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## IIRA Reaffirms the Ratings of Al Baraka Insurance Company while Improving the Fiduciary Score

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**Manama, February 07, 2022**—The Islamic International Rating Agency (IIRA) has maintained the Takaful Financial Strength (TFS) rating of Al Baraka Insurance Company PLC ('ABIC' or 'the company'), Sudan, at 'BBB' (Triple B) with a 'Stable' outlook.

Sudan's arrears in external debt have been reduced significantly in June 2021 under Enhanced Heavily Indebted Poor Countries Initiative which is also expected to result in inflow of foreign funds to aid growth and poverty reduction. This development also led to stability of the exchange rate at around 440 SDG/USD which should help stabilize inflation going forward. Recent political turmoil has however cast uncertainty on several of the concessions granted by international funding organizations and the direction of macroeconomic indicators. Insurance sector had been impacted by depreciated currency via higher claims costs until the year 2021, but starting from the year 2022, stabilization of USD/SDG will be supportive for the profitability for the insurers.

Al Baraka Insurance Company is the fifth largest insurance company in the Sudan Insurance market and has been gaining ground in terms of market presence in the last several years. It registered a market share of 7.3% of the general insurance sector for the year 2020 (2019: 6.9%). Al Baraka Bank Sudan (ABBS) holds majority stake at 60%.

The growth in contributions for the year was driven mainly by motor, miscellaneous accident, takaful, and agriculture segments. In 9M'2021, contributions have surged by another 199% to SDG3.3bn, reflecting translation of a hyperinflationary environment and massive devaluation of SDG. Recent development in the Sudanese Insurance Market was the removal of the privilege of insuring state assets being confined to a government-owned insurance company. Accordingly, these assets will be available for insurance to private sector players via tenders. The Company has recently entered into segments like petrochemicals, which is expected to support contribution growth in 2022.

Profitability of the Policyholders' Fund (PHF) improved in 2020 given the inflated contributions growth coupled with modest deterioration in combined ratio and despite surging provisions for doubtful receivables and higher commissions cost. Consequently, net surplus of PHF surged by 78% to SDG157.3mn. In 2021, increase in claims expenses due to sharp depreciation of SDG may still hover below headline premium growth as evidenced in performance till September 2021, further improving net returns to PHF.

Despite slowdown in collection performance due to Covid-19 lockdowns, insurance debt as a percentage of gross premiums has retreated slightly to 28.3% (2019: 28.6%) due also to the particular emphasis on collection. We note that the regulatory ceiling for this ratio for Sudanese insurers has been determined as 30% and ABIC continues to be within regulatory threshold.



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Capitalization is a constraining factor in assigned ratings. Further strain on leverage indicators has been noted as growth in equity has remained below top line business growth. Regulatory solvency ratio decreased further to 9% and stayed well below the regulatory threshold of 20%. Capital increase as expected from SDG10mn to SDG50mn is viewed positively but remains inadequate to boost solvency metrics above regulatory threshold.

The fiduciary score has been improved to the range of '71-75' from '66-70', reflecting adequate fiduciary standards whereby the rights of various stakeholders are adequately protected. The upgrade reflects the strong track record and stability of the upper management, improvements in quality of financial disclosures, enhancement of headcount of internal audit function as well as investment in employees reflected as increase in employee trainings abroad. Shari'a Supervisory Board and Shari'a governance practices did not depict major changes on company specific basis whereas starting from 2022, share in investment returns will be raised to 70% from 50% for shareholders of insurance companies.

For further information on this rating announcement, please contact us at [iira@iirating.com](mailto:iira@iirating.com).

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