very rapidly and unexpectedly over a brief period resulting in higher need for additional capital financing.

5.12 An interesting point to note is that no matter the alteration of the individual line retention strategy, it appears the company's retention philosophy enables it to retain about 70% of its premiums reinsuring 30% balance in each year.

Impact of Reinsurance

5.13 The company's reinsurance programme for each of the classes of business is discussed further in section 6 of this report. It is pertinent to note here though that Sterling depends to a reasonable extent on the use of reinsurance protection and that it is the net technical result, which is effective for accounting and solvency purpose, after considering reinsurer counterparty default risks.

History of the Sterling's General business claims by class

5.14 The table below sets out the total claims paid by Sterling over the last four years.

Table 7 : General insurance claims paid

(NGN'000)	2019	2020	2021	2022	2023

General Accident	164.197	141.124	446.475	120.342	148.061
Motor	276.391	212.814	246.817	245.524	217.859
Marine	55.318	243.452	23.512	130.627	83.894
Engineering	49.614	36.403	54.716	23.985	166.005
Bond	1.172	-	-	24.950	38.490
Fire	717.698	461.244	254.864	340.051	299.818
Oil & Gas	160.850	734.060	273.400	45.500	512.349
AGRIC	-	-	13.417	94.888	-
Aviation		0	0	0	0,0
Total gross*	**1.425.239**	**1.829.098**	**1.313.202**	**1.025.865**	**1.466.476**
Less reinsurance recoveries	**48.981**	**659.347**	**340.230**	**415.449**	**484.170**
Total net claims paid	**1.376.258**	**1.169.751**	**972.972**	**610.416**	**982.306**
Reinsurer's share of paid claims	**3%**	**36%**	**26%**	**40%**	**33%**

Source: Sterling accounts

5.15 The year-to-year Gross claims paid appear to be decreasing at the average rate of 7% [2022:13%] a year in recent past 4 years. This was largely due to some "good" years in the Oil and Gas and some few other classes that exercised dominance in the non-life insurance portfolio. Motor and General Accident were risk classes where Sterling may have retained most of the risks. Whereas the Oil and Gas might not have been typical for the company in relation to the industry. Oil and Gas showed much volatility in claim rate over that period. Overall, the proportion of claims paid by the reinsurers may be an indication that Sterling may have restructured its dependency on reinsurance. It is worth noting that, the proportion recovered appears to have not been stable oscillating between 3% to 74% of Gross claim paid out as reinsurer's share of claims paid by the company, while 2019 returned remarkably low level at 3% share of the claims incurred.

5.16 Claims paid in 2023 would relate to claim events which might have occurred several years in the past, while the ultimate amount of the claims to be paid might not be known for several years after the accident year during which the claims arose. Sterling must estimate whenever its accounts are prepared (and report this in its returns to the National Insurance Commission (NAICOM) on a yearly basis) the amounts yet to be paid on claims that have been reported ("outstanding claims") and amounts set aside for claims that may have been incurred but not yet been reported("IBNR"). These data are usually included in the actuary's valuation report and reflected as part of the insurance contract liabilities in the accounts.

Ultimate Loss ratios for the main classes

5.17 Loss ratios are calculated for each class of general insurance business according to the year in which the claim occurred ("accident year"), showing claims paid and outstanding distinctly for accident years 2022 and 2023 with previous years combined. The two immediate tables below illustrate how these loss ratios have been calculated for the past two years and the changes that may be discussed.

Table 8: Ultimate Loss Ratio by class of General Insurance Business

Table 8: Gross loss ratio by class of general insurance business: 2023 Accident Year									
Class of Insurance	Claims Paid (NGN'000)	2023Reported Reserves (NGN'000)	IBNR (NGN'000)	**Incurred Claims (N'00)**	**Earned Premium (NGN'00)**	**2023 Estimated loss ratio**	**Management and Other expenses**	2023Estimated combined ratio	2022 Estimated ultimate loss ratio

General Accident	148.061	118.444	53.727	320.231	421.200	76,0%	160.092	114,0%	97,6%
Motor	217.859	51.195	48.661	317.715	617.361	51,5%	275.232	96,0%	102,8%
Aviation	-	-	-	-	-	0,0%	-	0,0%	0,0%
Marine	83.894	10.335	4.364	98.592	240.081	41,1%	91.006	79,0%	121,5%
Engineering	166.005	62.000	49.445	277.450	352.027	78,8%	162.515	125,0%	43,2%
Bond	38.490	10.250	6.045	54.785	237.526	23,1%	141.887	82,8%	50,3%
Fire	299.818	131.914	41.401	473.133	804.912	58,8%	348.055	102,0%	111,3%
Oil and Gas	512.349	12.920	5.190	530.460	1.959.802	27,1%	1.003.959	78,3%	41,7%
Agriculture	-	19.000	27.456	46.456	6.684	695,1%	2.859	737,9%	301,5%
Total business	***1.466.476***	***416.058***	***236.288***	***2.118.822***	***4.639.593***	***45,67%***	***2.185.605***	***92,78%***	***57,93%***

5.18 The projected ultimate combined ratios have assumed some level of expected deterioration rate to claims and expenses to their ultimate point. The average pool ultimate combined ratio as at end of 2023 would be expected to be 57.93% [2022:76.26%] deteriorating by 34.85% [2022:18.33%] from the 2022 level.

5.19 Except for five classes the Motor, Marine, Agriculture and Fire classes, the combined ratios in all the major classes appear to be satisfactory in both accident years. The difference which emerged in the experience between the accident years considered, do not appear to be excessive, although we have not undertaken any investigation to substantiate if the difference might be statistically significant.

5.20 In addition to the impact of repairs inflation and cost of replacement, the liability aspect of any class as may be the case with Motor could be difficult to assess and is subject to greater volatility. If this is the case with the General Accident class, the high combined ratio should be investigated as it looks to be high but appears to be consistent with the general market experience on General Accident in recent past in the Nigerian insurance industry. The gross loss ratio on the Fire class looks not to be exceptional compared to prior years' experience of the class. The large losses from a few policies in that class should be reviewed for further actions by the marketers and the underwriters to limit the impact of future reoccurrence.

5.21 The trend in the estimated gross loss ratios is shown in the table below:

Table 9: Historical Combined ratio in each accident year

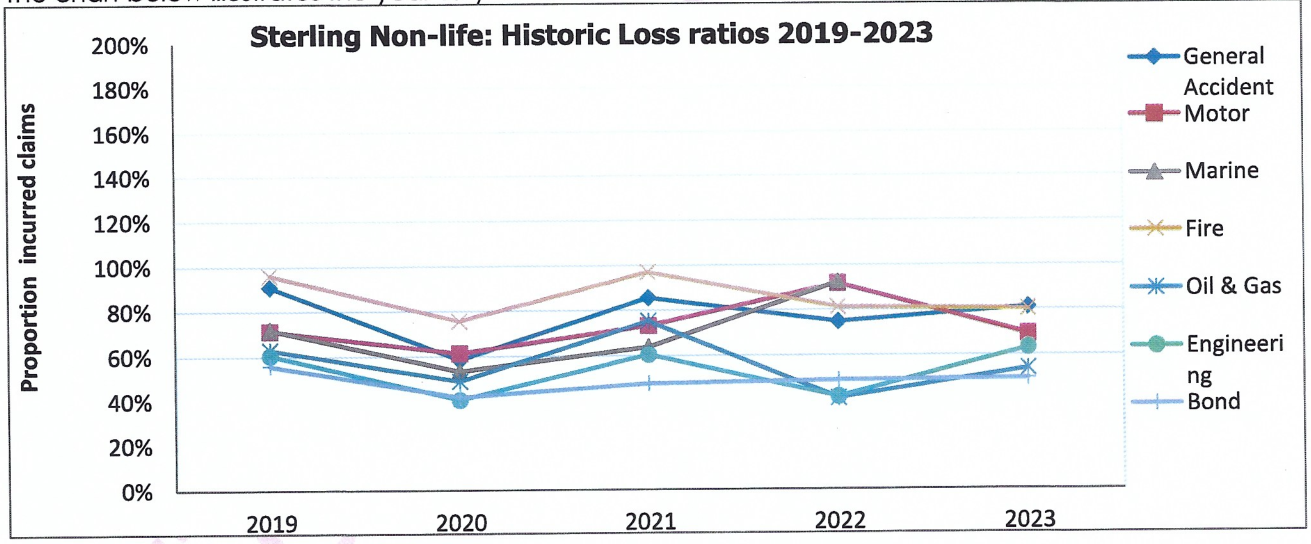
Class	**2019**	**2020**	**2021**	**2022**	**2023**
General Accident	91%	58%	85%	75%	81%
Motor	71%	61%	73%	92%	69%
Marine	72%	53%	64%	92%	
Engineering	60%	40%	60%	41%	63%
Bond	56%	42%	48%	49%	49%
Fire	96%	75%	97%	81%	80%
Oil & Gas	63%	49%	75%	41%	54%

Agriculture	0%	0%	0%	305%	451%
Aviation	0%	0%	0%	0%	0%

Source: Valuation report

5.22 For year 2023 Accident year, all the actual combined ratios for each of the classes/accident year considered were well below 100% except for the Agricultural class. However, one-year experience might be insufficient to reach a definite conclusion. An investigation of the experience from 2018-2023 resulted in the need to have set aside a loss component for onerous contracts Reserve of NGN4.65mn to correct past inadequacy of premium rate for business sold in the Agriculture Line (a need to set up an as required under IFRS 17 and by the Insurance Act 2003). The trend of the loss ratios in the General Accident and the Fire classes appear to be not inconsistent with the average experience of most companies we have seen about the whole market in the past. However, the relatively high combined ratio on the General Accident, Fire and other Property classes with combined ratio close to or well above 100% appears to suggest that the company should conduct an actuarial investigation of its loss and expense distributions of those classes to enable a reflection of the appropriate claim volatility in the pricing of the product could expect some year-to-year fluctuations in level of losses to be incurred in each class.

The chart below illustrates the year-to-year level of the estimated loss ratio for each accident year 2019 - 2023



5.23 The chart above shows the estimated combined ratios for all of Sterling's business to be volatile. All except the General Accident, Agriculture and Fire classes have been profitable in most three recent years to 2022. The loss ratio for the General Accident and Fire classes have risen considerably in year 2018 before falling to lower level through 2019 to end of 2023. The agriculture class was not profitable in 2022. The fire class is still far from achieving stability. Motor, Engineering and Bond classes loss ratios appear to be showing some volatilities in trend. The Oil and Gas class loss ratio has not experienced much drastic changes, but ratio fell below 56.4%, on average.

5.24 Overall, the company's loss ratios for the non-life appear broadly stable, suggesting good underwriting practice and low change in source and mix of business.

