

KBL INSURANCE LIMITED

FINANCIAL CONDITION REPORT FOR NON-LIFE
BUSINESS AS AT 31ST DECEMBER 2023



EXECUTIVE SUMMARY

This report provides an overview of the Financial Condition of the Company. We also understand that this report will form part of the Company's submission to NAICOM. The report has been prepared in accordance with the General Insurance Business Actuarial Reports Guidance Notes (GN12v5.0) published by the Institute and Faculty of Actuaries.

The following are the key conclusions of the report.

- Overall, this report demonstrates that the Company remains adequately capitalized with a strong and conservative investment portfolio to support current and projected liabilities while maintaining compliance with regulatory requirements.
- As at 31st December 2023, the business had shareholders fund of N4.88 billion or 163% of the statutory minimum capital of N3billion. Hence the business is well capitalized from the current regulatory point of view.
- We estimate the economic/risk-based capital required to support the business at 31st December 2023 as N1.13 billion, a coverage of 431% of the shareholder's Funds of N4.88billion. The company thus holds a cushion above its economic capital which enhances its ability to meet its obligations to policyholders in adverse scenarios.
- We noted that the proportion of GWP brought in by the Broker channel is 67%. We advise that the company explores other distributions channels such as digitization and bancassurance to write its business to widen its reach and increase its penetration in the market.
- The highest contributor to total GWP remains Motor line of business which contributed approximately 36.3% to premiums. We recommend that the company continues to monitor the portfolio to avoid any event of concentration risk in Motor.
- We note that there is an increasing trend in the reinsurance value for money for KBL being experienced in the years under review. We encourage the company to maintain similar trend in the reinsurance arrangement through a reinsurance optimization exercise.
- The level of excess capital both on a statutory basis and economic capital basis shows that the company has capacity to write more business and take more risk in search for enhanced return. This can also be achieved by investing in higher-yielding assets to ensure a higher return for investors' capital.

Table of Contents

EXECUTIVE SUMMARY	1
1. Introduction, Purpose and Limitations	3
2. Development in Business	4
3. Business Overview	5
4. Pricing & Premium Adequacy	7
5. Asset and Liability Management	8
6. Capital Management & Adequacy	9
6. Economic Capital	12
7. Reinsurance Management Strategy	14
8. Financial Condition as at 31 st December 2023	17
9. New Business Plans	18
10. Solvency Projections	18
11. Conclusion and Recommendations	19

APPENDICES

1. RELIANCE & LIMITATIONS	
2. REINSURANCE TREATY PROGRAM	
3. REVENUE ACCOUNTS	
4. COMBINED RATIO TABLE	
5. ECONOMIC CAPITAL RESULTS AT 99% CONFIDENCE LEVEL	
6. ECONOMIC CAPITAL RESULTS AT 95% CONFIDENCE LEVEL	
7. ECONOMIC CAPITAL METHODOLOGY & STRESS LEVEL DERIVATION	

The Board of Directors
KBL Insurance Limited,
Ornife Legacy Place,
Plot 8, Professional Gabriel Olusanya Street,
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July 2024

FINANCIAL CONDITION REPORT FOR NON-LIFE BUSINESS AS AT 31ST DECEMBER 2023

Dear Sir,

Introduction, Purpose and Limitations

1.1 We are pleased to present our Financial Condition Report (“FCR”) for KBL Insurance Limited (“the Company”) as at 31st December 2023.

Purpose:

- 1.2 This report sets out the outcome of our assessment of the criteria stipulated in the Guidance note (GN12v5.0), issued by the Institute and Faculty of Actuaries, to the extent relevant to KBL Insurance Limited for the year ended 31st December 2023.
- 1.3 This report is prepared solely for the purpose of providing an overview of the current financial condition of the Company. We understand that this report will form part of your submission to NAICOM. This report is not to be used for any other purpose other than that described above and should not be distributed to any other parties other than NAICOM.

Limitations:

- 1.4 Management is solely responsible for the contents and submission of the Financial Conditions Report in accordance with Guidance Note GN12V5.0
- 1.5 Because our assessment does not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), we do not express any assurance on the financial statements, the financial conditions or the ability of the entity to continue as a going concern for the foreseeable future.
- 1.6 Had we performed additional procedures, or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), other matters might have come to our attention that would have been reported to you.
- 1.7 Our report has been prepared based on certain assumptions and is subject to certain limitations. These have been described in Appendix 1 - Reliance and Limitations.

2. Developments in the Business

2.1 We illustrate in the table below how KBL's books have developed over the year from 2022 to 2023.

	2023 N' 000	2022 N' 000	YoY Movement
Insurance contract revenue	4,718,177	3,428,469	38%
Insurance service expenses	(3,340,108)	(1,935,307)	73%
Net expenses from reinsurance contracts held	(456,706)	(590,347)	-23%
Insurance service result	921,362	902,814	2%
Net Investment Income	935,212	243,747	284%
Other Operating expenses	(1,230,156)	(994,029)	24%
Profit before Income tax expense	606,859	134,836	350%
Income Tax	(138,793)	(19,615)	608%
Profit for the year	468,066	115,221	306%

We note the significant increase in the profit after tax by 306%, mainly contributed by the 284% increase in the Investment Income.

3. Business Overview

3.1 Premium History

Gross Written Premium (GWP) has increased with an average of 31.5% over the years under review.

Line of Business	2021		2022		2023	
	N' 000	%	N' 000	%	N' 000	%
Motor	927,826	31.5%	1,036,043	27.5%	1,850,656	36.3%
Accident	395,882	13.4%	514,449	13.7%	674,767	13.2%
Bond	15,030	0.5%	13,724	0.4%	30,476	0.6%
Marine	600,450	20.4%	768,181	20.4%	663,387	13.0%
Fire	770,108	26.1%	959,511	25.5%	1,221,477	24.0%
Engineering	210,998	7.2%	339,298	9.0%	501,619	9.8%
Oil & Energy	29,469	1.0%	135,583	3.6%	155,946	3.1%
Total	2,949,763	100.0%	3,766,789	100.0%	5,098,329	100.0%
% Increase (YoY)			27.7%		35.3%	

Line of Business	2022 N' 000	2023 N' 000	YoY Movement
Motor	1,036,043	1,850,656	78.6%
Accident	514,449	674,767	31.2%
Bond	13,724	30,476	122.1%
Marine	768,181	663,387	-13.6%
Fire	959,511	1,221,477	27.3%
Engineering	339,298	501,619	47.8%
Oil & Energy	135,583	155,946	15.0%
Total	3,766,789	5,098,329	35.3%

3.1.1 The GWP increased for all the lines of business with Bond and Motor experiencing significant increases of 122% and 78% respectively with the exception of Marine which decreased by 14%. There was an overall growth of 35.3% from 2022 to 2023.

