Guinea Insurance Plc

...exceeding your expectations

Financial Condition Report as at 31st December 2024

Prepared by

LOGIC PROFESSIONAL SERVICES

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March 2024

Executive Summary

This report discusses the adequacy of the company's resources (capital, reinsurance arrangements) in meeting its contracted obligations, especially if adverse situations arise.

The following are the key conclusions of the report.

- The company is in a sound Financial Condition as at report date.

- We estimated that the economic/risk-based capital required to support the business as of 31st December 2024 is N1.5billion. This is about 50% of the current minimum statutory requirement of N3billion. The business, however, has Shareholders' Fund of N5.1billion or 339% of the required Risk Based Capital. Hence, the business is well capitalized and is likely to meet all obligations as and when due.

- The company's Capital Adequacy Ratio (CAR) has increased to 171% in 2024 from 116% in 2023; increase in Free Assets to ca N5.1bn in 2024 from ca 3.49bn in 2023. However, the proposed recapitalization program by the insurance regulator requiring a minimum capital requirement of N15bn, still implies that the company requires an additional capital injection of ca N10bn to meet up with the new capital requirements.

- The company's combined ratio sat at 131% in 2024 compared with 104% in 2023. There was a deterioration in business performance at underwriting level considering the current's CR; this is largely associated to increases in both expense and claims ratios in 2024. We recommend that the company should monitor expenses whilst monitoring the underwriting performance of all lines of business and ensuring adequate reinsurance protection is in place.

- Since the company is currently in the process of recapitalization, an in-depth business planning exercise to inform capital allocation to profitable business lines should be carried out.

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Strictly Private and Confidential

March 28, 2025

The Board of Directors,
Guinea Insurance Plc,
33 Ikorodu Road,
Jibowu, Yaba,
Lagos, Nigeria.

Dear Sir,

Financial Condition Report as at 31 December 2024 – Guinea Insurance Plc

1. Introduction

1.1 We are pleased to present our Financial Condition Report ("FCR") for Guinea Insurance Plc ('the Company") as at 31 December 2024.

1.2 The aim of the Financial Condition Report is to present a non-technical easy to read document detailing the recent business and operational trends, the current financial status as well as an assessment of the business remaining solvent in the near future basing the future projections on different risk scenarios.

1.3 The report, as well as meeting Management's need to continuously appraise themselves of the status of the business; will fulfill the requirement to submit a Financial Condition Report as stipulated by NAICOM in the roadmap to Risk Based Solvency regime issued in October 2018.

1.4 This report discusses the adequacy of the company's resources (capital, reinsurance arrangements) in meeting its contracted obligations, especially if adverse situations arise.

1 Business Overview

1.1 Premium History

1.1.1 The company realized a 28% growth in gross written premiums in 2024 when compared with 2023 performance. There is a general growth across all lines of business as presented below:

Table 1.0 – *Gross Written Premiums (2020 – 2024)*

Line of Business	2020		2021		2022		2023		2024	
	₦' 000	Percentage	₦' 000	Percentage	₦ '000	Percentage	₦ '000	Percentage	₦ '0002	Percentage
Fire	271,780	25%	287,871	21%	249,817	18%	506,216	22%	500,551	17%
Motor	295,374	27%	326,691	24%	352,120	26%	410,808	18%	560,392	19%
General Accident	463,221	43%	667,413	49%	659,918	49%	1,295,868	57%	1,768,358	60%
Marine and Aviation	51,133	5%	74,433	5%	97,392	7%	80,379	4%	106,084	4%
Total	**1,081,508**	**100%**	**1,356,408**	**99%**	**1,359,247**	**100%**	**2,293,271**	**100%**	**2,935,385**	**100%**

1.1.2 From the table above, the following are observed:

- In terms of premiums contribution in 2024, General Accident/Oil & Gas lines of business were the largest contributors at about 60%.

- Other lines of business account for only about 40% of the premiums written in 2024.

- There is a general increase in the volume of business written on all classes of business, with a significant YoY growth on General Accident/Oil & Gas at 64%, Motor at 36%, Marine/Aviation at 32%.

1.1.3 With this distribution, in our view, there is largely no undue concentration risk by business type over the review period.

2 Premium Adequacy and Capital Management

2.1.1 We discuss in this section, some metrics that illustrate the profitability and investment returns on the portfolio.

Table 2.1 – *Definition of Key Metrics*

Metric	Definition
Claims Ratio	Net Claims Incurred/ Net Earned Premium
Expense Ratio	{Underwriting Expenses (excl claims expenses + Management Expenses – Commission Income}/ Net Written Premium
Combined Ratio	Claims Ratio + Expense Ratio
Capital Adequacy Ratio	Free Assets/Higher of 15% of Net written premiums or N3bn
Solvency Ratio	(Free Assets+ Policyholders Funds)/Technical Reserves

2.1.2 The table below shows recent experience of Claims, Expense and Combined Ratios.

Table 2.2 – *Key Performance Ratios (2020 – 2024)*

Year	Claims Ratio	Expense Ratio	Combined Ratio	Investment Income as a % of NWP
2020	21%	123%	144%	14%
2021	5%	117%	122%	10%
2022	13%	121%	134%	11%
2023	24%	80%	104%	10%
2024	35%	96%	131%	11%

**breakdown of combined ratio by line of business is shown in appendix 4 of the report*

2.1.3 The combined ratio deteriorated in 2023 to 131% in 2024 from 104% in previous years. This was a result of increases in both claims and expense ratios during the year under review.

2.1.4 There was an increase in both General Accident/Oil & Gas claims as a proportion of net earned premiums which led to an increase in the claims' ratio.

2.1.5 We recommend that the company continue to review underwriting on all lines of business and monitor the General Accident/Oil & Gas line claims with a view to potentially reviewing the pricing of this line of business.

2.1.6 In addition, we recommend the company continues to grow the premium income and target expense ratio of 50% in order to enhance the returns to shareholders.