Outstanding Claims reserve

The company's annual financial statements give prior year's figures for accident years. This enabled us to investigate whether the company has increased or reduced the provision for outstanding claims. We have examined particularly the 2021and 2023 accident years. The deterioration and improvement in respect of the 2023 accident year is shown in the table below:

Table 10: Accident Year 2023 as reported Source: Valuation Report

NGN'000	2021	2022	2023	Percentage change	Change in total incurred claims.
General Accident	119.088	114.540	172.171	50%	Deterioration
Motor	87.593	37.811	99.856	164%	Deterioration
Marine	24.049	96.230	14.699	-85%	Improvement
Engineering	18.477	12.020	111.445	827%	Deterioration
Bond	11.038	4.423	16.295	268%	Deterioration
Fire	185.678	58.220	173.315	198%	Deterioration
Oil & Gas	17.683	15.608	18.110	16%	Deterioration
Agriculture	6.363	21.529	46.456	116%	Deterioration
Aviation	0	59	56		Deterioration
Total Outstanding Claims	**469.968**	**360.440**	**652.403**	**81%**	**Deterioration**

5.25 For accident year 2023 the company appears to have adjusted its estimate of its liability for incurred claims in most of the classes: General accident, Motor, Fire, Engineering, Bond, Aviation, Oil and Gas, and Agriculture so that the total present value of future fulfilment cashflows for gross incurred claims provisions including IBNRs increased or decreased by varying amounts. The reduction is most significant for the Marine class with 85% improvement. The Motor, Engineering, Bond, Fire and Agriculture Classes' claims reserves showed significant deterioration in the range of between over 100% and 827%. There is an overall improvement in claims of around 23%. Variations exist between the business classes. Possible reasons for deterioration and improvement level could be investigated, including claims speed payment philosophy, and incurring of large claims, change in policyholder's behaviour and expectations.

6. Valuation of assets and liabilities – General Business

6.1 Actuarial standard methods (Basic Chain ladder and Inflation adjusted Chain ladder, Loss ratio) and a set of assumptions were used to determine the estimate of the discounted value of the technical provisions for insurance contract liabilities. To this were added other non-technical liabilities to under the regulator's admissibility rules and Liability adequacy test.

Table 11: Solvency level on Balance sheet basis

Table 11: Trend in Solvency cover in each year 2019 to 2023 statements					
NGN'000	2019	2020	2021	2022	2023
Gross Technical Best Estimate Liabilities (BEL)	1,365,598	1,335,423	782,216	951,927	2,176,599

Other Admissible Liabilities	384,384	422,121	635,095	517,849	585,692
Gross Admissible liabilities	1,749,982	1,757,545	1,417,311	1,469,776	2,762,292
Admissible Assets	5,889,750	5,745,687	4,881,036	5,428,290	7,109,012
Net total Admissible Assets	4,139,768	3,988,143	3,463,725	3,958,514	4,346,721
Net written Premium	3,325,715	3,209,116	3,404,340	3,448,968	4,254,964
Required Paid-up Capital for Non-life	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Required minimum solvency margin Capital cover for non-life	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Solvency margin capital Cover ratio	137.99%	132.94%	115.46%	131.95%	144.89%

6.2 The table above sets out the trend in the solvency cover of the non-life fund assuming most of the admissible assets and those assets making up the shareholders' funds were covering the obligations (insurance and non-insurance) on IFRS 17 balance sheet basis.

6.3 The table above shows that Sterling has sufficient assets to meet all its general business insurance liabilities as at 31 December 2023 on regulatory basis {see section 24 of the Insurance Act 2003} and accounting basis. The solvency cover has been relatively stable over the last five years around net assets multiple of around 1.32 to 1.44 times the total minimum solvency capital required.

6.4 We have reasonable cause to believe that the company continued to meet the liability adequacy test under the regulation. We recommend that the solvency cover be monitored and recalculated following any significant changes in the external environment or within the company's structure which in the opinion of the Board may have significant impact on the company's business whether now or in the future.

6.5 Assets held to cover the technical liabilities are supposed to be restricted to their admissible value, but no adjustments were required. It should be noted that the cover of solvency may reduce slightly if intangibles assets and deferred taxes and commission assets and trade receivables (outstanding premiums held by brokers and agents and policyholders) are removed as they might not be admissible, although the Insurance Act 2003 section 25 does not mention intangible assets. Sterling has non- impact value in these assets.

Table 12: Measures of financial strength

Measure of financial strength: NGN'000	2019	2020	2021	2022	2023
Total Gross written Premium (NGN)	3,885,447	3,949,079	4,677,009	4,929,908	5,735,903
Total Reinsurance cost(outward)(NGN)	559,732	739,964	1,272,668	1,480,940	1,480,940
Total Net Written Premium (NGN)	3,325,715	3,209,116	3,404,340	3,448,968	4,254,964
Underwriting Profit	120,160	808,094	153,180	392,938	-572,454
Insurance Profit	264,993	1,061,787	242,982	483,457	-324,352

profit before tax	419,046	1,128,728	332,473	1,076,552	1,007,254
Post -tax profit (NGN)	504,911	-61,042,762	446,858	535,165	794,305
Total Net admissible asset value (NGN)	4,139,768	3,988,143	3,463,725	3,958,514	4,346,721

Growth in Net Premiums	79%	-4%	6%	1%	23%
Net Claim Ratio	24%	31%	27%	43%	44%
Net Expense Ratio	75%	49%	45%	47%	69%
Combined Ratio	99%	80%	73%	90%	113%
Proportion reinsured	14%	19%	27%	30%	26%
Return on Capital	15%	-176%	13%	16%	21%
Net Profit Margin	15%	35%	10%	15%	19%
Statutory Solvency Ratio	138%	133%	115%	132%	145%
Assets to Liabilities	298%	316%	474%	466%	311%

Source: Company's accounts

Note: - *Return on capital = post –tax profits /net assets value at year end*

- *Solvency ratio = Net assets value / net written premium*

6.6 The table above shows return on capital deployed may have been stable over the last 3 recent years remaining around average of 10% after falling to a negative of 176% in 2020. A reduction in return on capital would be expected to cause some corresponding effect on the company's retained earnings. However, the cover provided by the shareholders fund on the company's net premiums as a measure of financial strength show some protection for policyholders with a ratio of around 2.07 multiple in 2022 and 1.44 multiple in 2023.

Recent history of non-Life insurance contract liabilities

6.7 The gross insurance contracts liabilities for each of years 2019 to 2023 are shown below as well as the level of reserves held as reinsurance assets. The ratio of the net assets value over the required minimum solvency capital cover [calculated by taking the higher of 15% of the gross premium written net of reinsurance and the paid-up capital.

Key Features

Company Name: Sterling Assurance Nigeria Limited

Nature of Business: Non-Life (General) Insurance, including Motor; Marine & Aviation; Oil & Gas; Fire and Property; General Accident; Bond; Engineering

Country of Operation: Nigeria: Sovereign Credit: S & P (B)

Table 1: Non-life Life insurance contract liabilities and net asset value

In NGN'000	2019	2020	2021	2022	2023
Total Insurance Revenue	3,569,060	4,097,311	4,646,308	4,966,566	5,041,051
Total Admissible assets	5,889,750	5,745,687	4,881,036	5,428,290	7,109,012
Insurance Contract Liabilities:					
General Accident	196,226	114,526	118,705	115,144	172,171
Motor	34,306	51,842	87,848	37,775	99,856
Marine	98,270	44,485	24,358	99,082	14,699
Aviation	-	-	-	59.28	56.22
Engineering	31,310	40,941	18,492	12,020	111,445
Bond	7,301	18,112	12,224	4,423	16,295
Fire & other damage to property	112,953	225,534	186,425	66,844	173,315
Oil & Gas	101,955	24,461	17,706	15,869	18,110
Agriculture	-	-	6,490	21,529	46,456
Risk Adjustment			61,468	28144.23	130,155
Total	582,321	519,901	533,715	400,889	782,558
Total Liability for Remaining Coverage	783.277	783,277	815,523	665,746	623,547
Net Insurance Acquisition Cashflows				(417,245)	(72,550)
Loss Component			0	41.40	4,650
Total gross non-life insurance contract liabilities	1.365.598	1,365,598	1,335,423	782,216	951,927
Less Asset for Reinsurance on Incurred Claims				214715	149,328.10
Less Asset for Remaining Coverage reinsurance	433.596	433,596	471,314	545,009	221,829.38
***Net non-life insurance contract liabilities**	932.002	932,002	864,110	22,491	580,770
Other Admissible liabilities	384,384	422,121	635,095	517,849	585,692
Total net Liabilities	1,316,386	1,286,231	657,586	1,098,619	1,752,651
Net Admissible assets value	4,139,768	3,988,143	3,463,725	3,958,514	4,346,721
Minimum Required Capital	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Solvency Margin	4,139,768	3,988,143	3,463,725	3,958,514	4,346,721
Solvency Capital Ratio*	137.99%	132.94%	115.46%	131.95%	144.89%

Source: valuation report and company accounts

6.8 The level of reserves held in total for the company appears adequate to cover all the provisions specified in the insurance regulations.

6.9 We recommend that the company commissions an Own Risk and Solvency Assessment that will include economic capital modelling and enterprise-wide risk management advice.

7. Pricing and Premium Adequacy

Table 9: Historical Combined ratio in each accident year					
Class	**2019**	**2020**	**2021**	**2022**	**2023**

General Accident	91%	58%	85%	75%	81%
Motor	71%	61%	73%	92%	69%
Marine	72%	53%	64%	92%	62%
Engineering	60%	40%	60%	41%	63%
Bond	56%	42%	48%	49%	49%
Fire	96%	75%	97%	81%	80%
Oil & Gas	63%	49%	75%	41%	54%
Agriculture	0%	0%	0%	305%	451%
Aviation	0%	0%	0%	0%	0%

General Accident:

6.10 During the year 2023, the Company generated premium income of NGN 438,669,999[2022: NGN394,577,000] and incurred claims liabilities of NGN172,170,757 [2022: NGN234,881,828], which included the provision for incurred but not reported losses and provision for outstanding claims from previous years. For businesses secured in 2022 underwriting year, 72% [2022:34%] loss ratio was actually incurred with expense ratio of 57% [2022: 46%] to arrive at the combined ratio of 129% [2022:80%]. The premium charged during this year might have been inadequate or claim volatility might have been affected by some freak events. Considering the high combined ratio in the general accident class, the Company is advised to monitor the risks selection process and conduct an actuarial investigation that can help isolate the riskier group for effective costing approach. The lion share (NGN 147.905.846 [2022: NGN 182.880.734]) of the claims was paid out of internal resources while the sum of NGN57.630.904 was recovered from the reinsurers against the price of NGN27.491.503 [2022: NGN17,785,000] paid as reinsurance premium to secure the needed security. Due to the prevailing harsh marketing competition, the insured were compelled to accept multiple risks from the brokers without due diligent underwriting selection which gravitated into the substantial claims incurred. During the election year 2023, deliberate effort must have been made towards prompting underwriting experts to be more discreet in risks selection to engender profitable returns.