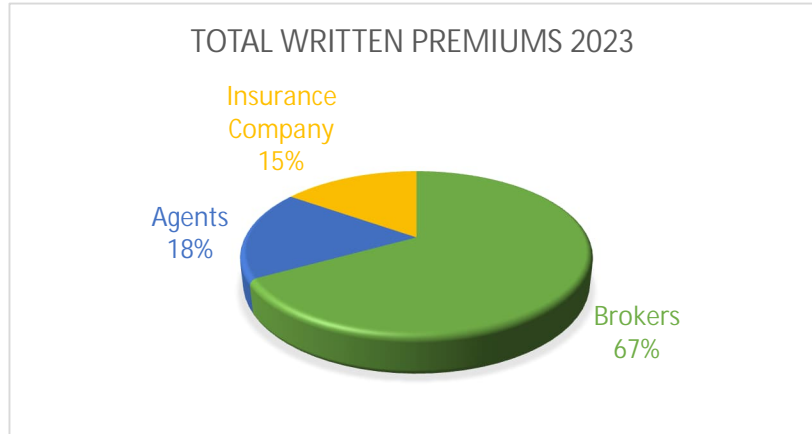
3.1.2 The Motor line of business has consistently contributed the highest to the GWP in the years under review.

3.1.3 We note that there is an impending concentration risk in the Motor line of business. It is recommended that KBL Insurance Limited writes more businesses in the other lines to help further diversify its portfolio to avoid an impending concentration risk in Motor line of business.

3.2 Distribution Channel

The chart below indicates three channels through which gross written premiums are channeled in.

Experience data shows that a significant proportion of business written by KBL came through Brokers which contributed 67% of the total Gross Written Premiums, Agents contributed 18% and Insurance Company brought in 15% of the total GWP.



3.3 Financial Performance

3.3.1 We illustrate below that the company's return on equity as published in the Annual Financial Statements has been consistently lower than the risk-free rate over the 3 years under review.

This implies there is a lot more scope to utilize the shareholder funds to generate better returns. Potential options will include reduction in expenses, all other things being equal, more prudent risk selection, business expansion, and excellent investment allocation.

Year	Shareholders Fund ₦'000	Return on Equity (As published in the Accounts) %	Risk Free Rate %
2021	4,300,567	2%	12%
2022	4,415,856	3%	14%
2023	4,884,374	10%	19%

4. Pricing & Premium Adequacy

We illustrate in the table below how premium income has been utilized from 2022 to 2023.

	2022	2023
	N'000	N'000
Net Insurance Revenue	2,506,439	3,442,121
Net Claims Incurred & Attributable expenses	(939,709)	(1,384,026)
Acquisition Expense	(592,861)	(820,094)
Investment Income	244,001	337,346
Claims & Attributable Ratio	37%	40%
Acquisition Expense Ratio	24%	24%
Combined Ratio	61%	64%
Investment Income (% NPI)	10%	10%

We illustrate in the table above that claims and attributable ratio increased from 37% (2022) to 40% (2023) and the acquisition expense ratio remained unchanged.

This resulted in an increase in the combined ratio from 61% (2022) to 64% (2023). It is recommended that KBL employs strategies to control any potential increase in the Claims and Attributable expense as well as the Acquisition expense ratios. Potential options available are a reduction of expenses and a more prudent selection of underwriting risks taken.

Based on the above analysis over a 2-year period, it is noted that KBL Insurance Limited has managed to achieve combined ratios below 100% in the last 2 years which demonstrates pricing adequacy.

The investment income as a percentage of Net Insurance Revenue has remained unchanged for both years.

Metrics	Definition
Claims and Attributable Ratio	Net Claims Incurred & Attributable expenses/ Net Insurance Revenue
Acquisition Expense Ratio	Acquisition Expense / Net Insurance Revenue.
Combined Ratio	Sum of Claims & Attributable Ratio and Acquisition Expense Ratio
Investment Income (%NPI)	Investment Income / Net Insurance Revenue

5. Assets, Liabilities Management

5.1 Insurance Liability

We illustrate in the tables below the Gross Reserves of N2.29 billion, Reinsurance Contract Assets of N1.06 billion giving a Net Reserve of N1.23billion.

Reserves	Gross Reserve (N'000)	Reinsurance Contract Assets (N'000)	Net Reserve (N'000)
LFRC	1,388,739	(433,518)	955,219
LIC	910,464	(635,680)	274,783
Total	2,299,203	(1,069,199)	1,230,003

5.2 Insurance Assets

We illustrate below that the company holds short-term assets i.e., Cash and Cash equivalents with leading banks and financial institutions to back its insurance fund. KBL also majorly has reinsurance assets from which are expected payments from leading reinsurers in respect of the technical reserves stated in section 3.1.

Assets	Insurance Funds			
	2023 (N'000)	%	Regulatory Maximum	Meet Requirement
Cash and cash equivalents	711,629	33%	No limit	Yes
Investment securities:				
Equities	646,741	30%	Maximum of 30% of Policyholders fund.	Yes
FGN Bonds	768,428	36%	Minimum of 35% of Policyholders fund.	Yes
Total	2,126,798	100%		

The asset mix for KBL Insurance is compliant with the asset admissibility requirements.

6. Capital Management & Adequacy

6.1.1 Balance Sheet Solvency

We illustrate in the table below that from 2021 to 2023, the company has a more than sufficient balance sheet solvency ratio.

Year	2021 (N'000)	2022 (N'000)	2023 (N'000)
Technical Liabilities (Net of Reinsurance)	766,507	1,014,316	1,230,004
Shareholders Fund (Free Assets)	4,300,567	4,415,856	4,884,374
Balance Sheet Solvency Ratio	561%	435%	397%

The solvency ratios gives comfort that liability obligations will be met when they fall due. We highlight the regulatory solvency position below and discuss risk-based solvency in section 8.

6.1.2 Regulatory Solvency

We show in the table below that the company's admissible assets exceeded the regulatory capital requirement of N3bn throughout the 3 years under review.

