

CAPITAL EXPRESS ASSURANCE LIMITED

FINANCIAL CONDITION REPORT AS AT 31 DECEMBER 2023



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**Capital Express Assurance Limited
Financial Condition Report**

21 June 2024

Becoda Consulting has prepared the financial condition report of Capital Express Assurance Limited (“the Client or CAPEX”) as at 31 December 2023 and is addressed to the Managing Director of Capital Express Assurance Limited. The Report was prepared for our client's sole use and benefit and to meet our client's regulatory requirements under the Insurance Act of 2003. Becoda Consulting makes no representation or warranties to any other third party as to the accuracy or completeness of the Report.

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TABLES OF CONTENTS

EXECUTIVE SUMMARY	4
1. INTRODUCTION.....	6
1.1 Purpose.....	6
1.2 Documents and Information Supplied.....	6
1.3 Reliance and Limitations.....	6
2. BUSINESS OVERVIEW.....	7
2.1 Activities of the Company.....	7
2.2 Premium history	8
2.3 New business impact	8
2.4 Experience Analysis.....	10
2.5 Reinsurance Effectiveness.....	12
3. FINANCIAL POSITION AND MANAGEMENT.....	15
3.1 Statement of financial position.....	15
3.2 Solvency	20
3.3 Business Plan	21
3.4 Material Risks.....	22
3.5 Sensitivity Analysis	24
4. ACTUARIAL STANDARDS	26
5. APPENDIX: Aggregate Reconciliation of Insurance Contract Liabilities and Reinsurance Contract Assets	27

EXECUTIVE SUMMARY

1.1 This report is prepared to assist Capital Express Assurance Limited (“CAPEX”) provide an overview of the financial condition of the Company as at 31 December 2023. We understand that this report will form part of the Company’s submission to NAICOM.

Key conclusions

1.2 Over the period 2021 to 2023, CAPEX has experienced or achieved:

- Annual growth in gross premium written of 34.5% per annum on average over the periods 2021 to 2023. Gross premiums written grew by 61% over the year ending 31 December 2023 when compared against 31 December 2022.
- A reduction in its combined ratio from 95.3% to 65.4% driven by improvement in its incurred claims ratio from 43.4% to 20.5% and improvements in its expense ratio from 52.0% to 44.8%.
- A profits before tax of ₦755m over the year ending 31 December 2023 compared to a loss of ₦(5)m in the previous year, on an IFRS17 basis. This was driven by improvement in the financial insurance results on the Group Life and Investment Linked lines of business.
- A reduction in the effectiveness of reinsurance arrangements over the period. A 3-year target of 80% would normally be advised and the CAPEX’s 3-year ratio stands at 45.8%.
- A consistently high and increasing capital adequacy, assessed against the statutory minimum capital requirement of ₦2bn, stands at 461% at 31 December 2023, up from 313% at 31 December 2021.

1.3 The Company should review its reinsurance arrangements as the ratio of reinsurance inflows to reinsurance expenses over the last three years is 46%. The value for money ratio was 46% in 2021 and is down to 40% in 2023, although it was 60% in 2022.

1.4 The value of new business written for endowment and protection portfolios is onerous in the 2023 reporting period. There is need for the business to review and reprice the products as the assumptions used for the product pricing might no longer be appropriate in the operational and economic environment.

1.5 Based on the above, our view is that with regards to the business on its books at the review date, CAPEX is likely to meet its liabilities as and when they arise, and hence, is in good financial condition.

1. INTRODUCTION

1.1 Purpose

The primary purpose of this report is to present the results of our analysis of the financial condition of Capital Express Assurance Limited (“CAPEX”) as at 31 December 2023.

This report has been prepared solely for the purpose of providing an overview of the current financial condition of CAPEX. We understand that this report will form part of CAPEX’s submission to NAICOM. This report should not be distributed to any other parties other than NAICOM and is not suitable for any other purpose other than that stated above.

1.2 Documents and Information Supplied

We were supplied with the following documents and information for this report by the Management of CAPEX.

- a) Audited financial statements as at 31 December 2022.
- b) Draft financial statements as at 31 December 2023.
- c) IFRS 17 financial disclosures as at 31 December 2023 and as at 31 December 2022, as prepared by Becoda and CAPEX.
- d) Insurance liability valuation as at 31 December 2023 prepared by Becoda.
- e) CAPEX budget proposal for the year ending 31 December 2024.
- f) Summary of actual transactional data and cashflows in the reporting period.