Motor:

6.10.1 During the year 2023, motor account retained 93% [2022:84%] with gross written premium of NGN 906,942,724[2022: NGN687,248,000] and incurred moderate loss ratio of 42% [2022: 27%] [2021: 37%] at NGN99.856.068 [2022: NGN249.294,000] [2021: NGN317,978,000] which; indeed, included provision against incurred but not reported losses as well as provision for inherited outstanding claims of the previous underwriting years. The claims were effectively paid out of the premium retained while NGN6,870,495 [2022: NGN14,630,387, 2021: NGN71,161,000] was recovered from the reinsurers for the price of NGN47,398,141, [2022: NGN108,172,000, 2021: NGN27,776,000] paid as reinsurance premium. Taking cognisance of the expense ratio of 64% [2022:39%, 2021:27%] and the ultimate combined ratio of106% [2022: 65% , 2021:64%], the reinsurance treaty can be deemed to not to be effectively managed or cost effective as little or no profitable return has been made on the motor account. We advise a review of the motor reinsurance account.

Marine & Aviation

6.11 The Aviation business appears to be a new account which started on a bright note of premium generation of N599.395. In combination with Marine class a gross written premium of NGN 231,766,056

[2022: NGN262,270,000; 2021: NGN229,457,000] against which NGN14,754,913 [2022: NGN16,382,000;2021: NGN27,152,000] [loss ratio of 42% [2022: 5% 2021:7%]] was incurred as claims liabilities which aptly included provision against incurred but not reported losses as well as provision against outstanding inherited losses of the previous years. As the nature of claims incurred were minor claims because they fell within the treaty deductible, the minimal recovery of NGN48.343.818 [2022: NGN7,331,000] from the reinsurers was earned. With the expense ratio of 46% [2022: 36%], the combined ratio of 88% [2022: 66%; 2021:42%] attest to some careful risk selection. The reinsurance premium of NGN78.898.794 NGN76.073,000; 2021: NGN78,729,000] is attributed to the cash intensive nature of aircrafts ownership and operation. There is therefore the urgent need to intensify marketing to generate more premium income to balance the treaty. The Management should consider this option as a reasonable approach because aviation treaty is a capacity allocation and failure to balance the treaty will justify signing down the offered capacity. As good fortune is on the side of the reinsured, expertise must be deepened, and more foot soldiers must be deployed to effectively cover the market and potential sources of business.

Engineering

6.12 During the year 2023 under review, NGN433,714,963 [2022: NGN355,014,000; 2021: NGN302,581,000] premium was generated. At the same time, NGN111,445,332 [2022: NGN46,034,000;2021: NGN63,983,000] being 53% [2022:13.9%;2021: 21.1%] loss ratio was incurred out of which NGN 30,008,000 [2022: NGN23,985,000;2021: NGN54,716,000] (being 18%) was paid internally while NGN135.997.252 2022: NGN22,049,000 as 62% was recovered from the reinsurers. The reinsurance premium of NGN 135.997.252[2022: NGN355,014,000;2021: NGN93,089,000] is appreciably high and relevant to the Engineering treaty which provides security for cash intensive and strategic assets like manufacturing plants, Electricity generating equipment, transformers and hoist mobile cranes. The reinsurance treaty needs to be restructured with the deductibles reduced to accommodate more claims so as to make the reinsurance treaty a symbiotic relation of gain to both sides.

OIL & GAS

6.13 The oil and gas insurances became the flag account by generating the largest premium income of NGN2.516.607.089 [2022: NGN2,049,113,000; 2021: NGN1,868,295,000] against which claims liabilities incurred was NGN18.110.048 [2022: NGN29,999,000;2021: NGN281,577,000] at negligible loss ratio of 1% [2022: 6%]. An expense ratio of 40% [2022: 45%] was incurred to arrive at the combined ratio of 41% [2022:51%]. Out of the claims incurred, the sum of NGN509,385,000 [2022: NGN 45,499,609; 2021: NGN273,400,000] was paid from the internally retained premium. Although the reinsurance premium of NGN820,321,000 NGN633.846.989;2021: NGN753,892,000] is appreciably high but without such strategic treaty, remarkable participation would have not been possible. This light in the tunnel will be rewarding when the moribund Refineries, Fertilizer plants, and Petrochemical Industry are concessioned and insured by the new Federal Government. The company should review its reinsurance strategy to take account of a retention level that is not too low nor too high to benefit from efficiency without giving away its profit to the reinsurers.

FIRE

6.14 During the 2023 underwriting year, NGN819.265.189 [2022: NGN767,654,645; 2021: NGN740,977,000] was generated as premium income when a total of NGN402.373,000 [2022: NGN234.852,000; 2021: NGN348,386,000] was incurred as claims liabilities which also included incurred but not reported losses as well as provision for inherited outstanding claims of the previous years. Out of the incurred claims, the sum of NGN299.818,000 [2022: NGN340.050.739; 2021: NGN254,864,000] was paid out of the internally retained premium while NGN157.841,000 [2022: NGN21,198,255; 2021: NGN285,091,000] was recovered from the reinsurers. The loss ratio of 62% [2022:32%; 2021:24%] plus the expense ratio of 59% [2022: 45%; 2021:36%] produced the combined ratio of 120% [2022: 77%; 2021:60%] which is broadly consistent the industry's average of 95%.

BOND

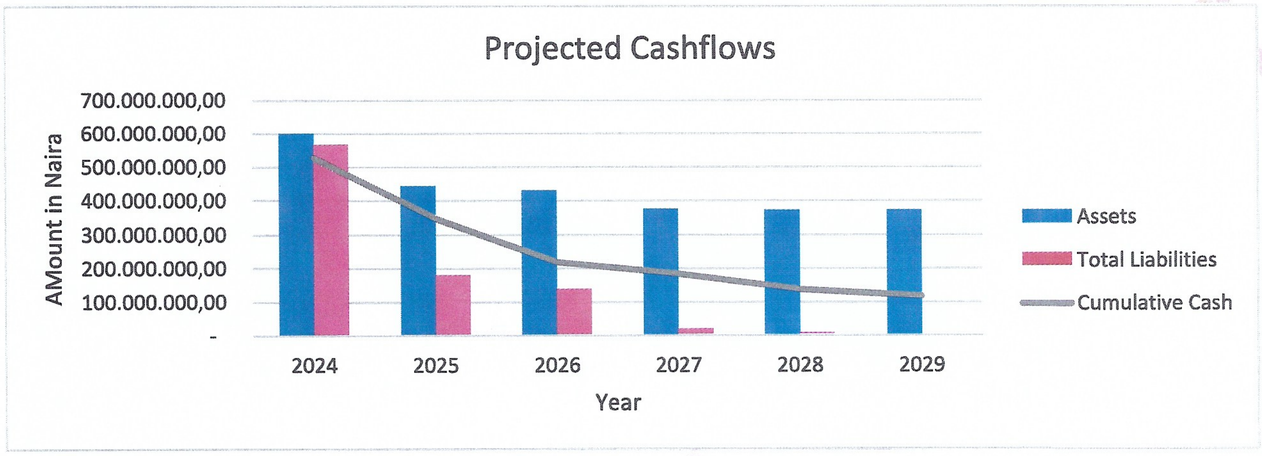
6.15 During the underwriting year 2023, a total of NGN387,306,000 [2022: NGN352.399,000;2021: NGN225,763,000] was earned on this account against an incurred claims liability of NGN45,005,000 [2022: NGN5,592,000;2021: NGN406,000,000] which was not paid due to incomplete documentation of the alleged loss by the claimant. The sum of NGN189,638,000; [2022: NGN 119.193.405 (being 48.96% [2022: 33.8%]) was paid as reinsurance charges against NGN197,667,000 [2022: NGN233,205,595] ; 2021: NGN174,426,000] (being 51.04% [2022: 66.2%]) retained. As the claims were not settled to the original insured, the reinsured too could not make any recovery against the reinsurers. Being a new account with loss ratio of 10%, the expense ratio of 42% is equal to the combined ratio of 52% [2022: 44%] which is far below the industry average for this class of insurance. There is the need however to discreetly investigate the outstanding claim when evidence is available, and witnesses are accessible.

AGRICULTURE

6.16 The underwriting year 2021 started on a brighter note with a premium income NGN1.826.528 of [2022: NGN59,817,000;2021: NGN143,074,000] when also claim liabilities of NGN46.455.859 [2022: NGN42,892,000;2021NGN19,780,000] was incurred including provision for incurred but not reported losses. Interestingly no amount was reported paid to reinsure the risk on this relatively new account for the current and prior year unlike in 2021 when cautiously, the sum of NGN103,000,000 about 70% of premium generated was paid for reinsurance security to guarantee the cover granted without any prior experience. In that prior year, the balance of NGN44,892,000 (being 30%) was retained for claims settlement. The cash call of NGN8.081.272 [2022: NGN6,363,000] was made against the reinsurers to mitigate the settlement paid out. The loss ratio of 305%; [2022:64%; 2021:28%] is aggregated with the expense ratio of 135% [2022: 58%], the combined ratio of 451% [2022: 122% ;2021:32%] without any evidence of reinsurance strategy portends danger for the company in this class of business. The Company needs to rethink its strategy on whether to continue to sell the business or not. If it chooses to be in the business of insuring Agriculture, then it requires more co-operation to be promoted with NATIONAL AGRICULTURE INSURANCE COMPANY to consolidate the move on the account. There must be reinsurance in place to protect the company.

8. Assets Liability Management

The chart below illustrates that the company has considerable Cash and Bonds far in Excess of the current estimates of its liability for incurred claims, Liability for remaining coverage' future insurance claims and other liabilities. There are few long-term bonds held by the company that will mature in future years. It's recommended that the company holds more short-term bonds. If Cash and Cash equivalent were removed there might be a strain in some of the years. The total assets and total liabilities are shown in the chart below.



Scenario 1:	NPV		Duration:	Convexity:
All Assets	2.396.820.061		2,05	5,79
All Liabilities	744.834.892		1,48	5,49

Average spread of the assets is broadly consistent with that of the liabilities. Level of mismatching observed for the duration could be reviewed by the company and we do not consider this to be a serious issue for a short-term business company.

9. Capital Management and capital adequacy

The table below sets out the assets and liabilities relating to the company's general business at the valuation date, and at the end of the previous year.

Table 14: Non-life Statement of Financial Position as at 31 December ,....

Liabilities (NGN'000)	2021	2022	2023	Assets (NGN'000)	2021	2022	2023
Gross technical reserves for general business:				Cash and Cash Equivalent	733,593	1,103,840	1,507,989
- Provision for Liability for Remaining Coverage,	222,376	502,797	1,785,539	Financial Assets	1,403,281	1,532,451	2,687,139
- outstanding claims & IBNR	472,248	372,745	652,403	Other receivable & prepayment	1,024,374	899,097	760,726
Provision Loss Component	0	41	4,650				
Insurance acquisition cashflows			(396,149)	Reinsurance assets	550,728	333,698	1,120,394
Risk Adjustment	61468	28,144	130,155	Deferred Acquisition costs	0	0	0
- other				Investment properties	1,430,000	1,430,000	1,430,000
				Investment in subsidiaries			
Total gross technical reserves	756,092	903,727	2,176,599	Property plant & equipment	724,595	880,529	938,797
Current Income Tax Liabilities	79,414	89,660	234,825	Intangible assets			
Insurance creditors (trade payable)	-	-	-	Deferred taxes			
Loans from credit institutions	-	-	-	Statutory deposits	300,150	300,150	300,150
Other Creditors/payable	210,732	127,589	95,976	Other assets			
Deferred tax liabilities	86,738	89,784	110,000	Trade Receivables	275,537	223,559	176,915
Other liabilities-employees retirement obligation	227,048	226,790	254,892				
Total liabilities	1,360,024	1,437,550	2,872,291				
Surplus assets	5,082,234	5,265,774	6,049,819				
Total liabilities and equity	6,442,258	6,703,324	8,922,110	**Total assets**	6,442,258	6,703,324	8,922,110

Source*: **Company's management account***

9.1 The assets shown in the table are assets reported in the company's accounts and include assets held to cover the insurance contract liabilities and other assets identified as general insurance business assets as at end of year 2023.The shareholders fund (Surplus)is about **NGN6.045bn** [2022: NGN5.27bn].