Table 2.3 – *PAT, UwP & Investment Income (2020 – 2024)*

Year	Profit After Tax	Underwriting Profit *	Investment Income
	₦'000	₦'000	₦'000
2020	(227,673)	374,097	104,826
2021	(36,248)	550,402	87,006
2022	(83,273)	582,825	102,823
2023	477,770	673,682	201,022
2024	784,028	1,030,336	325,277

**Excludes Management Expenses*

2.1.7 The company's return on equity turns remains positive in 2024. We recommend that management should continue to monitor expenses and the overall underwriting performance in the short to medium term.

Table 2.4 – *Shareholders' Fund and Return on Equity (2020 – 2024)*

Year	Shareholders' Fund	Return on Equity
2020	2,117,947	-11%
2021	2,119,752	-2%
2022	2,136,291	-4%
2023	3,497,451	14%
2024	5,068,235	15%

2.2 Asset Mix

2.2.1 We illustrate below the assets mix backing the technical provisions in the periods 2021 – 2024 as follows:

Table 2.5 – *Assets Backing Technical Liabilities (2020 – 2024)*

Assets ₦'000			Insurance Funds							
	2020	%	2021	%	2022	%	2023	%	2024	%
Cash and Cash Equivalent	671,661	51%	383,566	34%	386,998	32%	1,025,935	55%	-	0%
Financial Assets	263,233	20%	288,529	26%	369,824	30%	339,286	18%	1,200,265	66%
Investment Properties	85,000	6%	106,300	10%	113,000	9%	150,000	8%	-	0%
Reinsurance Assets	300,328	23%	335,412	30%	354,781	29%	355,330	19%	576,129.94	31%
Trade Receivable	-	-	-	-	-	-	-	-	56,218	3%
Total	**1,320,222**	**100%**	**1,113,807**	**100%**	**1,224,603**	**100%**	**1,870,551**	**100%**	**1,827,4849**	**100%**

2.2.2 The company continues to hold mainly financial assets to back its liability pool. We note that these are high-quality short-term investments help with liquidity.

2.3 Capital Management & Adequacy

2.3.1 Balance Sheet Solvency

2.3.1.1 We illustrate in the table below that for most years, the company had sufficient buffer to meet technical liabilities.

Table 2.6 – *Balance Sheet Solvency (2018 – 2024)*

₦'000	2020	2021	2022	2023	2024
Technical Liabilities	320,273	483,801	496,031	707,068	1,416,432
Shareholders Fund (Free Assets)	2,172,528	2,119,752	2,078,055	3,495,474	4,128,920
Balance Sheet Solvency Ratio	678%	438%	419%	494%	292%

2.3.1.2 The last 3 years have had reasonably healthy solvency ratios which gives comfort that ordinarily, liabilities are expected to be met as and when due. We highlight regulatory solvency below and discuss risk-based solvency in section 6.

2.4 Regulatory Solvency

2.4.1 We illustrate below that the company met its regulatory solvency requirements in all the years under review.

Table 2.7 – *Regulatory Solvency (2020 – 2024)*

Year	2020	2021	2022	2023	2024
Technical Liabilities	320,273	483,801	496,031	707,068	1,416,432
Free Assets (allowing for admissible rules)	2,172,528	2,189,789	2,203,190	3,491,383	5,119,289
Maximum of 15% Net premium and N3billion	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Capital Adequacy	72%	73%	73%	116%	171%
Regulatory Solvency Ratio	678%	453%	444%	494%	361%

2.4.2 The company met statutory capital requirements since 2023, and at the review date had 171%, the minimum required capital level, which currently stood at N3bn (a significantly improved position).

2.4.3 We note that the Free Assets has increased to ca N5.1bn during the financial year. However, in December 2024, the Nigerian Senate passed the Nigeria Insurance Industry Reform Act, 2024, introducing significant changes to the minimum capital requirements for insurance businesses in the country. The proposed capital requirement for General is business is N15bn, which means the company requires an additional capital injection of about N10bn to meet up with the regulation.

2.5 Reinsurance Strategy Management

2.5.1 We summarized the schedule of latest reinsurance arrangements (shown in Appendix 2) and note that there are no significant changes from 2023. The structure of the treaty appears appropriate for the business written. However, it needs to be monitored in line with any future capital injections and linked to the risk appetite.

2.5.2 We however illustrate in the tables below, the cash flows arising from reinsurance transactions in the last few years.

Table 2.8.a – *VFM of 2020 Reinsurance Business*

₦'000

Class of Business	Bond	Oil & Gas	Engineering	Motor	Total
Outflow					
Reinsurance Cost	106,244	13,400	87,142	11,197	217,983
Inflow					
Reinsurance Commission	33,981	2,345	40,883	3,275	80,484
Reinsurance Recoveries (Incl IBNR)	34,455	30,019	79,862	523	144,859
Total Inflow	68,436	32,364	120,745	3,798	225,343
Value for Money Ratio (VFM)	**64%**	**242%**	**139%**	**34%**	**103%**

Table 2.8.b – *VFM of 2021 Reinsurance Business*

₦'000

Class of Business	Bond	Oil & Gas	Engineering	Motor	Total
Outflow					
Reinsurance Cost	66,116	11,813	295,413	87,874	461,216
Inflow					
Reinsurance Commission	19,834	19,820	27,475	4,261	71,390
Reinsurance Recoveries (Incl IBNR)	125,572	6,927	50,631	1,164	184,294
Total Inflow	145,406	26,747	78,106	5,425	255,684
Value for Money Ratio (VFM)	**220%**	**226%**	**26%**	**6%**	**55%**

Table 2.8.c – *VFM of 2022 Reinsurance Business*

₦'000

Class of Business	Bond	Oil & Gas	Engineering	Motor	Total
Outflow					
Reinsurance Cost	21,816	16,413	258,128	37,339	433,696
Inflow					
Reinsurance Commission	51,397	3,146	70,599	13,876	139,018
Reinsurance Recoveries (Incl IBNR)	21,846	18,121	16,868	16,516	73,351
Total Inflow	73,243	21,267	87,467	30,392	212,369
Value for Money Ratio (VFM)	**60%**	**130%**	**34%**	**81%**	**49%**

Table 2.8.d – *VFM of 2024 Reinsurance Business*

₦'000

Class of Business	Bond	Oil & Gas	Engineering	Motor	Total
Outflow					
Reinsurance Cost	370,167	123,049	75,225	23,163	294,174
Inflow					
Reinsurance Commission	39,176	109,911	22,161	6,794	25,125
Reinsurance Recoveries (Incl IBNR)	94,479	1,497	86,876	54,061	613,878
Total Inflow	133,655	111,408	109,037	60,855	639,003
Value for Money Ratio (VFM)	**36%**	**91%**	**145%**	**263%**	**217%**

2.5.3 The tables indicate that the overall value for money is within the reasonable range.

2.6 Stress Scenario for 2024 Results

2.6.1 We applied 5%, 10% and 20% stresses on the current ultimate loss ratio for each line of business to derive the stressed estimate of outstanding claim reserves.