Year	2021 (N'000)	2022 (N'000)	2023 (N'000)
Technical Liabilities (Net of Reinsurance)	766,507	1,014,316	1,230,004
Free Assets (allowing for admissible rules)	3,233,088	3,306,990	3,460,956
Minimum Capital Requirement	3,000,000	3,000,000	3,000,000
Capital Adequacy Ratio (CAR)	108%	110%	115%
Regulatory Solvency Ratio	422%	326%	281%

The below table demonstrates how the Capital Adequacy Ratio and Regulatory Solvency ratio would be materially impacted should claim ratio increase by 20%.

Year	2023 - Stressed (N'000)	2023 (N'000)
Technical Liabilities (Net of Reinsurance)	1,409,728	1,230,004
Free Assets (allowing for admissible rules)	3,281,232	3,460,956
Minimum Capital Requirement	3,000,000	3,000,000
Capital Adequacy Ratio (CAR)	109%	115%
Regulatory Solvency Ratio	233%	281%

While the regulatory solvency ratio falls to 233%, the Company would still meet its minimum capital requirement in the event of this extreme scenario.

DEFINITIONS

Metric	Definition
Capital Adequacy Ratio (CAR)	Free Assets/Minimum Capital Requirement
Balance Sheet Solvency Ratio	Shareholders' Funds/Technical Reserves
*Regulatory Solvency Ratio	Free Assets/Technical Reserves

*Free assets include allowance for admissibility rules

6.2 Stress Scenario for 2023 Results

6.2.1 The below table demonstrates that the solvency margin would be materially impacted should the net claim ratio increase by 5%, 10% and 20% respectively.

Year	2023 – Stressed (₹'000)	2023 (₹'000)
Technical Liabilities (Net of Reinsurance)	1,274,935	1,230,004
Shareholders Fund (Free Assets)	4,839,443	4,884,374
Balance Sheet Solvency Ratio	380%	397%

Year	2023 – Stressed (₹'000)	2023 (₹'000)
Technical Liabilities (Net of Reinsurance)	1,319,866	1,230,004
Shareholders Fund (Free Assets)	4,794,512	4,884,374
Balance Sheet Solvency Ratio	363%	397%

Year	2023 – Stressed (₹'000)	2023 (₹'000)
Technical Liabilities (Net of Reinsurance)	1,409,728	1,230,004
Shareholders Fund (Free Assets)	4,704,650	4,884,374
Balance Sheet Solvency Ratio	334%	397%

The above stress tests shows that the Company's Balance Sheet Solvency ratio would still be above 330% even at a 20% net increase in loss ratio across the whole account, which is considered an extreme scenario. This shows the resilience of the Company's Balance Sheet to short-term shocks, demonstrating a strong financial condition.

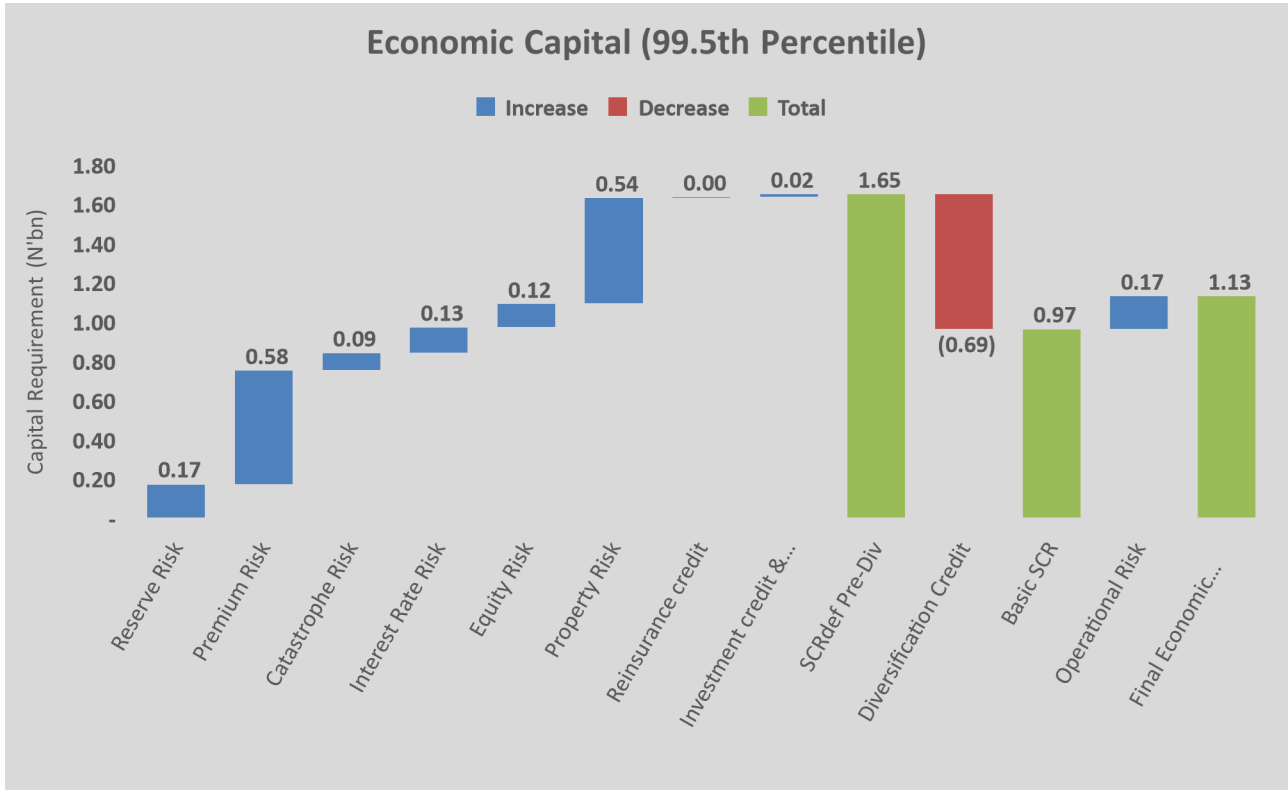
6.3 Economic Capital

- 6.3.1 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 because of unexpected realities.
- 6.3.2 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 the corresponding risk capital, called economic capital. This is the amount of capital that a financial company requires to stay solvent given the riskiness of its assets and operations.
- 6.3.3 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 7 of the report.
- 6.3.4 We have calculated for each of the risks, the amount of capital required as at year end 2023 at 95%, 99% and 99.5% level of confidence.
- 6.3.5 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 2023. 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 20year event) and 99% (1 in a 100year event) are shown in appendix 5 and 6 of the report.
- 6.3.6 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.