9.2 The assets include the sum of NGN300.15mn in statutory deposit. Cash and Cash equivalent of **NGN 1.51bn** [2022: NGN1.51bn], which in combination with the Statutory deposit would be available to meet about 71% [2022: 88%] of the total gross technical and other liabilities. This would suggest that the company is relatively very liquid with considerable level of confidence and certainty that policyholders' reasonable expectations can be met. However, the change in coverage appears not to consistent with change in the growth in insurance revenue which increased slightly by 1.5% in production, which would have yielded an offsetting liability effect from liability for remaining coverage. The assets for reinsurance coverage remain high as well at NGN 1.33bn [2022: NGN1.81bn], which is about NGN0.4bn more than its end of year 2021 amount.

9.3 The financial assets NGN2.70bn [2022: NGN1.84bn] consist of mainly Federal Government bonds (NGN287.36mn:15.59%), Quoted equities (NGN312.26mn: 16.94%), loans and receivables (578.08: 31.37%), and unquoted companies: NGN665.95mn (36.2%). Trade receivables in Premium Debtors was NGN223.56 [2021: NGN275.54mn]. Of the investment in properties of NGN 1.43bn, land, plant and equipment of NGN938.80mn [2021: NGN724.60bn]. The total of NGN2.31bn assets in investment properties and plant and equipment and land constitute 26.31% of the total general business assets.

9.4 The reinsurance assets [NGN1.81bn] constitute about 20% of the total general business assets. Reinsurance is discussed in more detail in Section 6.

Analysis of Investments Performance

9.5 The investment performance of the general business fund was examined by considering the investment return, including changes in fair value of assets and exchange gains but excluding other income achieved as a ratio of the average asset value during the year, as an indication of the investment performance of Sterling Non – life. The table below set out the results of our analysis.

Table 15: Estimated yield on non-life fund assets

Table 17: Estimated yield on Non - life fund assets

	2021	2022	2023
Total investment income plus net gains	161.312	567.130	567.130
Opening asset value	5.053.990	4.935.825	5.835.454
Closing asset value	4.935.825	5.835.454	5.835.995
Mean fund	4.914.252	5.102.074	5.552.159
Actual rate of return from investments	3,3%	11,1%	10,2%
Expected rate of return from investments	6,92%	9,14%	13.34%

Mean fund excluding investment return(=1/2x(2+3-1))
Rate of return from investments [=1/4]

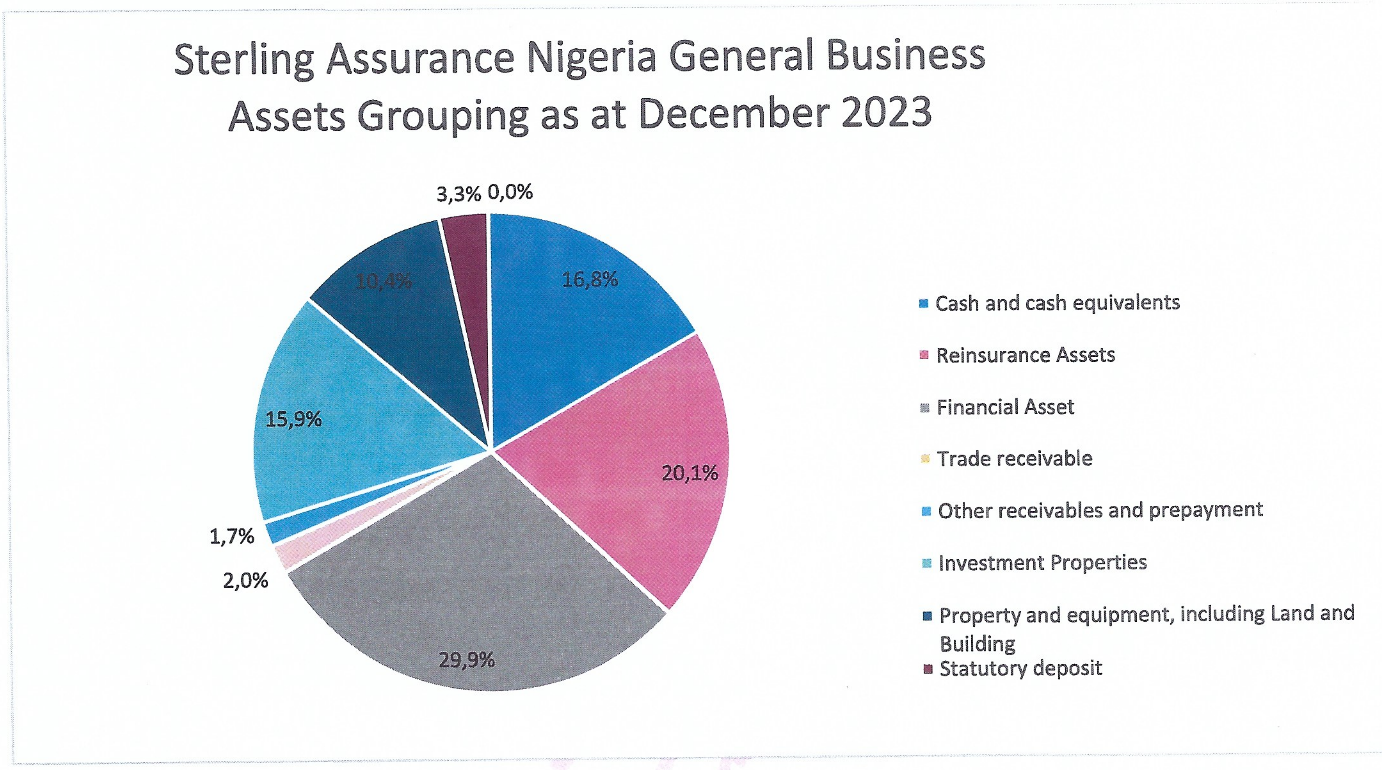
9.6 Taken the valuation discount rate set by the actuary as a benchmark, Sterling would have underperformed in each of the 3 years under review to end of 2023 by returning average of 7,58% a year, compared with the expected 9,95% a year.

9.7 The improved Actual investment return and return on capital might explain the increase in net profit margin of 31%, compared with 20% in the previous year.

Quality of assets backing the general business fund

9.8 Out of the Company's total assets of NGN9.001bn[2022NGN7.58bn] , the total of NGN8.9bn is allocated to cover the gross non-life insurance reserves of NGN2.57bn and other liabilities of NGN685.68mn. The total assets are as stated below:

	NGN'000	Proportion invested
Cash and cash equivalents	1.507.989	16,8%
Reinsurance Assets	1.810.266	20,1%
Financial Asset	2.687.139	29,9%
Trade receivable	176.915	2,0%
Other receivables and prepayment	150.628	1,7%
Investment Properties	1.430.000	15,9%
Property and equipment, including Land and Building	938.797	10,4%
Statutory deposit	300.150	3,3%
Deferred acquisition cost	-	0,0%
Total	9.001.884	100,0%



9.9 The company's investment exposure to private sector companies expected to suffer credit losses over the next 12 months is about 12.024mn out of which over 6mn relates to impairments. We had noted that as the unquoted equities carry higher level of risks than quoted shares. The unquoted investments of 8.8% of the company's total net asset value held in private equities are considered investments with potentially higher risks (default, marketability, illiquidity, higher volatility of income) than other investments and should be actively monitored. We have not been able to confirm the current worth of the shares.

9.10 Most of the company's assets type fall within the regulatory requirements for investments of insurance funds and are viewed as admissible.

O & A Hedge Actuarial Consulting

OAHAC

(FRC/2019/00000012909)

(Consulting Actuaries and Chartered Insurers)

Suite 21, 1st Floor, Motorways Centre1 Motorways Avenue

Reg. No.: BN 2262019 *FRC/2016/NAS/00000015764* *Tel: +234(0)9079471359*

Reinsurance Documents Provided

10.1 The Company has provided details of the following treaty arrangements for the period 1st January 2023 to 31 December 2023. The Motor and General Accident Treaty was supervised by Glanvill Enthoven Reinsurance Brokers Limited while all others were supervised by The United African Insurance Brokers Limited.

Business Class	**Type ofreinsurance**
Terrorism/Fire	1- Surplus 2- Fire Risk Excess of Loss
Engineering	1- Surplus 2- Engineering Risk Excess of Loss
General Accident	Excess of loss
Marine Cargo	Surplus
Marine Hull	Surplus
Motor and Liability	Excess of Loss
Bond	Quota share
Oil and Energy	Multi-line Package
Oil and Energy	ExcessofLoss

10.2 The company has provided retrocession treaty arrangement on Surplus basis for its facultative inwards businesses and excess risk exposure above its total surplus treaty capacity.

10.3 The Company also provided a spreadsheet listing, for each year 2013-2023, the five largest gross claims in each class of business.

Analysis

As at 31 December	EPI AS AT 31/12/2021	GWP AS AT 31/12/2023	GWP AS AT 31/12/2022
	NGN'000	NGN'000	NGN'000
Surplus			0
Fire Surplus			
Fire WXL (net retained)		948.317	767.655
Fire	200.000		
Terrorism	5.000		
Engineering	75.000	442.353	355.014
Bond (Quota Share)	45.000	387.306	352.399
Marine Cargo	30.000		
Marine Hull	50.000	246.320	260.241
Excess of Loss			
General Accident XL	200.000	440.090	394.577
Motor XL	750.000	944.701	687.248
Oil & Gas XL	927.000	2.516.567	2.054.282
TOTAL	**2.282.000**	**5.925.654**	**4.871.416**
Facultative	205.000	196.350	205.000
Grand Total	**2.487.000**	**6.122.004**	**5.076.416**
Treaty/GWP	0,385105167		
(Treaty+ FAC)/GWP	**40,62%**		

We have compared the Expected Premium Income ("EPI") shown in the various treaties for 2023 with the Gross Premium written (GWP) shown in the Audited accounts to 31 December 2023 and 31 December 2022. The results are as follows:

- The GWP for 2023 appears to be higher than the EPI For 2023.
- About 40% of the Gross Written Premium was reinsured in year 2023.
- All the surplus treaties are reinsured as to 65%. The remaining 35% appears to be retained by the Company. It is clear that this is a deliberate strategy for growth since the reinsured opt to manage 35% of their exposure through their expertise and capability.

Fire and allied perils/ Terrorism Surplus

The company has provided a Fire Surplus treaty, including Terrorism and Facultative inwards coverage for the period 1 January 2023 to 31 December 2023 and Fire and Engineering excess of loss treaty for the same period. All Co-insurances and Facultative businesses are covered by the arrangement.