2.6.2 We illustrate the revised solvency margin for 2024 in the table below

Table 2.9a – *Stressed Solvency Margin (5%)*

Year	2024 - Stressed	2024
Technical Liabilities	1,487,253.20	1,416,432
Shareholders Fund (Free Assets)	3,922,474.25	4,128,920
Balance Sheet Solvency Ratio	**264%**	**292%**

Table 2.9b – *Stressed Solvency Margin (10%)*

Year	2024 - Stressed	2024
Technical Liabilities	1,558,074.78	1,416,432
Shareholders Fund (Free Assets)	3,716,028.23	4,128,920
Balance Sheet Solvency Ratio	**239%**	**292%**

Table 2.9c – *Stressed Solvency Margin (20%)*

Year	2024 - Stressed	2024
Technical Liabilities	1,699,717.94	1,416,432
Shareholders Fund (Free Assets)	3,303,136.21	4,128,920
Balance Sheet Solvency Ratio	**194%**	**292%**

2.6.3 The table 2.9c demonstrates that the solvency ratio is expected to remain healthy above 100% should the claims ratio increase by 20%.

3 Financial Condition as at 31st December 2024

4.1.1 Based on our discussions above we are of the view that;

- The business is in a sound financial condition. We have demonstrated that the solvency ratio exceeded 200% of technical liabilities on both the regulatory admissibility basis and IFRS balance sheet basis**.**

- We have further demonstrated that on a stressed basis, the balance sheet solvency ratio at the review date exceeds 190% of the liabilities.

4.1.2 We continue to advise that the company should:

- reduce its high expense ratio through continued expansion of new business premiums written and/or business rationalization.

- needs to inject an additional capital of at least ₦10bn to meet with the new statutory minimum capital requirements. The company could also consider merging with another company.

- monitor closely claims ratios for all lines of business and continue to check reinsurance protection adequacy.

- as the company prepares to recapitalize/merge, it is important to consider developing a quantitative Risk Appetite Statement incorporating its broad objective e.g.

    - Conducting your business in such a way that no more than 20% of your capital is at risk.
    - Probability of Profits being zero or worse $\leq 5\%$ (1 year in 20).
    - Risk Adjusted Returns on capital will always exceed 5% etc.
    - (Credit) Rating – Conduct your affairs to achieve/maintain an international credit rating of B etc.

4 New Business Plans

4.1 Business Plan Production

4.1.1 The company experienced an average premium growth rate of ca 38% p.a. over the 2022 – 2024 period. The yearly growth between 2023 and 2024 was ca.41%. The planned volumes below show on average, ca.78% annual growth over the three projected years. We note that it appears aggressive when compared with recent experience including the business mix.

The table below shows the assumed new business volumes and mix by line of business:

Table 2.0 – *Business Plan (2025 – 2027)*

Line of Business	2025		2026		2027	
	₦'000	%	₦' 000	%	₦' 000	%
Fire	1,120,000	16%	1,440,000	16%	2,400,000	16%
Motor	1,470,000	21%	1,890,000	21%	3,150,000	21%
General Accident	4,130,000	59%	5,310,000	59%	8,850,000	59%
Marine & Aviation	280,000	4%	360,000	4%	600,000	4%
Total	**7,000,000**	**100%**	**9,000,000**	**100%**	**15,000,000**	**100%**

4.1.2 The continued ambition to expand new business volumes had continued to put pressure on management expenses. The level of expense discipline shown in the last couple of years could help in achieving planned volumes and achieve profitability.

4.1.3 For purposes of the projections, we have assumed expense increases per annum of 25%.

5 Solvency Projections

5.1 The projection process

5.1.1 We have projected the income statements for each of the years 2025 and 2027 assuming claim and expense patterns to date, continue, and adopting the premiums projected for each of the years.

5.1.2 The exercise leads to projected technical liabilities at the end of each year and a corresponding balance sheet. We have assumed that new money accruing into the fund will be invested in money market instruments.

5.1.3 We report our projected solvency ratios herein, we have also stressed these ratios in anticipation of adverse events and comment accordingly.

5.2 Data and Assumptions

5.2.1 The most recent portfolio status and the corresponding valuation dataset forms the base of the projection.

5.2.2 Projections of technical reserves i.e. outstanding claims and unexpired premium reserves are based on the projected sales volume and the historical information at our disposal. The target sales volume information is as detailed in Section 4.1.1 and was provided by the Company.

5.2.3 The unexpired premium reserves were projected for each line of business assuming risk would occur uniformly throughout the year and the future portfolio would resemble the past written premiums.

5.2.4 The outstanding claims reserves were projected using the projected earned premiums and the projected claims settlement patterns as determined in the most recent valuation exercise.