1.3 Reliance and Limitations

- Management is ultimately solely responsible for preparing and submitting the Financial Condition Report. Our analyses does not include or constitute either a review or audit, and so we do not express any assurance on the financial condition, sustainability or the ability for CAPEX to continue as an ongoing concern.
- We have assumed that the data provided was correct and we did not perform a full audit of the data and information provided. However, our analyses and conclusions must be limited to the accuracy of data and information and the realisation of the assumption used. In preparing this report, we have relied on information and data supplied by the Management of Capital Express Assurance Limited.
- We have reviewed these for reasonableness, consistency, and completeness, as well as checks that we deemed necessary to ascertain the quality and accuracy of the data and information provided.

2. BUSINESS OVERVIEW

2.1 Activities of the Company

CAPEX is a life insurance business that underwrites the following lines of business:

- Group Life business
- Endowment business
- Protection business
- Investment business (comprising of savings and investment on both individual and group contract basis)

There has been no change in the lines of business it underwrites in 2023 compared to 2022.

The financial highlights for the year ending 31 December 2023 compared to the year ending 31 December 2022¹:

Statement of profit or loss	2023	2022 restated
<i>Amounts in N'000</i>		
Insurance revenue	5,448,585	4,108,030
Insurance service expense	(4,811,442)	(3,093,719)
Net income or expense from reinsurance con	(360,891)	(80,001)
Insurance service result	276,251	934,310
Financial insurance result	2,695,089	883,674
Other expenses	(2,216,728)	(1,822,639)
Profit before tax	754,613	(4,655)
Income tax	(6,000)	(2,464)
Profit for the year	748,613	(7,119)
Statement of changes in equity		
<i>Amounts in N'000</i>		
Opening equity	6,827,477	6,834,596
Profit for the year	748,613	(7,119)
Other comprehensive income for the year	1,650,193	0
IFRS 17 implementation adjustment	0	0
Transfer to Contingency Reserve	0	0
Cash Dividend	0	0
Other changes in equity	0	0
Closing equity	9,226,284	6,827,477

We see a profit before tax of ₦755m over 2023 compared to a loss before tax of ₦(5)m over 2022, based on restated IFRS17 compliant accounts. The improved performance in 2023 was driven mainly by the financial insurance result ₦2,695m achieved in 2023 which is a ₦1,811m improvement compared to 2022. We note that shareholder equity increased by

¹ The results are based on IFRS17 compliant calculations and disclosures

35.1% over the period, a ~~N~~2,399m driven by other comprehensive income and the profits earned during the year.

2.2 Premium history

The Company's gross premium written increased 58.9% over the period, from ~~N~~5,024m in 2022 to ~~N~~7,983m in 2023.

Line of business	Gross Premium Written (N'000)				
	2023 Actual	2023 Budget	2023 Actual vs Budget Variance %	2022 Actual	2021 Actual
Endowment	1,043,727	908,830*	14.8%	579,738	257,593
Protection	1,684	1,466*	14.8%	935	
Investment Linked	336,637	1,089,704*	(69.1)%	695,116	
Group Life	6,600,904	6,200,000	6.5%	3,748,135	4,154,804
Total	7,982,952	8,200,000	(2.6)%	5,023,924	4,412,397

* These are based on expected premium on individual business of N2bn which has been pro-rated using 2022 IFRS17 disclosure actual premium received

The amount of gross premiums written in 2023 was c3% lower than the ~~N~~8,200m target in the 2023 budget.

The majority of the premium income in 2023 was from Group Life (82.7%). This is consistent with the premium profile in 2022 and 2021 where Group Life accounted for 74.6% and 94.2% of premiums written respectively.

2.3 New business impact

IFRS 17 requires that the impact of new business is measured and disclosed to show whether new contracts written over the period are profitable or onerous at inception. The Standard IFRS 17 introduces the "contractual service margin" (CSM) for this, and it represents unearned profit for a group of insurance contracts. It is added to the balance sheet liability to eliminate day one profits and then controls the rate at which profits are recognised in profit or loss.

To calculate whether there is a CSM at inception, we compare:

- (A) the present value of estimates of the future cash inflows, to
- (B) the total of present value of estimates of the future cash outflows and the value of the risk adjustment

If (A) > (B), then we have a CSM, i.e. the contracts are profitable, otherwise the contracts are onerous.

The tables below include the contractual service margin for the contracts written in 2023 and compared to those written in 2022.

