



IIRA Reaffirms the Ratings of Al Baraka Insurance Company

Manama, April 6, 2020 –The Islamic International Rating Agency (IIRA) has reaffirmed the Takaful Financial Strength (TFS) rating of AlBaraka Insurance Company PLC ('ABIC' or 'the company'), Sudan, at 'BBB' (Triple B) with a 'Stable' outlook. In our view, the already challenging operating environment in Sudan will be further affected due to the spread of Covid-19 with severe negative implications on economic activity globally, in turn affecting emerging markets inflows and further pressure on local currency.

Meanwhile, we noted the improvement in the market share of ABIC in recent months, as well as improved liquidity and profitability during 2018. On the other hand, the fiduciary score has been revised up to '66-70' range mainly on account of improved control framework. Established in the year 1985, Al Baraka Insurance Company, is the second oldest takaful operator in Sudan and its market share has been rising steadily in the last few years attaining 6.8% in the year 2018 (2017: 5.9%) with expansion of its network, fast claims processing which has enhanced the company's reputation, and distribution of relatively healthy surplus to the policyholders.

Gross premiums of the Sudanese Insurance Sector have continued to increase, albeit associated with higher loss ratios which eroded the profitability buffers. On the other hand, aggregate sector data points to very strained capitalization levels. Broadly, the unsophisticated nature of the economy, strained relations with foreign institutions and cultural reasons hamper the penetration prospects and re-takaful arrangements. Further depreciation of the local currency is likely to pressure the sector's claims experience in the years following 2018.

Strong volume growth in 2018 was driven mostly by the motor, miscellaneous accidents, and agriculture segments. Following a 57.7% increase in the contributions in year 2019, further business growth is expected in 2020. Liquidity metrics compare favorably to the sector averages and improved further during the year as indicated by higher liquid assets coverage to technical reserves and retained contributions. Financial leverage and operating leverage ratios increased 2017 as the growth in business exceeded equity growth, and we note the strained capitalization levels. On a positive note, the Board of Directors of the Company decided to increase the paid-in capital to SDG50mn from its current level of SDG10mn pending the approval of the General Assembly to be held in June 2020. Increase is expected to be gradual (SDG 5mn increase every year).

In line with the sector trends, the company's claims ratio deteriorated notably as the depreciation of currency and high inflation weighed negatively on the cost of claims mostly on the motor segment. Sector data suggests that the ABIC's loss ratio remains comfortably below the aggregate loss ratios and indicates sound underwriting ability, despite the moderate deterioration vis-a-vis the year 2017. Meanwhile, the profitability of PHF was supported by much better net commission cost and markedly improving investment income. In the year 2019, the loss ratio of the company retreated by around 5pps



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and is indicative of improved profitability along with strong business growth and higher investment income.

In Sudan, corporate governance practices have been rather weak generally. However, ABIC's CG framework has been on a positive track with the institution of four board level committees since our prior review. Meanwhile, the risk management structure requires reinforcement and the level of transparency should be raised, which are the two other broad areas identified as requiring improvement.

Shari'a governance benefits from market dynamics, wherein the entire financial system operates on the basis of Islamic Shari'a principles and the existence of the Higher Shari'a Supervisory Board ensures standardization across the sector. There has been no change in the Shari'a Governance framework since our prior review.

For further information on this rating announcement, please contact us at iira@iirating.com.

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