5.3 **Projections results**

5.3.1 The following results were obtained.

Table 5.3a – *Income Statement Projections (2025 – 2027)*

	2025	2026	2027
	N'000	**N'000**	**N'000**
Insurance revenue	4,967,693	8,000,000	12,000,000
Insurance service expenses	(3,083,400)	(4,965,525)	(7,448,287)
Net expenses on reinsurance contracts	(80,296)	(129,308)	(193,963)
Insurance service result	**1,803,997**	**2,905,167**	**4,357,750**
Net investment income	2,049,047	3,299,797	4,949,695
Net Insurance finance expenses	4,522	7,282	10,923
Net Insurance and Investment result	**3,857,566**	**6,212,246**	**9,318,369**
Other operating income	141,079	227,195	340,792
Other operating expenses	(2,564,517)	(4,129,913)	(6,194,870)
Profit before taxation	**1,434,128**	**2,309,527**	**3,464,291**
Income tax expense	(61,388)	(98,859)	(148,289)
Profit for the year	**1,372,740**	**2,210,668**	**3,316,002**

Table 5.3b – *Assets & Liabilities Projections (2024 – 2026)*

	2025	2026	2027
	N'000	**N'000**	**N'000**
Assets			
Total assets	8,973,141	12,485,560	15,696,628
Liabilities			
Insurance contract liabilities	1,983,236	3,193,814	4,790,721
Other payables and accruals	213,393	213,393	213,393
Employee benefit obligations	5,882	5,882	5,882
Current tax payable	27,553	27,553	27,553
Deferred tax liabilities	153,072	153,072	153,072
Deposit for shares	-	-	-
Total liabilities	2,383,135	3,593,713	5,190,620
Equity			
Issued share capital	3,971,400	3,971,400	3,971,400
Share premium	337,545	337,545	337,545
Contingency reserve	1,034,183	1,274,183	1,634,183
Accumulated losses	148,828	2,210,668	3,464,830
Fair value reserve	627,043	627,043	627,043
Asset revaluation reserve	471,008	471,008	471,008
Other reserves	-		
Total equity	6,590,006	8,891,846	10,506,008
Total liabilities and equity	8,973,141	12,485,560	15,696,628

5.3.2 The projected solvency ratios are as shown below:

Table 5.3c – *Solvency Margins (2024 – 2026)*

Year	**2025**	**2026**	**2027**
Technical Liabilities	1,983,236	3,193,814	4,790,721
Shareholders Fund (Free Assets)	6,590,006	8,891,846	10,506,008
Solvency Margin	**332%**	**278%**	**219%**

5.3.3 Based on our assumptions, there is an expectation of increased profitability in 2025, 2026 and 2027 whilst maintaining adequate solvency coverage in both years. This should mean a higher chance of adequate capital to meet the company liabilities as and when due.

5.3.4 We performed projections assuming an absolute 20% increase in loss ratio and the following results were obtained

Table 5.3.3a – *Income Statement Projections with a 20% increase in Loss Ratio (2024 – 2026)*

	2025	2026	2027
	N'000	**N'000**	**N'000**
GWP			
Insurance revenue	4,967,693	8,000,000	12,000,000
Insurance service expenses	(3,700,080)	(5,958,630)	(8,937,945)
Net expenses on reinsurance contracts	**(80,296)**	**(129,308)**	**(193,963)**
Insurance service result	**1,187,317**	**1,912,062**	**2,868,093**
Net investment income	2,049,047	3,299,797	4,949,695
Net Insurance finance expenses	4,522	7,282	10,923
Net Insurance and Investment result	**3,240,886**	**5,219,141**	**7,828,711**
Other operating income	141,079	227,195	340,792
Other operating expenses	**(2,564,517)**	**(4,129,913)**	**(6,194,870)**
Profit before taxation	817,448	1,316,422	1,974,633
Income tax expense	**(34,991)**	**(56,349)**	**(84,524)**
Profit for the year	**15-Apr-42**	**15-Dec-49**	**9-Dec-74**

Table 5.3.3b – *Assets & Liabilities Projections with a 20% increase in Loss Ratio (2024 – 2026)*

	2025	2026	2027
	N'000	**N'000**	**N'000**
Total assets	8,779,505	12,173,727	14,638,597
Liabilities			
Insurance contract liabilities	2,379,883	3,832,577	5,748,865
Other payables and accruals	213,393	213,393	213,393
Employee benefit obligations	5,882	5,882	5,882
Current tax payable	27,553	27,553	27,553
Deferred tax liabilities	153,072	153,072	153,072
Deposit for shares	-	-	-
Total liabilities	2,779,782	4,232,476	6,148,765
Equity			
Issued share capital	3,971,400	3,971,400	3,971,400
Share premium	337,545	337,545	337,545
Contingency reserve	1,034,183	1,274,183	1,634,183
Accumulated losses	(441,456)	1,260,073	1,448,654
Fair value reserve	627,043	627,043	627,043
Asset revaluation reserve	471,008	471,008	471,008
Other reserves	-	-	-
Total equity	5,999,723	7,941,251	8,489,832
Total liabilities and equity	**8,779,505**	**12,173,727**	**14,638,597**

The projected solvency ratios are as shown below:

Table 5.3.3c – *Solvency Margins (2024 – 2026)*

Year	**2025**	**2026**	**2027**
Technical Liabilities	2,379,883	3,832,577	5,748,865
Shareholders Fund (Free Assets)	5,999,723	7,941,251	8,489,832
Solvency Margin	**252%**	**207%**	**148%**

6 Economic Capital

6.1 The technical figures (technical liabilities, reinsurance assets, etc.) estimated for balance sheet purposes are our 'best' estimate and broadly reflect the 'mean' of possible outcomes. However, in the course of time these estimates may fluctuate adversely as a result of unexpected realities.

6.2 It is prudent and best practice to estimate the extent to which the best estimate can be exceeded due to possible adverse situations and establish on the corresponding risk capital, called ECONOMIC CAPITAL.

6.3 The key risks the company is exposed to are underwriting risk, market risk, counterparty risk and operational risk, they are described and discussed in appendix 6 of the report.

6.4 We have calculated for each of the risks, the amount of capital required as at year end 2024 at 95% and 99.5% level of confidence.

6.5 This report discusses in detail capital requirements at 99.5%, which is equivalent to a 1-in-200 event. Put differently, this is the capital required to sustain the company should extreme events that are expected to occur once every 200 years, occur in 2024. Such events would typically lead to large 'unexpected' losses that could significantly affect the fortunes of the company. The results at 95% (1 in a 20-year event) are shown in appendix 5 of the report.

