GCR RATINGS

Credit Rating Announcement

GCR affirms Tangerine General Insurance Limited's national scale financial strength rating of A-(NG); Outlook Stable

Rating action

Lagos, 29 November 2022 - GCR Ratings ("GCR") has affirmed Tangerine General Insurance Limited's national scale financial strength rating of A-(NG), with a Stable Outlook.

Rated Entity	Rating class	Rating scale	Rating	Outlook
Tangerine General Insurance Limited	Financial strength	National	A-(NG)	Stable Outlook

Rating rationale

The rating of Tangerine General Insurance Limited ("Tangerine General", "the insurer") reflects high levels of risk adjusted capitalisation and liquidity, limited by its competitiveness in a highly fragmented market and a high cost structure that limits earnings progression.

The insurer's GCR liquidity coverage registered at around 2.5x at FY21, supported by a turnaround in cashflow generated from operations and reallocation of funds to interest securities and equity securities. Investment property constitutes about 10% of the total investment portfolio, which we consider moderate compared to the industry's average. In the near term, we expect the liquidity coverage to remain above 2x, as the entity plans to re-invest in bonds and maintains its current reserving methodologies.

The insurer's risk adjusted capitalisation remains a credit strength, underpinned by a capital injection of about NGN4.1bn in FY20 and positive net earnings during the review year. As such, the capital base increased to NGN13.0bn (FY20: NGN11.3bn, FY19: NGN7.2bn). Nevertheless, the entity's market risk exposures increased following its investment in unlisted equity and corporate bonds worth about NGN1.5bn each as at FY21. This resulted to the GCR Capital Adequacy Ratio "GCR CAR" moderating to 4.9x (FY20: 5.5x), although remaining within a strong range. From a statutory standpoint, the company's solvency ratio of 3.8x was above the minimum requirement of 1x. Going forward we expect the GCR CAR to remain strong albeit moderations are likely as the entity invests in various classes of assets and distributes dividends.

Average earnings continue to be limited by the insurer's high costs relative to premiums received, and high commissions payments due to its broker reliance, outbalancing a relatively low net claims experience. During the year FY21, operating expenses were further elevated by exit packages following an expense to value exercise, increasing the staff costs by about 60% to NGN995.0mil. Furthermore, branch launching and marketing activities that occurred during FY21 increased marketing costs by about NGN227.4mil. We expect operating and acquisition costs to remain high in the near term, offset by a steadily growing investment income.

The insurer registered a 12% overall growth, resulting to a market share of about 1.5%, as at FY21 and retained more than 70% of the total premiums. This growth mainly resulted from new business in guaranteed bonds and the energy sector, covering both construction risks such as drilling and operational risks. Growth in the motor business also supported the retail book which grew by about 46%. Four lines of business contribute materially to gross written premiums, with more than 70% of the business being corporate centric and highly reliant on the brokers. We anticipate a sustenance of the current business profile, while noting the efforts conducted in FY21 to strengthen the Tangerine brand, which could support longer term growth and improved efficiencies.

Outlook statement

The Stable Outlook reflects our expectation that the insurer's risk adjusted capitalisation and liquidity will continue to support its overall credit profile, underpinned by positive net earnings. While cost constraints persist, we expect income from investments to balance out the deficits from its operations. No material change is expected in its business profile.

Rating triggers

Positive rating action may result from a sustained improvement in earnings from operations and/or upon assessment of the newly established parent company that is expected to consolidate the insurer and other subsidiaries within the Tangerine brand. Conversely, a negative rating action could be triggered by a deterioration in earnings and/ or weakening of its competitiveness in the market.

Analytical contacts

Primary analyst Nairobi, KE	David Mburu DavidM@GCRratings.com	Analyst: Insurance +254 73 218 8669
Committee chair Johannesburg, ZA	Susan Hawthorne SusanH@GCRratings.com	Deputy Sector Head: Insurance +27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Insurance Companies, July 2022
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, August 2022
GCR Insurance Sector Risk Scores, September 2022

Ratings History

Tangerine General Insurance Limited					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Claims paying ability	Initial	National	BBB+(NG)	Positive Outlook	September 2014
Financial strength	Last	National	A-(NG)	Stable Outlook	December 2021

Risk score summary

Rating Components & Factors	Risk scores
Operating environment	**7.00**
Country risk score	3.75
Sector risk score	3.25
Business profile	**(2.00)**
Competitive position	(2.00)
Management and governance	0.00
Financial profile	**2.75**
Earnings	(0.75)
Capital	2.00
Liquidity	1.50
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00
Total Score	**7.75**

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Cash	Funds that can be readily spent or used to meet current obligations.
Cession	Amount of the insurance ceded to a reinsurer by the original insuring company (cedant) in a reinsurance transaction.
Combined Ratio	Measures the ability to conserve profits through the expense line.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.

SALIENT POINTS OF ACCORDED RATING

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

The credit rating has been disclosed to the rated entity. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating. The rated entity participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The information received from the rated entity and other reliable third parties to accord the credit rating included:

- Audited financial statements as at December 2021,
- Full year budgeted financial statements for 2022
- Reinsurance cover notes for 2022
- Unaudited interim results to 30 September 2022,
- Valuation reports for 2021, and
- Other relevant documents.