Detailed explanation of each of the risks including derivation of the stresses applied are given in appendix 7 of the report.

- 6.3.7 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 8.
- 6.3.8 The calculations were based on same data used to prepare the IFRS valuation as at 31 December 2023 and asset information shown in section 2.3 of this report.
- 6.3.9 The following results at 99.5% confidence level were obtained.

Risk Type		Capital Requirement (N)
Non-Life Insurance Risk	Reserve Risk	174,553,849
	Premium Risk	579,662,905
	Catastrophe Risk	89,670,565
	Lapse Risk	-
	SCR _{nl} Pre-Div	843,887,319
	SCR _{nl} Div Credit	231,047,627
	SCR _{nl} Post Div	612,839,692
Market Risk	Interest Rate Risk	128,127,562
	Equity Risk	120,858,221
	Property Risk	539,581,800
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCR _{mkt} Pre-Div	788,567,583
	SCR _{mkt} Div Credit	192,934,853
SCR _{mkt} Post Div	595,632,730	
Counterparty Default Risk	Reinsurance credit	3,707,975
	Investment credit & Debtors	16,375,886
	SCR _{def} Pre-Div	20,083,861
	SCR _{def} Div Credit	-
	SCR _{def} Post Div	20,083,861
Undiversified BSCR		1,228,556,283
Diversification Credit		263,384,082
Basic SCR		965,172,201
Operational Risk		167,348,771
Final Economic capital		1,132,520,972
Shareholders' Funds		4,884,374,000
% of Economic Capital		431%



6.3.10 As shown in the table above, the total Economic Capital required in connection with the business profile at 31st December 2023 was N1.13billion which is less than the shareholders' funds of N4.88billion.

6.3.11 This implies KBL has capital excess which provides the management with capital flexibility to conduct its business plan over the forward-looking period considering inherent material risks (such as catastrophes) and in anticipation of continued difficult operating conditions in insurance, credit, and financial markets.

7. Reinsurance Management Strategy

7.1 The Company's reinsurance arrangements are summarized in section 7.2.

For each line of business, we illustrate the 'value for money' being the ratio of total reinsurance inflow (i.e reinsurance contract assets) to total reinsurance outflow/cost).

2022 Accident Year

₺' 000

Class of Business	Motor	Accident	Bond	Marine	Fire	Engineering	Oil & Energy	Total
Outflow								
Cash Paid to Reinsurers	78,115	107,442	2,476	133,849	401,259	129,407	69,482	922,030
Inflow								
Reinsurance Contract Assets	66,713	1,223	45	16,663	167,235	83,056	-	334,935
Value for Money Ratio	85%	1%	2%	12%	42%	64%	0%	36%

2023 Accident Year

₺' 000

Class of Business	Motor	Accident	Bond	Marine	Fire	Engineering	Oil & Energy	Total
Outflow								
Cash Paid to Reinsurers	101,919	162,949	5,710	212,472	525,247	173,372	94,387	1,276,056
Inflow								
Reinsurance Contract Assets	98,432	113,103	4,382	303,106	262,790	40,652	1,225	823,690
Value for Money Ratio	97%	69%	77%	143%	50%	23%	1%	65%

7.1.1 There is an increase in the value for money ratio from 36% (2022) to 65% (2023). We also note that all lines of business increased except for Engineering. A positive value for money ratio is optimal. This implies that the reinsurance arrangement for all the lines of business is optimal.

7.1.2 The value for money ratios, however, does not take cognizance of other benefits reinsurance provides e.g., granting the company capacity to underwrite bigger risks than it would ordinarily have been able to take on due to its limited capital resources.

7.2 Reinsurance Management

7.2.1 Basis and Methods of Retention Levels

The retention limit and the associated product lines were established in liaison with the reinsurers.

In setting these limits, the following were taken into consideration:

- The nature and quality of the business
- Regulations imposed by the regulatory body
- Risk appetite of KBL

While KBL reinsures six (6) reinsurers, majority of its businesses are with Continental Reinsurance and African Reinsurance which have stable ratings.

Illustrated in the table below is the list of Reinsurers and their ratings:

Reinsurer	Credit Rating
Swiss Re Zurich Company Limited	AA
Continental Reinsurance Company	BB-
African Reinsurance Corporation	A
Nigerian Reinsurance Corporation	BBB+
WAICA Reinsurance Company	B+
NCA Reinsurance Company	BB

8. Financial Condition as at 31st December 2023

- We have illustrated above that the company has enough funds to meet its insurance contract liabilities under stressed conditions.
- The investment portfolio is highly liquid and broadly matches the profile of the company's liabilities.
- The company has a beneficial reinsurance agreement in place, given the good value for money ratios.
- We are thus of the opinion that the company would be able to meet policyholder obligations if they fall due and is able to withstand stressed scenarios as evidenced by the stress tests.

8.1.1 We recommend that the company should:

- Explores other distributions channels such as digitization and bancassurance to write its business to widen its reach and increase its penetration in the market.
- Continue to monitor the portfolio to avoid any event of concentration risk in Motor line of business.
- Employ strategies to control the increasing claims and expense ratios.

9. New Business Plans

9.1 Business Plan Production

The table below indicates the year-on-year growth for the various lines of businesses.

KBL has plans to grow at about 103% and 49% in 2024 and 2025 respectively. We illustrate the forecast in the table below. There was a forecasted decrease in the Accident line of business for 2025.

This seems quite ambitious given the average historical growth of 31% and the current economic constraints. It is recommended that KBL continually review their projections as the years progress.