6.6 We have adopted the following methods in calculating the Economic capital:

- Value at Risk → this was applied to Market risk and Credit risk
- Stochastic approach using bootstrapping → this was applied to Non-Life reserving and premium risks.

- Solvency II standard formula approach was adopted for operational risk

6.7 Detailed explanation of each of the risks including derivation of the stresses applied is given in appendix 6 of the report.

6.8 In order to recognize that each individual risk event is unlikely to occur in the same year, aggregation of capital requirements was done. This has the effect of reducing the total required capital – technically called a diversification. The assumed correlation matrix is shown in appendix 7.

6.9 The calculations were based on same data used to prepare the IFRS valuation as at 31 December 2024 and asset information shown in section 2.3 of this report.

6.10 The following results at 99.5% confidence level were obtained.

Table 6.1 - *Economic Capital: SCR at 99.5% Confidence level*

Risk Sub-module	Risk Type	Capital Requirement (N) - 2024
Non-Life Underwriting Risk	Reserve Risk	1,419,164,260
	Premium Risk	246,475,787
	Catastrophe Risk	315,783,112
	Lapse Risk	-
	SCRnl Pre-Div	1,981,423,159
	SCRnl Div Credit	665,478,509
	SCRnl Post Div	**1,315,944,650**
Market Risk	Interest Rate Risk	-
	Equity Risk	-
	Property Risk	-
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCRmkt Pre-Div	-
	SCRmkt Div Credit	-
	SCRmkt Post Div	**189,233,435**
Counterparty Default Risk	Reinsurance credit	6,572,892
	Investment credit & Debtors	41,872,117
	SCRdef Pre-Div	48,445,009
	SCRdef Div Credit	-
	SCRdef Post Div	**96,890,017**
UnDiversified BSCR		1,602,068,102
Diversification Credit		216,663,018
Basic SCR		**4,560,465,912**
Operational Risk		185,254,034
		-
Solvency Capital Requirement		**1,496,393,709**
Shareholders' Funds		5,068,235,039
as a % of Shareholder's Fund		**29.5%**

6.11 As shown in the table above, the total estimated Economic Capital required in connection with the business profile at 31st December 2024 was ₦1.94billion. This represents 29.5% of the total shareholders' fund and implies that the company was well capitalized at the review date to meet liabilities (in respect of business on the books) as and at when they arise. Shareholders' fund has continued to increase in the last few years creating a buffer against increased liabilities due to potential adverse impacts.

7 Conclusion and Recommendations

7.1 The company is in a sound Financial Condition as at report date.

We estimate that the economic/risk-based capital required to support the business as of 31st December 2024 as ₦1.50billion. This is about 50% of the current minimum statutory requirement of ₦3billion. The business, however, has Shareholders' Fund of ₦5.1billion or 339% of the required Risk Based Capital.

Hence, the business is well capitalized and is likely to meet all obligations as when due.

7.2 The company's Capital Adequacy Ratio (CAR) has increased to 171% in 2024 from 116% in 2023; increase in Free Assets to ca N5.1bn in 2024 from ca 3.49bn in 2023. However, the proposed recapitalization program by the insurance regulator requiring a minimum capital requirement of ₦15bn, still implies that the company requires an additional capital injection of ca ₦10bn to meet up with the new capital requirements.

The company's combined ratio sat at 131% in 2024 compared with 104% in 2023. There was a deterioration in business performance at underwriting level considering the current's CR; this is largely associated to increases in both expense and claims ratios in 2024. We recommend that the company should monitor expenses whilst monitoring the underwriting performance of all lines of business and ensuring adequate reinsurance protection is in place.

7.3 As the company looks to recapitalize, we advise an in-depth business planning exercise to be carried out to inform capital allocation into profitable business lines.

7.4 We thank you for the opportunity to perform a financial condition assessment for the company leading to the production of this report. We hope you will find the report helpful.

7.5 We would be happy to discuss the results of these findings and any aspects of the report that might require clarification.

Yours sincerely,

Jonathan Ben Phiri
Fellow, Institute and Faculty of Actuaries, UK

For: Logic Professional Services.

APPENDIX 1 – RELIANCE & LIMITATION

Reliance

In carrying out this work we have relied upon the financial statements, business plans and other information (including discussions with the Management) provided by Guinea Assurances Nigeria Plc. The liability information used was the same as that used in the IFRS actuarial valuation. Where stated in this report we have reviewed this data for reasonableness.

This report takes into account data made available as at 31 December 2024.

In some instances, we were unable to obtain granular information so had to make approximations in certain instances about the composition given knowledge of certain details during the normal end of year valuation process.

Limitations

Our understanding is that this is a Board report that could be used to demonstrate regulatory compliance with NAICOM, when requested.

Except with the consent of Logic Professional Services, the report and any written or oral information or advice provided by Logic Professional Services must not be reproduced, distributed or communicated in whole or in part to any other person or relied upon by any other person. The report may be distributed to a third party where there is a legal requirement to do so.

The report may be distributed to the Senior Management of Guinea Assurances Nigeria Plc for the purpose of discussing its contents.

Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. It should therefore be expected that the actual emergence of profits will vary, perhaps materially, from any estimates.

This report must be contained in its entirety, as individual sections, if considered in isolation, may be misleading.

The report is subject to the terms and limitations, including limitation of liability, agreed when commencing this exercise.