Insurance contracts recognized in the year ending 31 December 2023			
	Endowment	Protection	Investment Linked
Estimates of future cash inflows	1,388,105,307	928,881	194,183,725
Estimates of future cash outflows			
- Claims	1,397,917,536	376,645	678,859
- Directly attributable expenses	215,492,849	13,618,442	32,788,829
- Acquisition cash flows	107,058,521	1,040,541	3,329,372
	1,720,468,906	15,035,628	36,797,059
Risk adjustment for non-financial risk	6,668,430	282,135	3,155,445
Contractual service margin	-	-	154,231,222
Total insurance contract liabilities at Inception	339,032,029	14,388,882	-
Insurance contracts recognized in the year ending 31 December 2022			
	Endowment	Protection	Investment Linked
Estimates of future cash inflows	678,437,189	1,198,240	195,682,403
Estimates of future cash outflows			
- Claims	392,221,817	477,952	1,875,127
- Directly attributable expenses	104,445,284	18,555,162	39,685,395
- Acquisition cash flows	63,157,956	1,681,623	3,626,901
	559,825,058	20,714,737	45,187,423
Risk adjustment for non-financial risk	2,980,199	390,330	3,011,376
Contractual service margin	115,631,932	-	147,483,604
Total insurance contract liabilities at Inception	-	19,906,827	-

We see that in 2023 only the investment linked contracts generated a CSM and so were profitable, compared to 2022 where both the endowment and investment linked contracts were profitable. Overall the contracts written in 2023 were less profitable than those written in 2022. We can see from the table that:

- For the Endowment product, the estimated claims in 2023 of N1.4m is higher than the estimated total inflow of N1.39m. This indicates that the product is being sold at a loss even without allowing for expenses. The implication is that the product will need to be repriced to ensure that it is still suitable in the current economic climate.
- For the Protection product, the product has remained onerous both in 2022 and 2023 and it is due to the high expense per policy assumption used in valuing the new business. The expense assumption is far higher than the pricing assumption, hence the reason the product is loss making. The business will need to improve on reducing the expense per policy assumption by improving on the number of contracts written at the same fixed cost.

The following tables present similar analysis for the reinsurance contracts in 2023 compared to 2022.

Reinsurance contracts recognized in the year ending 31 December 2023

	Endowment	Protection	Investment Linked
Estimates of future cash inflows	2,389,537	-	-
Estimates of future cash outflows	10,539,933	-	-
	(8,150,395)	-	-
Risk adjustment for non-financial risk	165,724	-	-
Contractual service margin	(7,984,671)	-	-
Total reinsurance contract assets	-	-	-

Reinsurance contracts recognized in the year ending 31 December 2022

	Endowment	Protection	Investment Linked
Estimates of future cash inflows	947,785	-	-
Estimates of future cash outflows	3,239,485	-	-
	(2,291,700)	-	-
Risk adjustment for non-financial risk	47,271	-	-
Contractual service margin	(2,244,429)	-	-
Total reinsurance contract assets	-	-	-

At inception, we see that the value of the reinsurance contract asset is nil, which shows that the value of contracts is not profitable to CAPEX, rather it is profitable to the reinsurers. The reinsurance contracts were more onerous in 2023 compared to 2022.

2.4 Experience Analysis

We have carried out analysis of the Company's experience for its insurance contracts over the period 2022 - 2023 in the table below, including a comparison with the 2023 budget.

Amounts in N'000

2023 Budget	2023 Actual	2022 restated Actual
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INSURANCE CONTRACT EXPERIENCE RATIOS

Premiums received	8,200,000	7,982,952	4,962,592
Insurance revenue	7,260,000	5,448,585	4,108,030
Incurred claims	(3,188,000)	(1,640,493)	(2,152,229)
Acquisition costs*	0	(625,601)	(706,004)
Fulfilment expenses	(1,120,000)	(737,472)	(49,725)
Other (management) expenses	(2,373,500)	(2,216,728)	(1,822,639)
Investment income	1,009,630	1,400,535	417,721
Profit before tax	1,262,076	754,613	(4,655)
<i>As a % of premium received:</i>			
Insurance Revenue	88.5%	68.3%	82.8%
Incurred Claims [A]	(38.9)%	(20.5)%	(43.4)%
Acquisition costs [B]	-	(7.8)%	(14.2)%
Fulfilment expenses [C]	(13.7)%	(9.2)%	(1.0)%
Other (management) expenses [D]	(28.9)%	(27.8)%	(36.7)%
Investment Income	12.3%	17.5%	8.4%
Profit before tax	15.4%	9.5%	(0.1)%
Combined ratio on Insurance Services = [A] + [B] + [C] + [D]	(81.5)%	(65.4)%	(95.3)%

*The 2023 budget data provided does not explicitly state the amount of acquisition expense expected. We have assumed this is included in fulfilment expense of ₦1,120m.