Line of Business	2023	2024		2025	
	₦' 000	₦' 000	YoY Growth	₦' 000	YoY Growth
Motor	1,850,656	3,588,819	94%	5,735,000	60%
Accident	674,767	1,647,644	144%	1,085,000	-34%
Bond	30,476	169,129	455%	465,000	175%
Marine	663,387	861,351	30%	1,860,000	116%
Fire	1,221,477	2,202,009	80%	2,325,000	6%
Engineering	501,619	983,021	96%	1,395,000	42%
Oil & Energy	155,946	916,020	487%	2,635,000	188%
Total	5,098,329	10,367,994	103%	15,500,000	49%

10. Conclusion and Recommendations

- 10.1 Overall, this report demonstrates that the Company remains adequately capitalized with a strong and conservative investment portfolio to support current and projected liabilities while maintaining compliance with regulatory requirements.
- 10.2 As at 31st December 2023, the business had shareholders fund of N4.88 billion or 163% of the statutory minimum capital of N3billion. Hence the business is well capitalized from the current regulatory point of view.
- 10.3 We estimate the economic/risk-based capital required to support the business at 31st December 2023 as N1.13 billion, a coverage of 431% of the shareholder's Funds of N4.88 billion. The company thus holds a cushion above its economic capital which enhances its ability to meet its obligations to policyholders in adverse scenarios.
- 10.4 We noted that the proportion of GWP brought in by the Broker channel is 67%. We advise that the company explores other distributions channels such as digitization and bancassurance to write its business to widen its reach and increase its penetration in the market.
- 10.5 The highest contributor to total GWP remains Motor line of business which contributed approximately 36.3% to premiums. We recommend that the company continues to monitor the portfolio to avoid any event of concentration risk in Motor.
- 10.6 We note that there is an increasing trend in the reinsurance value for money for KBL being experienced in the years under review. We encourage the company to maintain similar trend in the reinsurance arrangement through a reinsurance optimization exercise.
- 10.7 The level of excess capital both on a statutory basis and economic capital basis shows that the company has capacity to write more business and take more risk in search for enhanced return. This can also be achieved by investing in higher-yielding assets to ensure a higher return for investors' capital.
- 10.8 We are delighted to have conducted this Financial Conditioning Report for KBL Insurance. We hope you find this helpful for preparing and submitting a report to NAICOM.
- 10.9 We will naturally be delighted to discuss it with you and make necessary presentations.

Yours sincerely,



.....
Miller Kingsley, FNAS, FSA
Fellow, Nigerian Actuarial Society
Fellow, Society of Actuaries, USA
FRC/2012/NAS/0000002392

APPENDIX 1- RELIANCE & LIMITATIONS

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 KBL Insurance Limited. The liability information used was the same as that used in the IFRS actuarial valuations. Where stated in this report we have reviewed this data for reasonableness, but we have not verified the accuracy of the information provided to us.

This report takes into account data made available as at 31 December 2023.

In some instances, we were unable to obtain granular information, so we made 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.

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

Except with the consent of EY, the report and any written or oral information or advice provided by EY must not be reproduced, distributed, or communicated in whole or in part to any other person or relied upon by any other person other than NAICOM.

The report may be distributed to the Senior Management of KBL Insurance Limited 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.

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

Appendix 2 - Reinsurance Arrangement

Class of Business	Type of Treaty	Net Retention	Lines	Treaty Limit	Gross Capacity	Comm.	Fac%
PROPORTIONAL							
Fire/Con Loss	Surplus	250,000,000.00	20	5,000,000,000.00	5,250,000,000.00	30.00%	25%
Marine Cargo	Surplus	150,000,000.00	15	2,250,000,000.00	2,400,000,000.00	31.00%	50%
Marine Hull	Surplus	25,000,000.00	15	375,000,000.00	400,000,000.00	25.00%	
Engineering	Surplus	50,000,000.00	25	1,250,000,000.00	1,300,000,000.00	30.00%	25%
Bond	Quota Share	6,000,000.00 max.	30/70	14,000,000.00 max.	20,000,000.00	25.00%	
GENERAL ACCIDENT							
Business Premises	Surplus	25,000,000.00	39	975,000,000.00	1,000,000,000.00	32.50%	25%
Private Premises	Surplus	20,000,000.00	45	900,000,000.00	920,000,000.00	32.50%	25%
MONEY INSURANCE							
Cash-In-Transit	Surplus	25,000,000.00	39	975,000,000.00	1,000,000,000.00	32.50%	25%
Cash-In-Safe	Surplus	25,000,000.00	35	875,000,000.00	900,000,000.00	32.50%	25%
Goods-In-Transit	Surplus	15,000,000.00	45	675,000,000.00	690,000,000.00	32.50%	25%
All Risks	Surplus	15,000,000.00	45	675,000,000.00	690,000,000.00	32.50%	25%
FIDELITY GUARANTEE							
Per Person	Surplus	20,000,000.00	45	900,000,000.00	920,000,000.00	32.50%	25%
Per Firm	Surplus	25,000,000.00	35	875,000,000.00	900,000,000.00	32.50%	25%
PERSONAL ACCIDENT							
Any One Person	Surplus	15,000,000.00	45	675,000,000.00	690,000,000.00	32.50%	25%
Known Accumulation	Surplus	20,000,000.00	45	900,000,000.00	920,000,000.00	32.50%	25%
PROFESSIONAL INDEMNITY							
Per Person	Surplus	20,000,000.00	45	900,000,000.00	920,000,000.00	32.50%	25%
Per Firm	Surplus	25,000,000.00	35	875,000,000.00	900,000,000.00	32.50%	25%
Directors and Officers Liability	Surplus	15,000,000.00	15	225,000,000.00	240,000,000.00	32.50%	25%
NON-PROPORTIONAL EXCESS OF LOSS							
Fire/Con Loss & Allied Perils:	Catastrophe	250,000,000.00		500,000,000.00	750,000,000.00		
Motor/Liabilities	Working	40,000,000.00		5,000,000.00	45,000,000.00		
Marine Cargo	Catastrophe	150,000,000.00		400,000,000.00	550,000,000.00		

APPENDIX 3 – PROJECTION ASSUMPTIONS

a. Commission Rates

Class	AGENTS	BROKERS	INSURANCE COMPANY
Motor	10.00%	12.50%	17.50%
Accident	15.00%	20.00%	30.00%
Bond	15.00%	20.00%	25.00%
Marine	15.00%	20.00%	30.00%
Aviation	15.00%	20.00%	30.00%
Fire	15.00%	20.00%	30.00%
Engineering	15.00%	20.00%	10.00%

b. Reinsurance Commission

Year	Motor	Accident	Bond	Marine	Aviation	Fire	Engineering	Oil & Energy
Commission Income	12%	11%	17%	27%	17%	10%	13%	4%