APPENDIX 2 – REINSURANCE TREATY PROGRAM

		2024	
CLASS	**TREATY TYPE RETURNS**	**TREATY CAPACITY**	**TOTAL CAPACITY**
FIRE/ALLIED PERILS			
Con Loss, Householder/Comprehensive	1st Surplus 39 lines of N60,000,000	3,900,000,000	4,000,000,000
Terrorism & Political Violence	1st Surplus 15 lines of N20,000,000	300,000,000	320,000,000
Fire Working Excess of Loss	N40,000,000 Xs N60,000,000 per risk and per loss	100,000,000	100,000,000
MARINE CARGO	Surplus 30 lines of N50,000,000	1,500,000,000	1,550,000,000
MARINE HULL	Surplus 30 lines of N50,000,000	1,500,000,000	1,550,000,000
Engineering			
CONTRACTORS ALL RISKS			
Erection All Risk, Machinery Breakdown, E.E Plant All Risk, Boiler and Pressure Vessel	Surplus 30 lines of N50,000,000	1,500,000,000	1,550,000,000
BURGLARY			
Private Premises	Surplus 50 lines of N20,000,000.00	1,000,000,000	1,020,000,000
Business Premises	Surplus 50 lines of N25,000,000.00	1,250,000,000	1,270,000,000
MONEY INSURANCE			
Transit Per Conveyance	Surplus 25 lines of N10,000,000.00	250,000,000.00	260,000,000
Safe	Surplus 25 lines of N10,000,000.00	250,000,000.00	260,000,000
Personal Custody	Surplus 25 lines of N10,000,000.00	250,000,000.00	260,000,000
Cash in Counting Area	Surplus 25 lines of N10,000,000.0	250,000,000.00	260,000,000
GOODS-IN-TRANSIT			
General Goods	Surplus 50 lines of N10,000,000.00	500,000,000	510,000,000
Own Goods	Surplus 50 lines of N10,000,000.00	500,000,000	510,000,000
ALL RISKS	Surplus 50 lines of N10,000,000.00	500,000,000	510,000,000
FIDELITY GUARANTEE			
Per Person	Surplus 25 lines of N7,500,000.00	187,500,000	195,000,000
Per Firm	Surplus 25 lines of N10,000,000.00	250,000,000	260,000,000
PERSONAL ACCIDENT			
Per Person	Surplus 50 lines of N15,000,000.00	750,000,000	765,000,000
Per known accummulation	Surplus 50 lines of N20,000,000.00	1,000,000,000	1,020,000,000
OCCUPIER'S LIABILITY			
Bodily Injury/Death	Surplus 50 lines of N7,000,000.00	350,000,000	357,000,000
Property Damage	Surplus 50 lines of N7,000,000.00	350,000,000	357,000,000
Public Liability	Surplus 50 lines of N7,000,000.00	350,000,000	357,000,000
Director's Liability	Surplus 100 lines of N7,500,000.00	750,000,000	757,500,000
Professional Indemnity	Surplus 50 lines of N20,000,000.00	1,000,000,000	1,020,000,000
Product Liability	Surplus 50 lines of N20,000,000.00	1,000,000,000	1,020,000,000
Employers' Liability	Surplus 50 Lines of N20,000,000.00	1,000,000,000	1,020,000,000
BOND			
Performance, Bid/Tender, Maintenance Bonds, Customs Bond, Excise Bonds, Court Bonds, Advance Payment, Supply Bond	Reinsurers - 50% Reinsured's Retention - 50%	200,000,000 per contract	200,000,000 per contract
Agric Insurance			
Crop Insurance	Reinsurers - 80% Reinsured's Retention - 20%	N20,000,000.00 Per Contract	N20,000,000.00 Per Contract
Area Yield Index Based	Reinsurers - 80% Reinsured's Retention - 20%	N50,000,000.00 Per Contract	N50,000,000.00 Per Contract
Livestock Insurance	Reinsurers - 80% Reinsured's Retention - 20%	N10,000,000.00 Per Contract	N10,000,000.00 Per Contract
Power Risks Ins	Capacity Per Power Plant Location	Deductible	
Power Risk Stand Alone	$102.500,000.00	$134,000.00	
Political \violence and Terrorism	Capacity Per Contract	Deductible	Aggregate Limit
	$1,32,000,000.00	$134,000.00	$1,250,000,000.00
Oil and Gas			
	Deductible		Capacity
Facility By Gallagher Re	Operational Risks	$134,000.00	$636,500,000.00
	Construction Risk	$67,460.68	
Facility By Howden Specialty	Operational Risks	$134,000.00	$318,250,000.00
	Construction Risk	$67,460.68	

APPENDIX 3 – ECONOMIC CAPITAL RESULTS AT 95% CONFIDENCE LEVEL

At a lower confidence level of 95%, the total economic capital requirement reduces to ₦1.2illion which represents 23.6% of the shareholder funds as at December 31 2024.

Table 3.1 - *Economic Capital: SCR at 99.5% Confidence level*

Risk Sub-module	Risk Type	Capital Requirement (N) - 2024
Non-Life Underwriting Risk	Reserve Risk	1,135,331,408
	Premium Risk	197,180,629
	Catastrophe Risk	252,626,490
	Lapse Risk	-
	SCRnl Pre-Div	1,585,138,527
	SCRnl Div Credit	532,382,807
	SCRnl Post Div	**1,052,755,720**
Market Risk	Interest Rate Risk	-
	Equity Risk	-
	Property Risk	-
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCRmkt Pre-Div	-
	SCRmkt Div Credit	-
	SCRmkt Post Div	**189,233,435**
Counterparty Default Risk	Reinsurance credit	5,258,313
	Investment credit & Debtors	33,497,693
	SCRdef Pre-Div	38,756,007
	SCRdef Div Credit	-
	SCRdef Post Div	**77,512,014**
UnDiversified BSCR		1,319,501,169
Diversification Credit		216,663,018
Basic SCR		**4,560,465,912**
Operational Risk		148,203,227
		-
Solvency Capital Requirement		**1,197,114,967**
Shareholders' Funds		5,068,235,039
as a % of Shareholder's Fund		**23.6%**

APPENDIX 4 – ECONOMIC CAPITAL METHODOLOGY & STRESS LEVEL DERIVATION.

This appendix provides a detailed explanation on how each of the risks were modelled including stress levels derivation. Worthy to note that these comprehensive explanations are provided whether or not GUINEA is exposed to these risks.

Market Risks

Market risk is defined as the potential for adverse change in the net assets (Market value of assets less Market value of liabilities) due to movements in market factors such as equity prices, interest rates, property prices and foreign exchange.

The company's insurance funds are mainly invested in money market instruments and hence have a very low exposure to market risks.