The profit before tax was ₦755m in 2023 compared to a loss of ₦(5)m in 2022. However, the profits earned over the period fell short of the Company's target of ₦1,262m.

- The incurred claims ratio improved compared to 2022 from 43.4% to 20.5%. This was materially better than the target of 38.9% for the period. The 20.5% achieved in 2023 seems relatively low and is mainly driven by higher premium written in the period increasing by 61% from December 2022 and the incurred claims reducing by 23% compared to December 2022.
- The total of the ratio of acquisition costs, fulfilment expenses and other (management) expenses to premiums received also improved to 44.8% in 2023 compared to 52.0% in 2022. Overall, the nominal total expenses increased by 39% but the premium increased by 61%, hence this resulted to the lower expense ratio of 44.8%.
- The improvement in the claims ration and the expense ratios resulted in a lower combined ratio of 65.4% vs 95.3% at 2022, a positive change which is also better than the 81.5% target the Company set for 2023, estimated on an IFRS17 consistent basis.
- The investment income ratio improved from 8.4% in 2022 to 17.5% in 2023, contributing to the improvement in the profit before tax ratio over the period.

Overall, the profits were driven by results from Group Life and Investment related lines of business.

The table below provides a similar overview of the reinsurance contracts over the same period.

<i>Amounts in N'000</i>	2023 <i>Budget</i>	2023 <i>Actual</i>	2022 restated <i>Actual</i>
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REINSURANCE CONTRACT EXPERIENCE RATIOS

Reinsurance premiums paid	(440,000)	(488,742)	(209,128)
Inward commissions & fees	132,000	100,560	67,571
Reinsurance recoveries	95,701	93,189	58,600
Reinsurance contract remeasurements	(39,684)	(65,898)	2,956
Net income or (expense) on reinsurance	(251,983)	(360,891)	(80,001)
<i>As a % of reinsurance premium paid:</i>			
Inward commissions & fees	30.0%	20.6%	32.3%
Reinsurance recoveries	21.8%	19.1%	28.0%
Reinsurance contract remeasurements	(9.0)%	(13.5)%	1.4%
Net income or (expense) on reinsurance	(57.3)%	(73.8)%	(38.3)%

There was a worsening in the results for reinsurance contracts held in 2023 compared to 2022, with the net expense as a percentage of reinsurance premiums rising from 38.3% to 73.8%, worse than the target of 57.3% in the 2023 budget. There is need to review the existing reinsurance treaties to ensure they are still fit for purpose.

2.5 Reinsurance Effectiveness

The table below provides a general assessment of the value derived from reinsurance arrangements over the last three years.

<i>Amounts in N'000</i>	2023 <i>Actual</i>	2022 restated <i>Actual</i>	2021 <i>Actual</i>	Total
Reinsurance expense	(488,742)	(209,128)	(231,323)	(929,193)
Inward commission & fees	100,560	67,571	64,332	232,463
Reinsurance recoveries	93,189	58,600	41,412	193,201
Reinsurance Income	193,749	126,171	105,744	425,663
Value for Money Ratio	39.6%	60.3%	45.7%	45.8%

A three-year target of around 80% would normally be advised for the Value for Money ratio. Over the three-year period, we see around 46% of reinsurance premium was recovered by CAPEX, with around 45% from claims and 55% from commission and fees each year.

However, looking at the year-on-year trend, we see a reduction in the “Value for Money Ratio” from 2022 to the 2023 reporting period. Given the reducing trend, it is instructive for CAPEX to investigate drivers whilst also looking to review its reinsurance arrangements with a view to optimising the existing structures.

The tables below suggest further investigations should be carried out on the Group Life and Endowment business.

<i>Value for Money Ratio</i>	2023 Actual	2022 restated Actual	<i>Direction of Change</i>
Endowment	0.0%	20.4%	▼
Protection	0.0%	0.0%	▬
Investment Linked	0.0%	0.0%	▬
Group Life	35.4%	60.4%	▼
Investment	0.0%	0.0%	▬
Total	39.6%	60.3%	▼

The 2023 value for money ratios for Endowment, Protection and Investment Linked business has been highlighted above because a total of N785k of inward commission and fees was recognised for these lines of business in 2023 but the reinsurance expense was nil. It is not clear how commissions and fees could be earned without any reinsurance premiums being paid. We believe this might be data error and will need to be investigated and corrected going forward.

The tables below provide details of the figures underlying the ratios above.