Fire and Terrorism Proportional treaty –Surplus

The Fire and treaty is written on a Per Risk/Per Event Limit basis with a total capacity of NGN13.2bn any one risk. The Terrorism treaty has a per event limit of NGN450mn any one loss occurrence and NGN1.35bn in annual aggregate.

The treaty covers the following classes of business:

- Fire
- Allied Perils
- Property All Risks
- Business interruption when written in conjunction with Fire
- Terrorism within Nigeria and Nigerian interest abroad only
- Facultative inwards

The classes covered may be written direct or on facultative basis.

Treaty retention and capacity per risk

Retention	Treaty Capacity	Total Capacity
Maximum per line N250m [2022: NGN150m] (Material Damage and business Interruption combined on sum insured basis) or Probable Maximum Loss (PML)for best class risks	NGN5.0bn [2022: NGN3.3bn] for 20 lines [2022:22]	NGN5.250bn [2022: NGN3.45bn]
N50m for Terrorism (same in as 2022)	5lined [2022: 3 lines of NGN50m=NGN250m[2022: NGN150mn]	NGN300m
Facultative inward	NGN3.3bn of 25% treaty capacity	NGN825mn
Gross Total		NGN4.475bn

- There is an event limit of NGN14.0bn [2022: NGN13.2bn]. The event limit for Terrorism coverage is NGN450mn and in annual aggregate of NGN1.350bn.
- 60% probable maximum loss is good feature showing the reinsurer has some confidence in the underwriting skill of the company. However, in real terms it is designed to protect the reinsurer's interest by preventing accumulation of risks from similar co insurers. In any case, the known risks listed are standard risks of reputable blue chip manufacturing companies. The reinsurer is therefore expected to support and elevate the reinsured's marketing initiatives for bigger share of the risks by reducing the PML to 75% to allow the reinsured flexibility for risk acceptance and afford enough time for marketing coverage.
- The treaty offers a ceding or return commission of an average 20% for annual loss ratio greater than 60% and 35% for loss ratio less than 20%. The 60% Loss ratio appears high for 20% ceding commission. It is recommended that the company push for a flat commission rate of between 30and 35% of premium ceded to enable it to support its rising insurance contract acquisition cost. There is no profit commission allowed and no premium reserve.
- 25% is charged as ceding commission for terrorism premiums on a provisional basis which appears to be reasonable, and the reinsurers take 100% share of the treaty.

Comment

The treaty is the same as for 2022 except that that:

- Unfortunately, the return commission sliding scale has been restructured to create a feel of reduced administrative complexity and increasing cumbersomeness of the treaty. However, the threshold loss ratio of 60% attached to the ceding commission of 20% is unfairly high, considering that Sterling Assurance bears the marketing expenses of acquiring the insurance contracts. Thus, the commission structure reduces the cost efficiency of the fire treaty to the company. We recommend that the ceding commission should be agreed at a fixed rate level of not less than 35% without any loss ratio threshold condition - that is, independent of performance in the line of business – and not scaled based on loss ratios.
- The Fire treaty loss participation clause requiring that: "From loss ratio above 85%, 20% of the loss is payable by the reinsured/cedant. Loss Ratio above 150% is payable fully by Reinsurer" renders the Fire treaty a very poor risk management strategy with associated reduced cost efficiency and effectiveness to Sterling Nigeria Assurance and, therefore, should be removed. This unfavourable clause brings to questioning the reasons for seeking reinsurance which makes the company a co reinsurer. We recommend that it be removed as it defeats the purpose of the reinsurance arrangement to spread risk. More so, that the reinsured might have possibly has paid the M & D in full for full cover right at the start of the business year. The failure of the treaty as risk management tool with the said loss participation clause is easily seen in its requirement that if the loss ratio is more than 150% then the reinsurer shall bear the whole loss, thus making Sterling a co reinsurer for some level of risks. The company may still push for further reduction to its loss participation level to improve the effectiveness and justification for seeking reinsurance.
- The Fire/Property and Terrorism treaty imposes a non-trivial penalty of 110% of market prime lending rate on balances due from due date to date of payment on any amount of premium outstanding. However, there is no reciprocal condition on delayed recoverable claims from reinsurers under the treaty. Further, the imposition of 110% extra interest charge is simply ignoring the reality that notwithstanding the no premium no cover provision of section 50 of the insurance Act 2003, delays are still being experienced in Government businesses due to bureaucratic procedure. We recommend that the interest on overdue balances penalty clause should be removed from the treaty.
- The historical financial data of the company's fire/property cover shows that the proportion of earned

premium reinsured of the fire/property class increase to 27% in 2022 and 26% in 2023, implying the company has retained between 73% and 74%. The average gross claims ratio over prior 3 years has been stable at around 38% of the gross earned premiums for the Fire business, supporting our view on loss participation ratio and the threshold loss ratio against ceding commission.

- There had been a change in the number of surplus lines from 20 lines to 22 lines, and the treaty capacity increased from NGN13.2bn to NGN14bn.

SPECIAL PROVISIONS

- The treaty provides that any surplus risks in excess of treaty capacity shall be reinsured in the same proportional basis of the treaty arrangement.
- Any risk whose MPL exceed 60% rate shall be placed with the reinsurer's consent before cession.
- The treaty enlisted many risks which are of international wordings and are responsibility of national government which operates the projects. These exclusions are therefore normal.
- The treaty however provides that acceptances of risks excluded shall receive the lead reinsurer consent before placement and more importantly, any such excluded risk accepted must be negotiated with the lead re insurer at each treaty renewal

- The Fire and Property reinsurance Treaty is provided by the following:

Reinsurer	Proportion Shared
African Re:	50%
Continental Re:	25%
WAICA Re:	10%
F&S Reinsurance Limited	10%
Nigeria Re:	5%
Total	**100%**

Engineering Surplus Reinsurance Treaty

The Engineering Risk surplus treaty will protect all insurances whether direct or by way of coinsurance and facultative reinsurances written or renewed in the engineering department of the insured.

The treaty has two layers:

Class of Business	Retention	Treaty Capacity
The best Risks	Maximum per line N250mn on any one risk on sum insured or Probable Maximum Loss (PML)	NGN5.25bn for 20 lines
Boiler and Pressure Vessel and Consequential Loss Combined Machinery Breakdown and Consequential Loss	Maximum per line N187.5mn on any one risk on sum insured or Probable Maximum Loss (PML)	NGN3.94bn for 20 lines
Deterioration of Stock following Machinery Breakdown	Maximum per line N125mn on any one risk on sum insured or Probable Maximum Loss (PML)	NGN2.625bn for 20 lines
Erection All risks and Contractors All-risks	Maximum per line N250mn on any one risk on sum insured or Probable Maximum Loss (PML)	NGN5.25bn for 20 lines
Third Party Liability	Maximum per line N0.5bn in proportion	500mn same proportion
Electronic Equipment and Increased Cost of Working Combined	Maximum per line N125mn on any one risk on sum insured or Probable Maximum Loss (PML)	NGN2.625bn for 20 lines
Facultative	limited to 50% of one gross line specified herein this Table	limited to 50% of one gross line specified herein this Table

The treaty covers All insurances whether direct or by way of coinsurance and facultative reinsurances and/or compulsory legal cessions to the Reinsured, accepted and underwritten and/or renewed by the Reinsured in its Engineering Department and designated by the Reinsured as Engineering business covering:
Total net account treaty capacity is NGN5000mn.
Event limit is 10% of maximum exposure.

No quota shares were supplied for the Engineering class. The working excess of loss treaty for the Engineering Class is the same as that secured for the Fire class.

The Surplus treaty covers engineering businesses written on direct and /or facultative basis:

- Contractors All Risk/Erection All Risk and,
- Electronic Equipment and Machinery Break down,
- Third party liability written in conjunction with contractors' all risks and erection all risks and Inward Facultative.

- Projects with a value more than N1.00bn Sum Insured are required to be referred to the reinsurers for approval.
- There is a provisional return commission of 30% of reinsured premium which looks like the average of the commission sliding schedule. The commission sliding scale is graduated varying between 35% for loss ratio lower than 20% and 20% for loss ratio greater than 58% but less than 60%. This scaling of commission rate is viewed as capable of increasing the administrative complexity of the treaty. We recommend that the scale should be removed, and an enhanced flat commission be negotiated, instead.
- The treaty imposes a non-trivial penalty of 110% of market prime lending rate on balances due from due date to date of payment on any amount of premium outstanding. However, there is reciprocal condition on delayed recoverable claims under treaty. Further, the imposition of 110% extra interest charge is simply ignoring the reality that notwithstanding the no premium no cover provision of section 50 of the insurance Act 2003, delays are still being experienced in Government businesses due to bureaucratic procedure. We recommend that the interest on overdue balances penalty clause should be removed from the treaty.
- There is a cash loss of NGN150m which has remained unchanged since it was increased by 50% in year 2018 [2017: NGN75m]. This allows Sterling Assurance (the reinsured) company to make claim and receive immediate payment, subject to set-off clause from the reinsurers for a large loss without waiting for the usual quarterly periodic payment procedures to occur.
- The Company has a loss advice of NGN112.50mn, a provision which requires that Sterling Assurance reports loss cost greater than the stated amount to the reinsurer to enable the latter establish a reserve promptly for its likely share of the liability.
- The Company should ask for the loss participation requirement to be removed. It is worth noting that the loss participating clause reduces the efficiency and effectiveness of the reinsurance arrangement as a risk management strategy to the insurer but only protects

the reinsurer's interest, whilst making the reinsured company a co reinsurer. From loss ratio above 80%, 35% of the loss is payable by the reinsured/cedant under a loss participation clause (where the proportion of total gross claims incurred divided by the total gross earned premium (loss ratio) exceeds 80%). However, the historic average the gross loss ratio has been around 45% significantly lower than the cut-off point.

The reinsurers take 100% share of the Engineering Surplus treaty, as follows:

Reinsurer	Proportion Shared	Rating
African Re:	40%	A by A.M Best and A- by S& P
Continental Re:	10%	B+ by A.M Best
FBS Re:	10%	
AVENI Re:	5%	B by A.M Best
WAICA Re:	10%	
NCA Re:	5%	
OMAN Re:	5%	
GHANA Re:	5%	
ARB/WAICA RE, SERRA LEONE	10%	
Total	100%	

ENGINEERING

Accident Year	Largest gross claims (NGN)	Largest net claims (NGN)	Proportion recovered	Net Claims as % of S/H Funds	Sum of Five Largest Claims (NGN)
2015	11.343.376	3.751.913	67%	0,10%	34.389.763
2016	16.906.221	6.309.402	63%	0,20%	27.855.405
2017	12.152.701	4.603.443	62%	0,10%	19.154.690
2018	3.759.250	2.678.356	29%	0,06%	3.759.250
2019	6.621.255	6.621.255	0%	0,14%	24.786.649
2020	9.924.902	2.029.642	80%	0,04%	24.424.522
2021	18.668.231	14.841.244	21%	0,27%	35.927.150
2022	3.545.457	2.818.638	21%	0,05%	14.941.199
2023	0	0	0%	0,00%	0
Average	**9.213.488**	**4.850.433**	**38%**	**0,11%**	**20.582.070**

From the data on the largest claims in the Engineering branch since 2015, the following can be seen:

The total sum of the largest net claims paid as a proportion 0.11% on average of the shareholders' funds appear to be within tolerance.
All the large Engineering claims appear to be fully settled within 3 years.