Credit spread and liquidity risks have not been explicitly calculated for the following reasons:

- Credit spread – the company has no corporate bond holdings as part of assets backing technical provisions and hence no credit risk exposure.

- Liquidity risk – this is a difficult risk to quantify within the economic calculations. The Company is recommended to ensure that a robust Liquidity management policy is in place in order to be able to monitor this risk (not sure this has been executed as previously advised).

The market risk capital requirement $\boldsymbol{C_{Mkt}}$ for each risk was calculated using the following formula:

$$C_{Mkt} = (A_{Mkt} - A_0)$$

where,

C_{Mkt} – capital calculation for market risk

A_{Mkt}– stressed assets value

A_0– base market value of assets

The stresses applied for the market risk module were as follows:

Table 4.1a – *Stress Levels by Asset Class*

Asset class	Stress level @ 95%	Stress level @ 99.5%
Equity	29.10%	41.50%
Property	30.60%	39.50%
Interest rate	24.00%	35.00%
Currency	29.00%	13.00%

Table 4.1b – *Stress Levels by Asset Class*

Asset class	Stress level @ 95%	Stress level @ 99.5%	Stress level @ 99.5%
Equity	24.06%	35.90%	37.38%
Property	15.72%	21.6400%	22.38%
Interest rate	29.10%	40.12%	41.50%

The above stresses were obtained by using a combination of fitting historical data of various market indices (were available) to find the appropriate stress level and benchmarking against Solvency II widely used stress levels.

The details of the derivation and computation are contained below for each sub-risk module.

Equity Risk

This is the sensitivity of assets, liabilities and financial investments to fluctuations in the level or volatility of the market prices for equities.

The company is invested in both quoted and unquoted equities. Both types of equities were stress tested.

The level of stress was derived by considering the historical distribution of the total return Nigerian Stock Exchange ("NSE") index and fitting a distribution to determine the stress level at the various confidence levels.

We fitted the NSE historical index values from January 1985 to December 2020. The normal distribution was a good fit for the data. Using the normal distribution, we determined stress levels of 29% and 41% for Confidence levels of 95% and 99.5% respectively.

We also checked how frequently historical annual returns have fallen or been close to the 29.1% and 41.5% levels. In 2008, the stock index fell by about 46% and in 2011 also fell by about 23%.

Both the quoted and unquoted equities were assumed to be similarly affected by any declines in stock market. This assumption would need to be revisited in the next assessment.

Property Risk

This is the sensitivity of assets, liabilities and financial investments to fluctuations in the level or volatility of the market prices for properties.

The main downside risk is the fall in property values.

The local market level of stress for this risk was difficult to obtain given the non-existence of property indices or well defined historical property values in the local market.

In order to derive an appropriate stress, we assumed the property returns would follow closely equity returns but slightly better and less risky. This is a unique feature of the local market. The recent past has shown m positive performance of property investments whilst equity returns have been negative in some instances.

We then assumed annual property returns of 15% with standard deviation of 9.5%. Assuming a normal distribution of returns, we then calculated the relevant stress levels at 95%, 99.5%, 99.75% and 99.95% confidence levels as shown in the table 3 above respectively.

To support the notion of better property returns is the fact that the company is invested in properties mainly in the Lagos State. Property values have been on an increase over the last 20 years, so it is hoped that the trend will continue in the near to medium term. However, this assumption will continue to be monitored in the future computation of economic capital.

Interest Rate Risk

Interest rate risk is caused by the sensitivity of the value of any assets, liabilities and financial investments to fluctuations in the term structure of interest rates or interest rate volatility, whether valued by mark-to-model or mark-to-market techniques.

Stresses were determined by constructing the term structure of interest rates by referencing the 12 month, 3 year, 5 year, 7 year, 10 year and 20 year yields from the Federal Government Bonds.

The historical returns were fitted to distributions to determine the best fit distribution. The Uniform and Normal distributions were both good fit. The normal distribution was used instead in order to apply some consistency with the other market risk stresses.

As the local term structure of interest rates show a flat yield curve; a flat stress level was applied to bonds of varying durations.

The stresses used are shown in table 3 above at various confidence levels to all bond yields of varying duration according to the Company bond holdings.

The stressed yields were applied using the formula: current yield x (1+Upward stress) OR current yield x (1+Downward stress).

The capital requirement was then determined by adopting the stress level (between the upward and the downward stress) that resulted in a higher capital requirement i.e. Interest Rate capital requirement = Max {0; Upward stress capital; Downward stress capital}

Overall Market Risk Capital

The overall market risk capital was then derived by combining the equity, property and interest rate risk capital using the suggested correlation matrix below.

$$C_{Mkt} = \sqrt{\sum CorrMkt_{ij} * C_{Mkt_i} * C_{Mkt_j}}$$

where C_{Mkt}– overall market risk capital calculation including equity, property and interest rate

C_{Mkt_i}– capital for i-th risk (i could be any of the three risks)

C_{Mkt_j}– capital for j-th risk (j could be any of the three risks)

The correlation matrix used is shown in Appendix 7

Non-Life Insurance Risks

The non-life insurance risks modelled were:

- Reserving risk
- Premium risk
- Catastrophe risk

Reserving Risk

This is one of the sources of underwriting risk for general insurance.

Reserve risk results from fluctuations in the timing and amount of claim settlements.

The reserve risk methodology was as follows:

- We fitted a log-normal distribution (best fit) to the historical link ratios for each claims development year
- For each accident year, claims were projected to the ultimate position using a factor derived from the parameters of the fitted model and randomly generated numbers
- We then used the bootstrap approach to derive a distribution of ultimate claims
- Reserve capital is the difference between the 95th-percentile of the distribution and the 50th -percentile (Best estimate)
- Because the volume of data available was not credible enough for the bootstrap approach, capital values for Bond and Oil & Gas were calculated using the expected ultimate loss ratio method. The VaR approach was used in calculating the required capital at various confidence levels.

Premium Risk

This is another source of underwriting risk for general insurance.

Premium risk results from fluctuations in the timing, frequency and severity of insured events. It relates to the unexpired risks on existing contracts. Premium risk includes the risk that premium provisions turn out to be insufficient to compensate claims or need to be increased.

