

AM Best Affirms Financial Strength Rating of C++ and downgrades the Long-Term Issuer Credit Rating to b from b+ of Wapic Insurance Plc

On December 14, 2018, **AM Best** has affirmed the Financial Strength Rating of C++ (Marginal) and downgraded the Long-Term Issuer Credit Rating to “b” from “b+” and of Wapic Insurance Plc (Wapic) (Nigeria), the operating holding company of the Wapic group of companies. The outlooks of these Credit Ratings (ratings) have been revised to negative from stable.

The ratings reflect Wapic’s balance sheet strength, which AM Best categorises as adequate, as well as its marginal operating performance, limited business profile and marginal enterprise risk management.

The rating downgrade reflects AM Best’s view that Wapic’s risk-adjusted capitalisation, as measured by Best’s Capital Adequacy Ratio (BCAR), has declined materially through 2017 and 2018, largely due to the group’s increasing investment and underwriting risk profile. In 2016, Wapic increased its stake in Coronation Merchant Bank Limited (CMBL), an affiliated private financial institution. At Sept. 30, 2018, CMBL accounted for 51% of Wapic’s consolidated shareholders’ funds (34% on a non-consolidated basis).

The negative outlook reflects AM Best’s concern that risk-adjusted capitalisation may further deteriorate over the medium term due to the potential growth of the company’s underwriting and investment risk profile in excess of its ability to generate equity capital. For the first nine months of 2018, Wapic reported a 29% growth in net written premium compared to the same period in the prior year, while capital remained broadly unchanged. Furthermore, failure to improve underwriting performance would add further downward pressure on the rating.

Wapic’s underwriting results have been volatile and poor, as demonstrated by the company’s five-year average (2013-2017) non-life combined ratio of 167% (as calculated by AM Best). Wapic’s underwriting result remains heavily influenced by its expense ratio, which continues to be driven by high management and commission expenses. Partially mitigating the poor underwriting performance is Wapic’s investment income, which returned a 15% yield in 2017.

Wapic is a mid-sized insurance group within its domestic market, ranked 8th in 2017 by gross written premiums with a 4% market share. The group is reliant on brokers for its

distribution, and its profile is concentrated in Nigeria, which exposes Wapic to significant economic and financial system risks.