General Accident

The company has provided a 3-Layer Excess of Loss (XL) treaty in the name of the Sterling Assurance (Nigeria) Limited for the period 1 January 2023 to 31 December 2023 as against the 2-Layer XL treaty in prior year 2022.

Excess of Loss (XL) Treaty

A summary of the overall one-layer XL cover is set out below:

	Coverage	Deductible	Treaty Capacity
Layer 1 Per risk	NGN5mn ultimate net loss any one loss	NGN5mn ultimate net loss any one loss	NGN10mn; (Annual Aggregate Limit: NGN25mn)
Layer 2 Per risk	NGN40mn ultimate net loss any one loss	NGN10mn ultimate net loss any one loss	NGN40mn; (Annual Aggregate Limit: NGN60mn)
Layer 3	NGN80mn ultimate net loss any one loss	NGN50mn ultimate net loss any one loss	NGN30mn; (Annual Aggregate Limit: NGN100mn)

- The premium adjustment rate of 2.12% minimum and 9% [2022: 12.5%] maximum applied to the gross net premium appear to be cumbersome and tilted towards the protection of the Reinsurer's interest only. In the spirit of continuity of business relations, we will suggest that the adjustment should be simplified and reduced to only 5% so as to translate to more premium retention to the reinsured.
- The treaty covers the following key businesses written in the General Accident department of the company:
    - Burglary or Theft (Private and business Premises),
    - Goods-In-Transit,
    - Money (CIT & CIS)
    - Personal/Group Personal Accident
    - Professional Indemnity,
    - All Risks,
    - Fidelity Guarantee (Person / firm),
    - Public /Product liability,
    - Workmen Compensation,
    - Owners/Occupiers liability,
    - Bodily Injury /Death,
    - Property damage,

- Directors/Officers liability risks.

The reinsurers take 100% of this treaty, as follows:

Reinsurer	Proportion Shared
African Re:	45%
Continental Re:	25%
WAICA Re:	10%
Nigeria Reinsurance Corporation:	10%
FBS Re:	10%
Total	100%

The company should consider whether to seek protection against loss accumulations on risks such as personal accident and sickness benefits.

From the data on the largest claims in the General Accident branch since 2015, the following can be seen:

General Accident

Accident Year	Largest gross claim in Year (NGN)	Largest net claim in Year (NGN)	Proportion recovered	Net Claims as % of S/H Funds	Sum of Five Largest Claims in Year (NGN)
2013	8.153.826	2.000.000	75%	0,10%	31.892.853
2014	16.921.181	6.622.442	61%	0,20%	56.257.264
2015	12.096.059	5.917.860	51%	0,20%	33.903.975
2016	8.812.595	5.741.406	35%	0,20%	21.445.448
2017	8.109.000	8.109.000	0%	0,20%	20.506.003
2018	8.678.177	8.678.177	0%	0,20%	16.449.524
2019	11.829.477	11.829.477	0%	0,24%	37.438.769
2020	39.531.863	6.124.908	85%	0,12%	62.670.557
2021	38.176.613	5.000.000	87%	0,09%	68.843.221
2022	40.184.466	40.184.466	0%	0,68%	66.952.249
2023	44.000.000	14.860.336	66%	0,25%	43.587.413
Average	23.490.917	11.827.292	36%	0,24%	41.310.795

The table shows the maximum gross and net claims paid in each year and the possible proportion recovered on the largest claims.

The Company's historical financial data supplied for the years 2013 to 2023 show the General Accident class has significant variability in gross claims incurred with combined ratio consistently above 81% over the last four years to end of 2023. The high ratio is however consistent with the experience in the insurance industry for this class.

All the General Accident claims were settled within 4 years with only some exception that still are outstanding after 6 years.

Bond

The company has provided a Quota Share treaty for the period 1 January 2023 to31 December 2023 to cover Bond products offered by the company.

Treaty retention andcapacity

Quota Share Retention	Quota Share Maximum	Total Capacity

30%[2022:40%] of NGN400mn[2022:NGN 150mn] any one contractor or Group for 100%	70%[2022:60%] of NGN400mn[2022 :NGN150mn] any one contractor or Group for 100%	NGN400mn[2022:NGN150mn]

For Facultative arrangement the reinsurance coverage limit is reduced to 25% of one gross line. The Bond Quota Share treaty looks similar to that of 2022 and covers:

- Bid Bonds,
- Tender Bonds
- Immigration Bonds
- Transit Bonds
- Advance Payment Bonds,
- Administration and Government Bonds
- Supply, Performance and Maintenance Bonds
- Custom Bonds

in Nigeria on behalf of Nigerian and Foreign contractors operating in Nigeria written direct or facultative but excluding Bonds of an unconditional first demand type and Financial Guarantees.

Additional benefits are retained and reinsured in the same proportions as the basic benefit.

The reinsurers take 100% share of the treaty, as follows:

Reinsurer	Proportion Shared
African Re:	40%
Continental Re:	10%
FBS Re:	10%
Aveni Re:	5%
WAICA Re:	10%
NCA Re:	5%
OMAN Re:	5%
GHANA Re:	5%
ARB/WAICA Re, SIERRA LEONE	10%
Total	100%

The ceding commission and the management expenses remain the same as the previous year 2022 at 30% and 10% respectively, whilst the profit commission increased to 27.5% from 25%.

The Bond Quota share treaty imposes a non-trivial penalty of 110% of market prime lending rate on balances due from due date to date of payment on any amount of premium outstanding. However, there is reciprocal condition on delayed recoverable claims under treaty. Further, the imposition of 110% extra interest charge is simply ignoring the reality that notwithstanding the no premium no cover provision of section 50 of the insurance Act 2003, delays are still being experienced in Government businesses due to bureaucratic procedure. We recommend that the interest on overdue balances penalty clause should be removed from the treaty.

There is a cash loss of NGN60mn.This allows Sterling Assurance (the reinsured) company to make claim and receive immediate payment, subject to set-off clause from the reinsurers for a large loss without waiting for the usual quarterly periodic payment procedures to occur.

The Company has a loss advice of NGN45mn, a provision which requires that Sterling Assurance reports loss cost greater than the stated amount to the reinsurer to enable the latter establish a reserve promptly for its likely share of the liability.

The loss participation clause has been removed in the new treaty.

Marine Hull Insurance

The company has provided a signed Marine Hull Surplus treaty slip for the period 1 January 2022 to 31 December 2022.

The treaty leader is Africa Re for both Marine treaties.

Marine Hull SurplusTreaty

Retention	Surplus	Total Capacity
Maximumline NGN30m any one vessel	NGN750m for 25 lines	NGN780m

Other key features

- The Surplus treaty is written on original basis and capacity is the same as last year.
- The limit for the facultative arrangement is limited to limited to 25% of one gross line specified above.
- The Marine Hull treaty covers Hull and all marine and river Hull risks, Machinery and ship owners' interests and legal liabilities. The treaty has regards to the London Institute clauses in respect of its schedules and gross rate.
- The treaty applies in Nigerian and worldwide territories.
- Ceding commission is 22.50% flat, representing an increase of 2.5% over the level for previous year. The management expenses remain at 10% whilst the profit commission is 25%.
- Any deficit is carried forward until extinguished. The cash loss limit is NGN30mn, but the cash advice is different at NGN22.5m.
- The Company should ask for the loss participation requirement to be removed. It is worth noting that the loss participating clause reduces the efficiency and effectiveness of the reinsurance arrangement as a risk management strategy to the insurer but only protects the reinsurer's interest, whilst making the reinsured company a co reinsurer. The loss participation is set at 80% loss ratio with Sterling Assurance Nigeria responsible for 75% of losses more than the specified loss ratio. However, the historic average the gross loss ratio has been around 60% significantly lower than the cut-off point.
- The Marine Hull treaty imposes a non-trivial penalty of 110% of market prime lending rate on balances due from due date to date of payment on any amount of premium outstanding. However, there is reciprocal condition on delayed recoverable claims under treaty. Further, the imposition of 110% extra interest charge is simply ignoring the reality that notwithstanding the no premium no cover provision of section 50 of the insurance Act 2003, delays are still being experienced in Government businesses due to bureaucratic procedure. We recommend that the interest on overdue balances penalty clause should be removed from the treaty.
- The Marine Surplus treaty excludes aviation risks. It is does appear as if the Company may have stopped writing Aviation class and there is no Aviation Hull or Cargo Treaties which customarily are held along with Marine Reinsurance Treaties.

The reinsurers take 65% share of the Marine Hull treaty, as follows:

Reinsurer	Proportion Shared
African Re:	40%
Continental Re:	10%
FBS Re:	10%
Aveni Re:	5%
WAICA Re:	10%
OMAN Re:	5%
GHANA Re:	5%
NCA Re:	5%
ARB/WAICA Re, SIERRA LEONE	10%
Total	100%

Marine Cargo Insurance

Marine Cargo SurplusTreaty

Retention	Surplus	Treaty totalCapacity
Maximum line NGN50mn	NGN1,000mn for 20 lines	NGN1,050mn
Facultative inwards Retrocession- Property All Risks: NGN25mn any one risk	NGN500mn 10 lines	NGN525mn

The treaty allows 50% of limits in the table for facultative cessions.

The Marine Cargo Surplus treaty covers cargos transported by sea, air or land and cover is provided on original basis. The treaty provides ceding commission of 30% and profit commission of 25% (with management expenses of 10%).

The cash loss limit is the same as the maximum retention NGN50mn and a cash advice of NGN37.5m,

The loss participation requirement appears to have been removed to the company's advantage.

The reinsurers take 100% share of the Marine Cargo treaty, as follows:

Reinsurer	Proportion Shared
African Re:	40%
Continental Re:	10%
FBS Re:	10%
AVENI Re:	5%
WAICA Re:	10%
NCA Re:	5%
OMAN Re:	5%
GHANA Re:	5%
ARB/WAICA Re, SIERRA LEONE	10%
Total	100%

All the large Marine claims in the past five years appear to be fully settled within 1year. The exception, a claim for water damage, took about 3 years to settle.

Comment

Under a Marine Cargo treaty, it is common to mention the protection of unknown accumulations as well as single risks and catastrophes. This is because of the growth in containerisation when the insurer may not be aware that more than one cargo, he is insuring will be on board the same container vessel. The treaty slips contain no mention of unknown accumulations, which should not be less than 10 to 25% of the treaty capacity.

We have not found an uncomplicated way to quantify the amount of cover that a Marine insurer should have in place, and disaster at the port of Apapa Wharf in Lagos, as the major container port for Nigeria, could potentially cause significant claims for all Marine insurers.