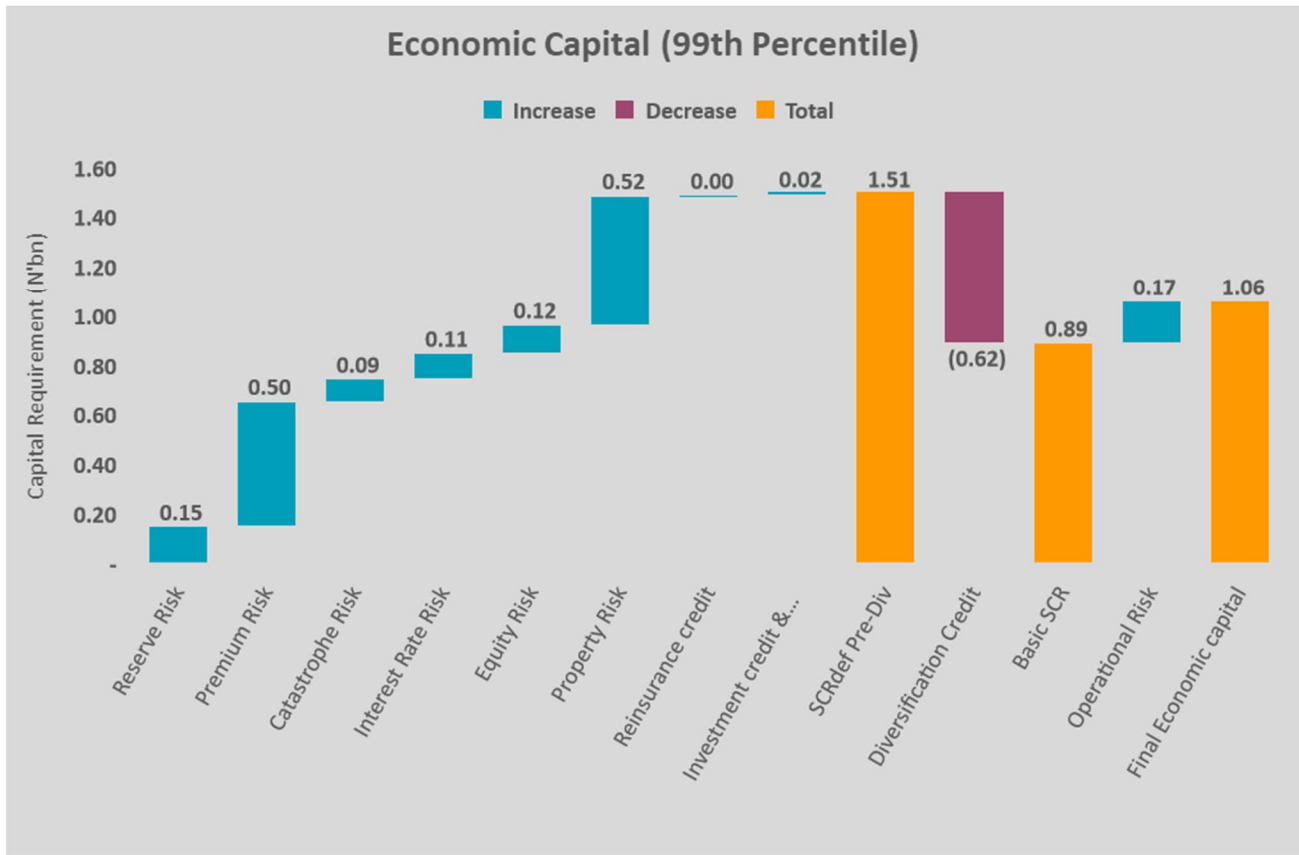
APPENDIX 4 – COMBINED RATIO TABLE

	Year	Motor	Accident	Bond	Marine	Fire	Engineering	Oil & Energy	Total
Gross Written Premiums	2018	649,651	461,256	7,432	161,700	346,173	43,139	32,183	1,701,534
	2019	720,552	489,128	20,836	193,100	385,597	87,474	34,324	1,931,011
	2020	726,559	358,826	12,485	545,153	527,899	167,969	96,239	2,435,130
	2021	927,826	395,882	15,030	600,450	770,108	210,998	29,469	2,949,763
	2022	1,036,043	514,449	13,724	768,181	959,511	339,298	135,583	3,766,789
	2023	1,850,656	674,767	30,476	663,387	1,221,477	501,619	155,946	5,098,329
Reinsurance Cost	2018	(53,012)	(98,174)	(1,862)	163,473	301,567	(43,022)	(11,757)	257,213
	2019	(69,257)	(85,504)	(8,015)	(73,522)	(223,742)	(71,463)	(29,511)	(561,014)
	2020	(60,528)	(87,729)	(4,505)	(91,887)	(246,229)	(87,530)	(66,933)	(645,341)
	2021	(71,072)	(124,278)	(9,375)	(176,122)	(467,139)	(115,699)	(37,149)	(1,000,834)
	2022	(95,178)	(146,235)	(3,214)	(216,964)	(506,662)	(196,970)	(79,551)	(1,244,774)
	2023	(128,921)	(218,628)	(8,089)	(263,060)	(716,467)	(208,968)	(107,302)	(1,651,435)
Gross Earned Premium	2018	868,717	435,087	3,955	163,473	301,567	44,177	32,267	1,849,243
	2019	695,599	498,772	19,479	176,687	381,881	63,375	34,488	1,870,281
	2020	699,322	380,914	12,744	454,562	473,057	157,121	77,936	2,255,656
	2021	858,954	398,402	12,849	616,274	694,938	182,688	47,772	2,811,877
	2022	983,416	457,856	12,099	743,497	869,785	279,313	100,234	3,446,200
	2023	1,634,870	663,839	19,363	669,862	1,158,897	393,490	144,269	4,684,590
Net Earned Premium	2018	11,396	29,163	625	16,790	60,788	12,600	5,437	136,799
	2019	626,342	413,268	11,464	103,165	158,139	(8,088)	4,977	1,309,267
	2020	638,795	293,185	8,239	362,674	226,828	69,592	11,003	1,610,316
	2021	787,883	274,124	3,474	440,151	227,799	66,989	10,623	1,811,043
	2022	888,237	311,621	8,886	526,533	363,123	82,343	20,683	2,201,426
	2023	1,505,949	445,211	11,275	406,802	442,430	184,521	36,967	3,033,155
Incurred Claims (Gross)	2018	199,561	78,241	501	202,698	25,818	(4,491)	(7,804)	494,524
	2019	170,551	95,784	4,871	33,922	42,563	8,776	2,510	358,977
	2020	245,441	66,678	2,559	304,010	262,849	51,901	(827)	932,611
	2021	403,623	124,551	(848)	(204,669)	233,313	44,770	3,543	604,283
	2022	307,337	124,837	181	53,361	116,619	136,778	469	739,582
	2023	401,204	499,339	(4,886)	446,542	91,779	(13,908)	18,955	1,439,025
Incurred Claims (Net)	2018	(145,397)	(46,162)	44	(20,694)	(11,043)	(8,262)	7,804	(223,710)
	2019	(135,860)	(102,533)	(2,110)	(13,084)	(19,015)	(652)	(2,510)	(275,764)
	2020	(186,145)	9,076	(767)	(69,883)	(94,015)	(24,554)	827	(365,461)
	2021	(286,553)	(38,444)	253	4,328	(68,340)	(3,485)	(3,543)	(395,784)
	2022	(225,983)	(124,716)	3,707	275	17,742	(43,055)	7,395	(364,635)
	2023	(273,318)	(452,052)	4,886	(226,442)	236,649	49,350	(18,817)	(679,744)
Commission Received	2018	11,396	29,163	625	16,790	60,788	12,600	5,437	136,799
	2019	7,782	27,226	1,956	18,975	75,136	21,998	8,854	161,927
	2020	8,648	31,439	1,564	38,223	101,787	32,206	11,018	224,885
	2021	12,415	38,738	1,625	50,767	122,037	36,886	6,694	269,162
	2022	17,504	46,365	817	82,655	122,343	71,953	12,436	354,073
	2023	20,035	64,565	1,926	72,619	194,044	58,373	12,941	424,504
Underwriting expenses	2018	(256,406)	(211,700)	(2,017)	(74,224)	(140,610)	(20,395)	(15,060)	(720,412)
	2019	(241,389)	(224,597)	(5,610)	(82,808)	(153,352)	(36,592)	(15,545)	(759,893)
	2020	(217,748)	(152,027)	(3,280)	(188,361)	(183,085)	(61,974)	(33,631)	(840,106)
	2021	(275,939)	(155,008)	(5,739)	(225,507)	(278,174)	(71,079)	(15,144)	(1,026,590)
	2022	(292,015)	(187,242)	(4,265)	(279,313)	(328,416)	(111,700)	(48,908)	(1,251,859)
	2023								
Management expenses	2018								(607,634)
	2019								(642,336)
	2020								(650,520)
	2021								(805,721)
	2022								(979,679)
	2023								(1,222,011)

