



IIRA Reaffirms the Ratings of Al Baraka Insurance Company

Manama, January 27, 2021—The Islamic International Rating Agency (IIRA) has reaffirmed 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 economic conditions continue to put pressure on the business environment with inflation tending to raise claims cost for insurers, particularly in the motor segment. Moreover, social and health disturbances have contributed to a deepening of the ongoing recession. As such, the economic environment is not conducive to real growth in business. The approved Staff-Monitored Program of the IMF promises structural reforms, which may begin the process of recovery and economic stability in the country. Moreover, recent positive developments on the diplomatic front may aid the process.

Total contributions grew at the rate of 61.3% to SDG884mn and reflecting a hyperinflationary environment. Further, growth remained higher than sector average whereby total premiums grew by 52%. Consequently, market share of Al Baraka Insurance Company in terms premiums increased to 7.2% (2018: 6.8%). In Q1-Q3'2020, total contributions grew further by 87% on YoY basis and reached SDG 1,064mn. In 2019, profitability of Policyholder Fund (PHF) retreated slightly compared to the year earlier with a marked increase in the combined ratio along with notable increase in provisions against doubtful receivables and despite sizable growth in gross contributions. Claims experience is expected to have worsened in 2020, as evident in the first 3 quarters of the year.

ABIC's liquidity indicators as indicated by coverage of technical reserves, remained more or less stable during the year 2019. On the other hand, despite deterioration in collection performance compared to the year 2018, insurance debt as a proportion of gross contributions is within regulatory limits. Capital profile deteriorated as internal capital generation fell below business growth regulatory solvency ratio decreased further and remaining notably below regulatory threshold. The company's capital increase to SDG50mn from SDG10mn via cash injection from shareholders is in process, with one of the three shareholders having already contributed by year-end 2020; however, even with that increase, solvency ratio will be well below regulatory threshold as business growth continues to be high.

The fiduciary score has been assessed in the range of '66-70', reflecting adequate fiduciary standards whereby the rights of various stakeholders are adequately protected. Since our previous review, we note the establishment of Board level Remuneration Committee in addition to other committees established a year ago. Board of Directors' composition and self-regulation framework remain broadly unchanged. Shari'a governance benefits from market norms and national regulatory structure, 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. We note that the Shari'a Governance infrastructure for the Company was broadly unchanged.

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