One arbitrary scenario is 10 maximum Marine Cargo claims. Such an event would leave Sterling Assurance Nigeria with NGN1.050bn under the proportional treaty in a multiple event. The company would be faced with a total retention of NGN500mn (10 times the maximum NGN50m retention). This would cost Sterling Assurance Nigeria its NGN50mn retention under the Surplus treaty and the treaty total capacity may also be exceeded, opening the Company to further uncertainty of financial losses. The balance of NGN450mn is presumably recoverable from the facultative arrangement. Under this scenario with the facultative arrangement in place the company would be protected. The retained exposure of the company is 0.850% of the NGN5.868bn share holders' equity as at 31 December 2022 which looks arguably acceptable in relation to an infrequent, extreme event. The company should be aware of the pitfalls in facultative arrangements within the industry as many insurers involved in the arrangement may prefer set-off basis, in which case Sterling may still have to seek for cash to pay up its reattained loss with attendant negative impact on the company's financial position. An expansion of the treaty to take in unknown accumulations and Catastrophes is recommended.

Motor and Liability Insurance

The company has provided a signed cover note for a Per Event Excess of Loss Treaty (XL) from Glanvill Einthoven Reinsurance Brokers for the period 1 January 2021 to 31 December 2022. The coverage appears to be largely unchanged from prior year 2021.

The Company does not appear to have a proportional treaty for this business.

Excess of Loss (Motor and Liability)

The treaty covers the following key risks:

- Motor (All sections, including RIOT and ECOWAS BROWN CARD cover relating to Motor Third Party Liability),
- General Third-Party Liability/Public Liability
- Workmen's Compensation/Employer's Liability

The territorial scope of the treaty applies across West Africa and Nigeria.

The Motor XL treaty has two layers, as follows:

	Coverage	Excess of loss	Annual Aggregate Limit
Layer 1	NGN10mn for motor, including RIOT General Third-Party Liability/ Public Liability, Workmen's Compensation/Employer's Liability	NGN5mn	NGN100mn

Layer 2	a. NGN15mn for motor, including RIOT General Third-Party Liability/Public Liability, Workmen's Compensation/Employer's Liability	NGN15mn	NGN100mn
	b. NGN60mn for Motor, Third-party Bodily Injury and/or Death (and Third-Party property damage for ECOWAS BROWN CARD only) and Workmen's Compensation.	NGN15mn	NGN60mn

There is a deductible excluding the first NGN5m of losses otherwise recoverable on losses arising from Motor, including RIOT General Third-Party Liability/Public Liability, Workmen's Compensation/Employer's Liability.

There is a deductible excluding the first N5m of losses or series of losses from one Risk/Event otherwise recoverable on losses arising from 4 by 4 Pick-Up and Mass Transit, Trucks, Trailers, Jeeps and ECOWAS BROWN CARD only.

The reinsurers take 100% of this treaty, as follows:

Reinsurer	Proportion shared
African Re:	45%
Continental Re:	25%
Waica Re:	10%
Nigeria Reinsurance Corporation	10%
FBS Re	10%
Total	**100%**

The Motor and Liability XL treaty provides "per event" cover ("every loss and/or occurrence and/or series of losses and/or occurrence any one event"). However, there is also an annual aggregate limit of NGN 100mn increased from NGN60m for each layer.

From the data on the largest claims in the MOTOR branch since 2015, the following can be seen:

Accident Year	Largest gross claim in Year (NGN)	Largest net claim in Year (NGN)	Proportion recovered	Net Claims as % of S/H Funds	Sum of Five Largest Claims (NGN)
2015	9,796,864	3,000,000	69%	0.10%	25,236,938
2016	7,447,265	3,020,000	59%	0.10%	30,277,837
2017	17,010,000	15,809,050	7%	0.40%	42,811,129
2018	5,456,150	5,456,150	0%	0.13%	10,466,150
2019	7,533,913	5,000,000	34%	0.10%	30,720,102
2020	8,336,800	8,336,800	0%	0.16%	25,903,236
2021	7,894,000	7,894,000	0%	0.15%	30,395,120
2022	12,105,750	12,105,750	14%	0.21%	34,077,986
Average	**9,447,593**	**6,695,864**	**25%**	**0.17%**	**28,736,062**

Majority of the Company's motor claims appear to be quickly settled on average within 23 days of lossdate. In view of the prevalence of motor liability claims in Nigeria, in large truck accident claims and possible aggravated court awards. It is recommended that transferring Motor risks to the Nigerian Insurance Liability pools would be more profitable strategy to spreading the risks. We note that the Nigerian Liability has been making profits for the recent past five years, guaranteed by reputable reinsurers with larger capacity than would be achieved from the excess of loss treaty.

Oil and Gas

The company has provided an Excess of Loss (XL) treaty slip for its Oil and Gas accounts which are written on facultative basis for the period 1January 2022 to 31December 2022.

Multi-line Package Facility
The company has provided a Variable Multi line Package (Excess of loss and Quota Share) reinsurance treaty slips for its Oil and Gas accounts for the period 1January 2023 to 31December 2023.

Operational Risks:		Construction		Premium
Multi-line package	Retention	Coverage	Retention	
Maximum exposure Insured USD350mn each and every loss or 7%, whichever is the lesser	USD0.5mn each and every loss, subject to maximum of 5% of shareholder's funds.	Total Sum Insured USD355.0mn per event	USD0.25m each and every loss, subject to maximum of 2.5% of shareholder's funds.	- 63% of original net premiums on risks of

Maximum exposure for Esso E& A USAN 100% USD5.0mn.

Onshore and offshore upstream and/or Midstream and or Downstream Construction Risks and Operational Risks, including but not limited to:

- Damage to Property in transit and properties of others in the care and custody of the insured, Contractual and legal liability for damages
- Removal of Wreck or Debris
- Sue and Labour charges
- Business interruption and advanced loss of profits,
- Contingent Business interruption and extra expense

Expenses

- Operator's extra expenses
- Control of Well including Underground blowout; Unlimited re-drilling expenses; Extended
- Underground blow out,
- Deliberate well Firing.
- Contingent Joint Venture
- Evacuation expenses and Removal of wreckage and debris in care
- Custody and Control endorsements
- Re-drilling; Deliberate Well firing Care custody and control; Seepage and Pollution; liability from wells and offshore properties; Making wells safe; Offshore pollution liability agreement; oil pollution Act amendments and similar legislation liabilities.

- Terrorism, Sabotage, Riots, Strikes and Civil Commotion, Confiscation, Expropriation, National and Deprivation
- Construction project (including power generation).

Legal Liability

- Legal and/or Contractual Liability of the Original insured for damages and for all other costs and expenses.

5.2 There is an upfront 20% of net earned premium no claim bonus payable for non-recovery request. However, the bonus is refundable to the reinsurers if there is any request for claim recovery.

Excess of Losstreaty

The company has provided an Excess of Loss treaty for its Oil and Gas business covering the period 1st January 2023 to 30th December 2023,

The treaty has one layer:

	Coverage	Excess of	Reinstatements
Layer 1 Per risk	USD600mn each and every loss per event	USD1.4m (Construction All Risk: USD0.7mn) each loss per event or 2.5% of shareholders 'funds	1 full reinstatement at 100% additional premium but pro-rata as to amount only

Treaty required minimum premium deposit of USD286.00mn[2022: USD$213,660].
The treaty covers both direct and facultative energy business and is operated in US dollars. Total capacity is[USD 2mn]US$2.5m.

The treaty is subject to the law of England and Wales in the United Kingdom even though its effective operational jurisdiction is Nigeria. There is no ceding commission but there is a no claim bonus of 20%, which could be taken upfront but refundable on claiming under the treaty.

The treaty is provided 100% by WAICA Reinsurance Corporation PLC.

From the data on the largest claims in the Oil& Gas branch since 2015, the following can be seen:

	Largest gross claim (NGN)	Largest net claims (NGN)	Proportion recovered	NetClaims as % of S/HFunds	Sum of Five Largest Claims (NGN)
2015	14,887,677	14,887,677	0%	0.50%	31,399,398
2016	9,003,966	9,003,966	0%	0.30%	19,358,896
2017	126,575,000	126,575,000	0%	3.20%	197,326,209
2018	664,264,768	249,279,794	62%	5.90%	696,621,315
2019	77,370,465	77,370,465	0%	1.60%	155,231,312
2020	226,036,269	66,218,320	71%	1.31%	713,047,500
2021	202,548,782	202,548,782	0%	3.75%	267,917,009
2022	25,431,000	25,431,000	0%	0.43%	45,499,609
Average	**168,264,741**	**96,414,375**	**17%**	**2.12%**	**265,800,156**

Comment

The sum of the 5 largest net claims for 2022 constitute1.14% of the company's share holders' Funds.

The company has used the XL protection to reduce its effective per risk retention to USD0.30mn, or

NGN121.07mn (at NGN403.58 per USD).

To test the strength of the reinsurance, we would normally suggest considering the impact of a catastrophe claim of 7 maximum Energy Property claims for 2023 treaties as for Property, total claim therefore being for NGN1,008.95mn (or USD2.5m =1,008.95/403.58). Each claim would be NGN144.14(or USD 0.35mn. It is immediately apparent that this is a scenario in which one claim would be within the capacity of the XL treaty. It would be reasonable to assume that the XLs treaty appear to have been improved in line with our recommendation on the XL cover that was in place.

The historical financial data of the company's Oil and Gas cover shows that the proportion of premium reinsured ranged between 20% over the last three years and 40% in 2022, compared with a recovery of almost under average of 22% over the same period. These statistics should be considered in relation to the yearly average aggregate combined ratio of around 58% over last 5 years.

Panel of Reinsurer

The company has provided a summary of the panel of reinsurers and their international credit rating.

1. **Surplus/XL Treaty Reinsurers**

Surplus/XL Treaty Reinsurers		Rating		RATING AGENCY
African Re	-	A-	-	A.M. Best
Continental Re	-	A-	-	GCR
Waica Re	-	B+	-	GCR
Trust Re	-	A-	-	A.M. Best
GIC Re	-	A-	-	A.M. Best
Zep Re	-	B+	-	A.M. Best
CICA Re	-	BB+	-	A.M. Best
Aveni Re	-	BBB+	-	GCR
Nigeria Re	-	BBB+	-	GCR

2. **Facultative Obligatory Treaty Reinsurers**

Facultative Obligatory Treaty Reinsurers				
Waica Re	-	B+	-	GCR
Kenya Re	-	B+	-	A.M. Best
Ghana Re	-	B	-	A.M. Best
Aveni Re	-	BBB+	-	GCR

All the reinsurers have acceptable financial rating. The following Reinsurance companies used by the company in the past appear to have been removed: ARIG Re as this reinsurer is not shown on the treaties we have seen.

11. Conclusions and Recommendation

11.1 The solvency cover has been relatively less stable over the last four years around a multiple of 1.25 to 1.36 times. We have reasonable cause to believe that the company continued to meet the liability adequacy test under the existing regulation to date. We recommend that the solvency cover be monitored and recalculated following any significant changes in the external environment or within the company's structure which in the opinion of the Board may have significant impact on the company's business whether now or in the future. A new capital requirement regime might alter our conclusions about the solvency of the company.

11.2 The Economic Capital forms part of the Own Risk Solvency Assessment (ORSA), a separate report required by the regulator. We recommend that the company commissions an ORSA review.