APPENDIX 5: ECONOMIC CAPITAL RESULTS AT 99% CONFIDENCE LEVEL

Should the confidence level be lowered our confidence level to 99%, the total economic capital requirement reduces to N1.06 billion which represents about 461% of the shareholder funds as at December 31, 2023.

Risk Type		Capital Requirement (N)
Non-Life Insurance Risk	Reserve Risk	151,788,660
	Premium Risk	502,908,429
	Catastrophe Risk	89,670,565
	Lapse Risk	-
	SCR _{nl} Pre-Div	744,367,654
	SCR _{nl} Div Credit	200,461,745
	SCR _{nl} Post Div	543,905,909
Market Risk	Interest Rate Risk	105,003,096
	Equity Risk	116,075,447
	Property Risk	521,740,400
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCR _{mkt} Pre-Div	742,818,943
SCR _{mkt} Div Credit	170,986,074	
SCR _{mkt} Post Div	571,832,869	
Counterparty Default Risk	Reinsurance credit	3,707,975
	Investment credit & Debtors	16,375,886
	SCR _{def} Pre-Div	20,083,861
	SCR _{def} Div Credit	-
	SCR _{def} Post Div	20,083,861
Undiversified BSCR		1,135,822,638
Diversification Credit		243,966,426
Basic SCR		891,856,212
Operational Risk		167,348,771
Final Economic capital		1,059,204,983
Shareholders' Funds		4,884,374,000
% of Economic Capital		461%



