الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Assigns Takaful Financial Strength Rating of 'A-' to Islamic Insurance Company, Sudan

Manama, March 16, 2023 – The Islamic International Rating Agency (IIRA) has assigned Takaful Financial Strength (TFS) rating at 'A-' (A Minus) to Islamic Insurance Company ('IIC' or 'the Company'), Sudan. Outlook on the assigned rating is 'Stable.'

IIC is the first Islamic insurer globally, having started its operations in 1979. It is a wholly owned subsidiary of the Faisal Islamic Bank of Sudan. As the second largest takaful company in Sudan, it has a significant market share of 13.3% in terms of gross contributions, reflecting the company's strong presence through 43 branches and sustained franchise.

Sudanese economy has been experiencing stagflation over the last two years. Immediately following the change in currency regime to a 'flexible managed float' in February 2021, there was a sharp devaluation of SDG, and inflation soared to over 400%, before retreating to a still very high 87% in December 2022, owing to a more stable currency in recent months, and continued weakness in domestic demand. The goal of the Central Bank is to push inflation down to 25% by YE2023, as economic growth remains muted in the absence of material foreign fund inflows.

In line with sector trends, total contributions of IIC are dominated by motor segment at 58.3% (37% for the sector in 2021) of contributions. Medical is the second largest segment, also similar to sector trends, at 15.7% of contributions. With growth in contributions and distribution of a significant proportion of surplus, leverage has risen over time, with solvency indicators falling below regulatory threshold of 20%. ISA has allowed insurers to book asset revaluation gains under equity for the purposes of calculating regulatory solvency, starting from the year 2022. To this end, some assets have been revalued by an ISA approved independent appraisal firm. Related gains will enable the company to meet and exceed solvency thresholds by a comfortable margin.

Along with improvement in core profitability, the cash position of the company improved notably with net cash inflow from operations as a proportion of net contribution rising to 92% for 2021, vis-à-vis 71.8% in the preceding year. On the same note, liquid assets to total assets at 30.9% (2020: 25.8%) and 75.6% of technical reserves, from 57.5% in the prior year, also indicate a fair position. Overall, liquidity indicators of the company fare better vis-a-vis sector averages and depict improvement in the last couple of years. IIC decouples positively from peers regarding claims processing as its claims under settlement corresponded to only 3.8% of total claims as of December 2021, as opposed to the sector average of 24.3%, which may have been instrumental in building trust in policyholders.

At around 60% for the year 2021, combined ratio for IIC indicates healthy underwriting profitability vis-a-vis global benchmarks as well as being superior to some of the larger players in the local market. Profitability of the Policyholders' Fund (PHF) improved in 2021 with net surplus after zakat and provisions increasing to SDG403mn from SDG201mn in the prior year, as claims and expense performance remained favorable, further supplemented by improving investment income. Provisional data for the year 2022 indicates notably higher revenue surplus YoY while there was moderate decrease in net surplus after zakat and provisions, due to the notable amount of currency fluctuations reserve set aside as per ISA directives, whereby overall profitability indicators remained sound.

The Company's overall fiduciary score has been assessed in the range of '71-75', reflecting adequate protection of the rights of various stakeholders with room for improvement in governance practices. The Company's Board composition is well aligned with local regulations. Although independent representation is technically lower than recommended practice, the absence of minority shareholders and the presence of policyholder representatives, ensures a high level of protection to stakeholders. This reflects onto the Board Committee composition and the overall self-regulation infrastructure. IIC has three board level committees currently. The establishment of Governance Committee is recommended for alignment with global best practices. Moreover, institution of a risk management function, increased staffing in certain control functions, and improvement in disclosures is recommended.

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. Takaful companies benefit from high Shari'a standards particularly in lieu of distribution of policyholders surplus, representation of policyholders on the Board of Directors and the non-mandatory recourse to Qard al-Hasan from shareholders, even in case of need.

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