11.3 The company appears to have stopped or not have been writing aviation policies at a time when the Nigerian Aviation industry appears to have calmed from its notoriety for series of accidents and crashes. The company is advised to consider its underwriting capability, capital adequacy and the relatively low loss ratios being experienced by other operators in the aviation industry to see whether it should explore the potential opportunities in that class.

11.4 The company should improve on its current operating ratio. We consider the high net operating ratio at 86% over year 2021 (year 2020: 68.2% and year 2019: 82.9%) to be of concern and it may not be sustainable, compared to those we have seen in well-established general insurance companies.

11.5 With the exemption of the General Accident Class, all the line of businesses yielded technical profit in 2021.However the General Accident class had yielded technical profit in the preceding two years. The net earned premiums on the General Accident class increased by 15.96% over year 2021, but the net claim ratio for this class appears to be significantly high at 99%, compared to 2020:16%. To improve the class's result, the company should reconsider its current risk selection and especially its strategy of retaining almost all the premiums earned with little or no reinsurance arrangements for the general accident class.
Engineering Class

11.6 For the Engineering class, there is a provisional return commission of 27.5% of reinsured premium which looks like the average of the commission sliding schedule. This scaling of commission rate is viewed as capable of increasing the administrative complexity of the treaty. We recommend that the scale should be removed, and an enhanced flat commission be negotiated, instead. The commission sliding scale is graduated varying between 35% for loss ratio lower than 20% and 20% for loss ratio greater than 58% but less than 60%.

11.7 The Engineering Surplus treaty imposes a non-trivial penalty of 110% of market prime lending rate on balances due from due date to date of payment on any amount of premium outstanding. However, there is reciprocal condition on delayed recoverable claims under treaty. Further, the imposition of 110% extra interest charge is simply ignoring the reality that notwithstanding the no premium no cover provision of section 50 of the insurance Act 2003, delays are still being experienced in Government businesses due to bureaucratic procedure. We recommend that the interest on overdue balances penalty clause should be removed from the treaty.

11.8 For the Engineering treaty, The Company should ask for the loss participation requirement to be removed. It is worth noting that the loss participating clause reduces the efficiency and effectiveness of the reinsurance arrangement as a risk management strategy to the insurer but only protects the reinsurer's interest, whilst making the reinsured company a co reinsurer. From loss ratio above 80%, 35% of the loss is payable by the reinsured/cedant under a loss participation clause (where the proportion of total gross claims incurred divided by the total gross earned premium (loss ratio) exceeds 80%). However, the historic average the gross loss ratio has been around 45% significantly lower than the cut-off point.

Fire Class
11.9 We recommend that the ceding commission should be agreed at a fixed rate level of not less than 30% without any loss ratio threshold condition - that is, independent of performance in the line of business – and not scaled based on loss ratios.

The Fire treaty loss participation clause requiring that: "From loss ratio above 85%, 20% of the loss is of business – and not scaled based on loss ratios.

The Fire treaty loss participation clause requiring that: "From loss ratio above 85%, 20% of the loss is payable by the reinsured/cedant. Loss Ratio above 150% is payable fully by Reinsurer" renders the Fire treaty a very poor risk management strategy with associated reduced cost efficiency and effectiveness to Sterling Nigeria and, therefore, should be removed. We recommend that it be removed as it defeats the purpose of the reinsurance arrange to spread risk. The failure of the treaty as risk management tool with the said loss participation clause is easily seen in its requirement that if the loss ratio is more than 150% then the reinsurer shall bear the whole loss, thus making Sterling a co reinsurer.

11.10 Unfortunately, the return commission for the Fire surplus treaty remains based on loss ratio - related sliding scale
in the relevant reinsurance treaty, thus increasing the cumbersomeness of the administration of the treaty. However, the trend in the historical combined ratio experienced over the recent past 4 years appears to be under 100% in most of the years, suggesting that there is no basis that the company may not have earned enough in ceding and other reinsurance commissions to reduce its administrative and business acquisition cost. We recommend that the ceding commission should be agreed at a fixed rate level that is independent of its loss experience in the line of business – i.e. not scaled, based on loss ratios.

Agriculture class
The combined ratio worsened from 122%in 2022 to 451%, resulting in loss without reinsurance recovery.

	Loss Ratio	Expense Ratio	Combined Ratio
	393%	58%	451%
Agriculture (2022)	64%	58%	122%
Agriculture (2021)	28%	4%	32%

We recommend that the company must replace and restructure its reinsurance strategy on the agriculture class to protect itself against the impact of the volatility of this class on its underly profitability.

Bond class
11.11 The Bond Quota share treaty imposes a non-trivial penalty of 110% of market prime lending rate on balances due from due date to date of payment on any amount of premium outstanding. However, there is reciprocal condition on delayed recoverable claims under treaty. Further, the imposition of 110% extra interest charge is simply ignoring the reality that notwithstanding the no premium no cover provision of section 50 of the insurance Act 2003, delays are still being experienced in Government businesses due to bureaucratic procedure. We recommend that the interest on overdue balances penalty clause should be removed from the treaty.

Marine class
11.12 For Marine Hull reinsurance treaty, the Company should ask for the loss participation requirement to be removed. It is worth noting that the loss participating clause reduces the efficiency and effectiveness of the reinsurance arrangement as a risk management strategy to the insurer but only protects the reinsurer's interest, whilst making the reinsured company a co reinsurer. The loss participation is set at 80% loss ratio with Sterling Assurance Nigeria responsible for 75% of losses

more than the specified loss ratio. However, the historic average the gross loss ratio has been around 60% significantly lower than the cut-off point.
11.13 The Marine Hull treaty imposes a non-trivial penalty of 110% of market prime lending rate on balances due from due date to date of payment on any amount of premium outstanding. However, there is reciprocal condition on delayed recoverable claims under treaty. Further, the imposition of 110% extra interest charge is simply ignoring the reality that notwithstanding the no premium no cover provision of section 50 of the insurance Act 2003, delays are still being experienced in Government businesses due to bureaucratic procedure. We recommend that the interest on overdue balances penalty clause should be removed from the treaty.

Motor Class

11.14 In view of the prevalence of motor liability claims in Nigeria, frequently involving large truck accident claims and possible aggravated court awards. It is recommended that transferring Motor risks to the Nigerian Insurance Liability pools would be more profitable strategy to spreading the risks. We note that the Nigerian Liability has been making profits for the recent past five years, guaranteed by reputable reinsurers with larger capacity than would be achieved from the excess of loss treaty.

11.15 Furthermore, we recommend that consistently credible data about each of the risk class that the company writes should be kept for future experience analysis to enable key actuarial risk management decisions to be taken.

11.16 The high trend in the net operating ratio of the company is of concern and may not be sustainable. We recommend that Sterling takes a combination of some pragmatic steps to cut down on its management expenses. [See pars. 5.4]

11.17 We recommend that the company commission a reinsurance optimization investigation into its reinsurance arrangement and produce a document which summarizes the reinsurance arrangements which should be approved by the Board each year as part of the governance procedures. [See par. 8.1]

11.18 We recommend that the company commissions an Own Risk and Solvency Assessment that will include economic capital modelling and enterprise-wide risk management advice.

12. Closing remarks

Overall, Sterling Assurance Nigeria Limited continues to meet adequacy test and remains solvent under the existing capital adequacy requirements.
It appears that the reinsurance purchased by Sterling Assurance provides reasonably good protection. The catastrophe protection for Property business is not as robust as we would like to see.

There remain a few questions where we feel that additional discussion would be helpful. While it may be too late to alter the structure of the reinsurance programme for 2022, some consideration might be given to amendments for the next renewal.

We would suggest that a document which summarizes the reinsurance arrangements should be approved by the Board each year as part of the governance procedures.

We would suggest that the company commission a reinsurance optimisation programme to enable us to conduct a proper investigation into the efficiency and effectiveness of the reinsurance program unless nothing has changed.

O & A HEDGE ACTUARIAL CONSULTING
SIGN. .... DATE. 13/09/2024.

....

Layemo B Abraham, MSc. (Kent, UK), ACIIN, ASA (USA)
Chief Consulting Actuary & Chartered Insurer
Associate, Society of Actuaries, USA
Associate, Chartered Insurance Institute of Nigeria
FRC/2016/NAS/00000015764

O & A Hedge Actuarial Consulting

(FRC/2019/00000012909)

(Consulting Actuaries and Chartered Insurers)

Suite 21, 1st Floor, Motorways Centre1 Motorways Avenue

Reg. No.: BN 2262019 FRC/2016/NAS/00000015764 Tel: +234(0)9079471359

SERLING INSURANCE COMPANY LIMITED

CERTIFICATE OF DATA ACCURACY

I certify that accurate and complete data has been submitted to O & A Hedge Actuarial Consulting for the purpose of producing the Financial Condition report for Sterling Insurance company limited.

This information consists of each relevant policy premiums received, claims paid and outstanding. data together with the 2023 Sterling's valuation report and audited account and relevant past data and information.

Also, any material post-valuation event may not have been reflected in the FCR report unless those reported to the actuary, and this should be considered by any allowed interested party who are advised to contact the company's management before making any significant financial decision based on this FCR report.

I also undertake to inform the consulting actuary of any material event emerging between the date of signing this certificate and submitting our company's FCR to NAICOM.

....

Dr. F.K. LAWAL
Managing Director
Sterling Assurance Nigeria Limited
August 2024

13. Appendix A: Reliance and limitations

13.1 This report had been prepared under the agreed scope of work and terms specified by the Sterling Insurance Company Plc in compliance with the directives from NAICOM.

13.2 The purpose and scope of this report is as set out in section 1 of the report, and the report is not intended to be used for any other purpose. Although we have commented in general terms on the statutory solvency position of the company at the year ended 31 December 2023, nothing in this report should be taken as a definitive statement or certificate of solvency.

13.3 This report is not subject to and does not comply with, the Technical Standards on Reporting Actuarial Information (TAS 200 Insurance) issued by the Board for Actuarial Standards. However, we have followed the principles of (TAS 200 Insurance) to a reasonable extent

13.4 This report is prepared for use by persons financially knowledgeable to the technical issues explained.

13.5 This report must be considered in its entirety, as individual sections, if considered in isolation, may be misleading.

13.6 This report does not represent investment advice or opinion on whether any transactions carried out by the parties were fair.

13.7 This report is concerned with actuarial and regulatory issues that are considered relevant to understanding the financial condition of the company.

13.8 This report relies on the data and other information supplied by the Sterling Insurance Company Plc on the companies in its group as described in section 1. The checks which were carried out are limited to those described in the report. Based on these checks, this report has relied on general completeness and accuracy of the information provided, which have not been independently verified. The checks should not be taken as an audit or a restructuring of the Company's annual financial statements. However, the checks are to ensure consistency and reasonableness in the light of the rules in the relevant market.

13.9 This report is for the exclusive use of the Sterling Group. This report must not be reproduced orally or in written form, distributed or communicated either in whole or in part to any person, or be used by any other person, without the prior agreement of the company.

13.10 This report is not intended for use by a third party. Anyone who uses this report is agreeing to bear any untoward liability.