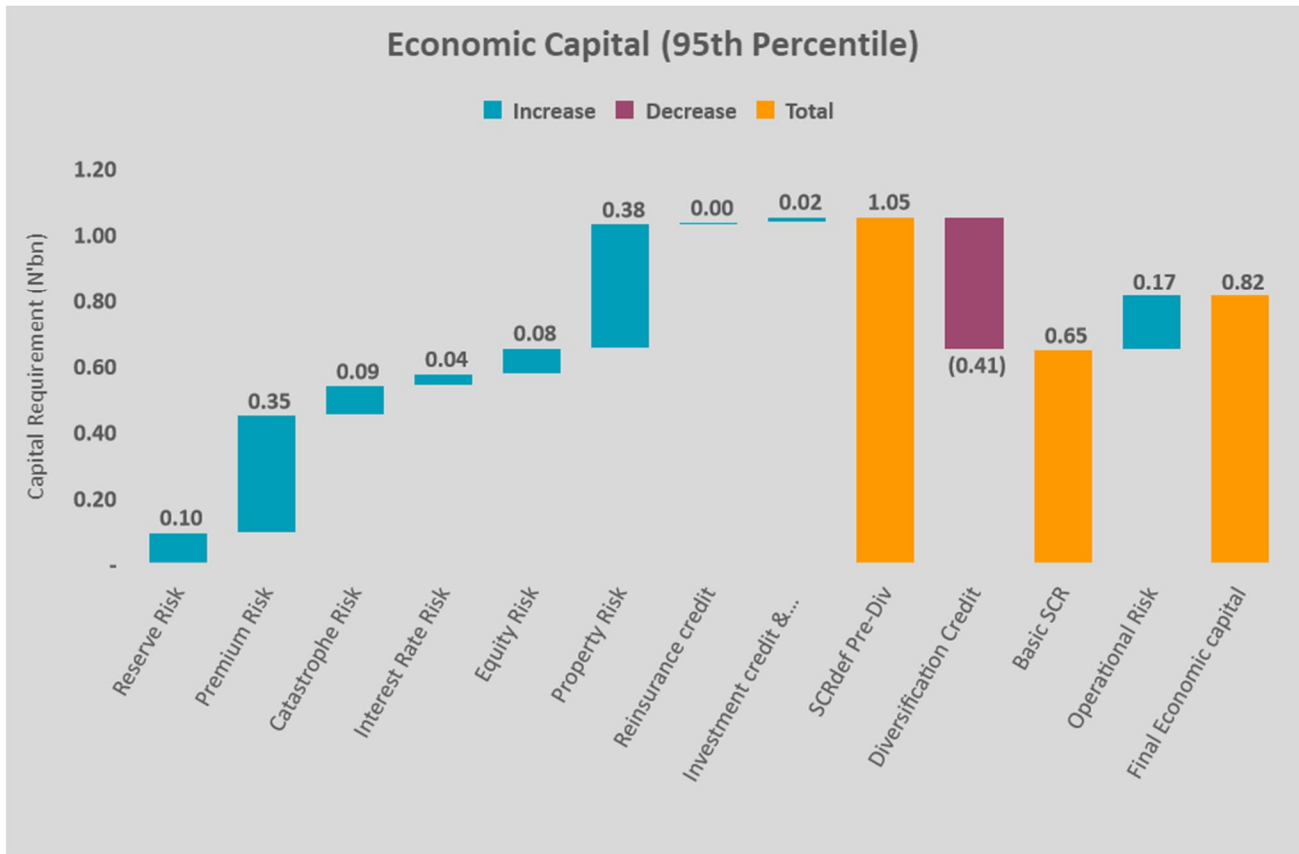
APPENDIX 6: ECONOMIC CAPITAL RESULTS AT 95% CONFIDENCE LEVEL

Should the confidence level be lowered our confidence level to 95%, the total economic capital requirement reduces to N815 million which represents about 599% of the shareholder funds as at December 31, 2023.

Risk Type		Capital Requirement (N)
Non-Life Underwriting Risk	Reserve Risk	96,253,295
	Premium Risk	354,483,009
	Catastrophe Risk	89,670,565
	Lapse Risk	-
	SCR _{nl} Pre-Div	540,406,869
	SCR _{nl} Div Credit	140,499,731
	SCR _{nl} Post Div	399,907,138
Market Risk	Interest Rate Risk	35,527,721
	Equity Risk	77,813,260
	Property Risk	379,009,200
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCR _{mkt} Pre-Div	492,350,182
	SCR _{mkt} Div Credit	85,273,940
SCR _{mkt} Post Div	407,076,242	
Counterparty Default Risk	Reinsurance credit	3,707,975
	Investment credit & Debtors	16,375,886
	SCR _{def} Pre-Div	20,083,861
	SCR _{def} Div Credit	-
	SCR _{def} Post Div	20,083,861
Undiversified BSCR		827,067,241
Diversification Credit		179,335,811
Basic Economic Capital		647,731,430
Operational Risk		167,348,771
Final Economic Capital		815,080,201
Shareholders' Funds		4,884,374,000
Economic Capital as a % of SF		599%



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Appendix 7: Economic Capital Methodology & Stress Level Derivation.

We present below, detailed explanation on how each of the risk were modelled including stress levels derivation.

A. MARKET RISKS

- 1.1 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.
- 1.2 The company's insurance funds are mainly invested in money market instrument and hence have a very low exposure to market risks.
- 1.3 The market risk capital requirement 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

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

Asset class	Stress level @ 95%	Stress level @ 99%	Stress level @ 99.5%
Equity	24.06%	35.90%	37.38%
Property	15.72%	21.64%	22.38%
Interest rate	29.1%	40.12%	41.5%

- 1.5 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 the Solvency II widely used stress levels.
- 1.6 The details of the derivation and computation are contained below for each sub-risk module.

1.7 Equity risk

- I. This is the sensitivity of assets, liabilities and financial investments to fluctuations in the level or volatility of the market prices for equities.
- II. The company is invested in both quoted and unquoted equities. Both types of equities were stress tested.
- III. 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.
- IV. 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 24%, 35% and 37% for confidence levels of 95%, 99% and 99.5% respectively.
- V. We also checked how frequently historical annual returns have fallen or been close to the 24.06%, 35.90% and 37.38% levels. In 2008, the stock index fell by about 46% and in 2011 also fell by about 23%.
- VI. 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.

1.8 Interest Rate risk

- I. 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.
- II. 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.
- III. The historical returns were fitted to distributions to determine the best fit distribution. The normal distribution was a good fit. The normal distribution was used instead in order to apply some consistency with the other market risk stresses.
- IV. As the local term structure of interest rates show a flat yield curve; a flat stress level was applied to bonds of varying durations.
- V. 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.
- VI. The stressed yields were applied using the formula: current yield x (1+Upward stress) OR current yield x (1+Downward stress).
- VII. 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}

1.9 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)

1.10 The correlation matrix used is shown in Appendix 8

1.11 Non-Life Insurance risks

The non-life insurance risks modelled were:

- Reserving risk
- Premium risk
- Catastrophe risk

I. 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 used the bootstrap approach to calculate the mean and standard deviation of losses.
- We then used the mean and standard deviation to derive the parameters of the lognormal distribution which was used to estimate the 95th, 99th and 99.5th percentiles of the reserve distribution.
- Reserve capital is the difference between each of the following percentiles: 95th-percentile, 99th-percentile or 99.5th-percentile of the distribution and the 50th -percentile (Best estimate).

II. 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 lognormal distribution was fit (which was the best fit) to the deviations.

III. 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 2023 loss ratios were increased by 1000% for all lines of business to resemble a catastrophic-like event
- A 1% probability of occurrence was applied to determine the final capital requirement.

B. CREDIT RISK

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

II. 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.

III. 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.

- IV. 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 agencies and the S&P default rates were used for the bank holdings as per the following table:

Table 5

Rating Scale	Default Probability
AAA	0.00%
AA+	0.00%
AA	0.02%
AA-	0.03%
A+	0.05%
A	0.05%
A-	0.06%
BBB+	0.09%
BBB	0.15%
BBB-	0.24%
BB+	0.32%
BB	0.48%
BB-	0.96%
B+	1.98%
B	3.13%
B-	6.52%
Unrated	26.53%

- V. The above default rates were applied to both the banks and reinsurers' counterparties to the Company.
- VI. The formula used was: Estimated exposure x Probability of Default x Loss Given Default.
- VII. We assumed a 100% loss given default, which is a conservative assumption.

C. OPERATIONAL RISK

- I. This is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.
- II. Operational risk is generally a material risk and one of the major causes of organizational failure.
- III. 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.
- IV. 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.
- V. The formula used to compute the capital requirement was as follows:

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

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

$BSCR$ is the preliminary capital required before allowing operational risk and, for the risk requirements it is defined as:

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

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

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

Where

$$Op_{premiums} = 0.03 \times Earn_{nl} + \text{Max} \{0, 0.03 \times [Earn_{nl} - 1.1 \times pEarn_{nl}]\}$$

$$\text{and } Op_{provisions} = 0.03 \times \text{Max} \{0, Tp_{nl}\}$$

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

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

TP_{nt} are the technical provisions

VI. 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 8 – CORRELATION MATRICES

Correlations for Market risks have been derived using actuarial judgement 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 drop 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.

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