The premium risk methodology was as follows:

- Average loss ratios were derived from the expected loss ratio in the business plan (pricing)
- Historical loss ratios were investigated and deviations from the mean studied.
- The normal distribution was fit (which was the best fit) to the deviations
- The VaR approach was then used to compute the capital requirement at 95% confidence level.

Catastrophe risk

This is Catastrophe for the general insurance business.

It covers mainly high severity and low frequency catastrophic events e.g. floods, hurricanes, large accidents impacting on all general insurance lines of business insured by the Company.

There have been no major catastrophic events in Nigeria recently hence the data to use in determining the risk capital was scarce.
The catastrophe risk methodology was therefore as follows:

- The 2018 loss ratios were increased by 500% for all lines of business to resemble a catastrophic-like event
- A 0.5% probability of occurrence was applied to determine the final capital requirement.

Credit Risk

Credit risk arises as a result of the unexpected default, or deterioration in credit standing, of an insurer's counterparties or debtors.

The scope of the calculation under this risk module covered possible defaults by banks; where cash and cash equivalents are held by the Company, defaults by reinsurers compromising reinsurance recoveries and the inability by debtors to pay their dues.

The following exposures to counterparties were used:

- Banks → cash and cash equivalent holdings
- Reinsurers → estimated reinsurance recoveries over the next 12 months
- Debtor → amounts owed.

The expected losses given default were calculated using the latest credit ratings and associated probabilities of default for the different counterparties. A combination of local ratings agencies' and the S&P default rates were used for the bank holdings as per the following table:

Table 4.4 – *Default Probability by Counterparty Rating*

Rating Scale	Default Probability
AAA	0.01%
AA+	0.01%
AA	0.02%
AA-	0.03%
A+	0.06%
A	0.09%
A-	0.11%
BBB+	0.16%
BBB	0.22%
BBB-	0.39%
BB+	0.54%
BB	0.81%
BB-	1.39%
B+	2.54%
B	5.37%
B-	8.72%
Unrated	26.53%

The above default rates were applied to both the banks and reinsurers' counterparties to the Company.

The formula used was: Estimated exposure x Probability of Default.

Operational Risk

This is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

Operational risk is generally a material risk and one of the major causes of organizational failure.

There are several approaches used to assess Operational risk namely;

- Basic indicators or some Standard Formula – this is a simpler approach and largely defined by regulatory bodies. It is transparent and a well-known approach.
- Scenario approach – qualitative scenario assessments of the operational risks as defined by management through the risk heat map are transformed into quantitative assessments to determine the overall operational risk capital
- Statistical or Loss Distribution Approach – this uses a lot of statistics. The amount of possible losses and frequency of losses are modelled separately and then combined to determine the overall capital requirement. This approach relies on the availability of credible historical and forward-looking data.
- The Structural or Causal approach – this is the most complex and recently researched approach. It also relies on understanding the interdependencies across risks in addition to the data availability.

We adopted the standard formula approach due to limited quantity of data available. The approach took into account the earned premium, technical provisions and Base capital calculated before operational risk.

The formula used to compute the capital requirement was as follows:

$$C_{op} = \text{Min}\{0.3 * CR_{OP},\ BOp\} + 0.25 \times Exp_{nl}$$

Exp_{nl} is the amount of annual expenses incurred during the previous 12 months in respect of non-linked business

CR_{op} is the preliminary capital required before allowing operational risk and, for the risk requirements it is defined as:

$$\text{CR Op} = \sum(C_{ins} + C_{Mkt} + C_{Credit})$$

Bop is the basic operational risk requirement for all business and is determined as follows:

$$BOp = Max\ \{Op_{premiums};\ Op_{provisions}\}$$

where,

$$Op_{premiums} = 0.04 \times Earn_{nl} + Max\{0, 0.04 \times [Earn_{nl} - 1.1 \times pEarn_{nl}]\}$$

and

$$Op_{provisions} = 0.0045 \times Max\{0, Tp_{nl}\}$$

$Earn_{nl}$ are the gross premiums earned during the previous 12 months.

$pEarn_{nl}$ are the gross premiums earned during the 12 months prior to the previous 12 months.

TP_{nl} are the technical provisions

In the future, we recommend the following be recorded at granular level:

Frequency of occurrence of all risk scenarios captured in the Risk Heat Map

Identification of new exposures and new likelihood percentages after mitigation efforts have been applied.

This would improve how operational risk is quantified.

APPENDIX 5 – CORRELATION MATRICES

Correlations for Market risks have been derived using actuarial judgment and referencing correlations being used in other jurisdictions for new solvency regimes.

Local market relevance was taken into account before applying these correlations.

As a rule of thumb, the following thought process was applied:

Correlation coefficient	Interpretation
0%	Independent
25%	Weakly correlated
50%	Moderately correlated
75%	Strongly correlated
100%	Dependent

The correlation matrices used for diversification are shown below.

Market Risk Correlations

	Parameters					
$Corr_{ij}$	Mkt_{int}	Mkt_{eq}	Mkt_{prop}	Mkt_{sp}	Mkt_{conc}	Mkt_{fx}
Mkt_{int}	100%	0%	0%	0%	0%	25%
Mkt_{eq}	0%	100%	25%	75%	0%	25%
Mkt_{prop}	0%	25%	100%	50%	0%	25%
Mkt_{sp}	0%	75%	50%	100%	0%	25%
Mkt_{conc}	0%	0%	0%	0%	100%	0%
Mkt_{fx}	25%	25%	25%	25%	0%	100%

Comments:

- Equity vs Property – the local stock and property markets have seen low correlations.
- The drops in equity values seem not to affect the property values, hence a weak correlation assumption.

- Interest rate vs Equity/Property – no correlation was assumed if under the interest rate stress an increase in interest rates triggered a capital requirement (as opposed to a decrease in interest rates). 50% correlation was assumed if the decrease in interest rates would trigger a capital requirement under the interest rate stress.
- Spread, concentration and foreign exchange risks were not modelled.