



IIRA Maintains the Ratings of Shiekan Insurance & Reinsurance Company

Manama, October 23, 2020– The Islamic International Rating Agency (IIRA) has reaffirmed the Takaful Financial Strength (TFS) rating of Shiekan Insurance & Reinsurance Company ('SIRC', 'Shiekan' or 'the Company'), Sudan at 'BBB+' (Triple B Plus). Outlook on the assigned rating is 'Negative' as the challenges from the pressured operating environment are expected to be further exacerbated. Expected deceleration of global growth with the spread of the coronavirus (Covid-19) internationally may drive international investment to safety and away from new emerging markets, putting pressure on the local currency and delay in resolution of economic challenges being faced by Sudan.

Shiekan is Sudan's largest insurer with a market share of 28% as of year-end 2018 vis-à-vis 32.2% in the prior year. SIRC is the only company in Sudan that can insure public sector assets as a state owned insurer.

Gross premiums of the Sudanese Insurance Sector continued to increase, yet it was associated with higher loss ratios which eroded profitability. On the other hand, aggregate sector data points to very strained capitalization levels. Further depreciation of the local currency is likely to pressure the sector's claims experience in the years following 2018.

Shiekan's volume growth has slowed down to 40.0% in the year 2018 as against sector growth of 61.1% and company's own growth of 59.7% in the prior year. In line with sector wide trends, Shiekan's combined ratio increased further in 2018 driven by deterioration in the claims ratio. However, the company was able to more than double the PHF surplus as the expense ratio and provisioning for doubtful debts declined.

SIRC's liquidity indicators improved as displayed by higher coverage of technical reserves by liquid assets. Improvement in operating cash flows was noted, though driven mainly from reducing reinsurer balances, whereas the insurance debt as a percentage of gross contribution continued to increase. To improve collections, the Company released new guidelines, yet the efficacy of those measures may be hard to achieve under current strained macroeconomic environment and overall liquidity conditions.

Given that strong business growth during the year 2018 exceeded the increase in total equity, leverage indicators were further stressed while the solvency ratio of the company stood well below the regulatory minimum of 20%. As such, we deem it imperative for the company to bolster the capital base. As per management representation, there are plans to increase capital via revaluation of assets. In IIRA's opinion, to effectively strengthen the claim paying ability of the company and meet cash calls like claims and expenses, cash equity enhancement is called for.

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, albeit aligned with local regulations, diverges from international best practices especially as regards, independent representation. This reflects onto the Board Committee composition and the overall self-regulation infrastructure. Meanwhile, the risk management structure may incorporate evaluation of all financial risks, including sufficiency of capital and liquidity in stress



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scenarios; further the level of transparency requires enhancement, and financial disclosures may be made in a timely manner.

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 major 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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