2023 Value for Money Ratio calculation

<i>Amounts in N'000</i>	Reinsurance expense	Inward commission & fees	Reinsurance recoveries	Reinsurance Income	Value for Money Ratio
Endowment	0	518	0	518	0.0%
Protection	0	4	0	4	0.0%
Investment Linked	0	264	0	264	0.0%
Group Life	488,742	79,599	93,189	172,788	35.4%
Investment	0	20,175	0	20,175	0.0%
Total	488,742	100,560	93,189	193,749	39.6%

2022 Value for Money Ratio

<i>Amounts in N'000</i>	Reinsurance expense	Inward commission & fees	Reinsurance recoveries	Reinsurance Income	Value for Money Ratio
Endowment	426	87	0	87	20.4%
Protection	0	0	0	0	0.0%
Investment Linked	0	0	0	0	0.0%
Group Life	208,702	67,484	58,600	126,084	60.4%
Investment	0	0	0	0	0.0%
Total	209,128	67,571	58,600	126,171	60.3%

3. FINANCIAL POSITION AND MANAGEMENT

3.1 Statement of financial position

The table below presents CAPEX's statement of financial position for the year ending 31 December 2023 compared to 2022 and 2021.

Statement of financial position

<i>Amounts in N'000</i>	2023	2022 restated	2021
Financial Assets	7,189,344	5,117,533	5,052,670
Property	7,249,089	6,279,311	4,869,311
Cash Deposits	309,330	89,697	69,073
Invested Assets	14,747,763	11,486,541	9,991,054
Reinsurance Assets	183,830	219,120	311,234
Other balance sheet assets	3,245,856	2,366,137	2,556,234
Total Assets	18,177,449	14,071,798	12,858,522
Insurance liabilities	7,511,145	6,001,001	4,039,570
Other liabilities	1,440,020	1,243,319	2,557,712
Total Liabilities	8,951,166	7,244,321	6,597,282
Net Assets	9,226,284	6,827,477	6,261,240

The total assets stand at ₦18,177m as at 31 December 2023 and have increased by 29.2% from ₦14,072m in 2022. This is driven by increase in value of financial assets and property investments held over the period.

We see a 23.6% increase in total liabilities in 2023 compared to 2022, mainly due to the increase in the value of insurance liabilities during the period.

Ultimately over the period, the net assets (or Shareholders' funds) improved 35.1% from ₦6,827m in 2022 to ₦9,226m in 2023. Net assets have increased year-on-year since 2021.

The following table provides a reconciliation of the insurance contract liabilities and assets as at 31st December 2023.

Reconciliation of Insurance Contract Liabilities N'm	Total	Endowment	Protection	Investment Linked	Group Life
Opening insurance contract assets	6,378.0	2,464.6	70.4	1,624.6	2,218.3
Opening insurance contract liabilities	6,001.0	2,356.8	59.0	1,505.5	2,079.7
Net opening balance	377.0	107.8	11.4	119.1	138.6
Insurance revenue	(5,448.6)	(242.2)	(26.3)	683.6	(5,863.7)
Insurance service expenses	-	-	-	-	-
Incurred claims and other expenses	1,593.2	30.2	0.4	(726.4)	2,289.1
Acquisition expenses	625.6	59.6	0.1	19.2	546.6
Changes related to future service	1,251.5	353.1	4.9	893.5	-
Changes related to past service	1,341.2	-	-	-	1,341.2
Total Insurance service expenses	4,811.4	442.9	5.4	186.3	4,176.8
Investment components	-	-	-	-	-
Insurance service result	(637.1)	200.7	(20.9)	869.9	(1,686.9)
Insurance finance expenses	(1,239.6)	(226.3)	2.1	(1,015.3)	-
Total change in comprehensive income	(1,876.7)	(25.6)	(18.8)	(145.4)	(1,686.9)
Premiums received	7,983.0	1,043.7	1.7	336.6	6,600.9
Claims and expenses paid	(3,970.5)	(774.8)	(2.0)	(417.7)	(2,775.9)
Acquisition costs paid	(625.6)	(59.6)	(0.1)	(19.2)	(546.6)
Total cash flows	3,386.8	209.3	(0.4)	(100.3)	3,278.3
Closing insurance contract assets	7,952.1	2,638.5	50.7	1,380.7	3,882.2
Closing insurance contract liabilities	7,511.1	2,540.5	39.7	1,259.8	3,671.1
Net closing balance	441.0	98.0	11.0	120.9	211.1

The next table provides a reconciliation of the risk adjustment element of the insurance contract liabilities as at 31st December 2023 as stated in the previous table.

Reconciliation of Risk Adjustment on Insurance Contract Liabilities N'm	Total	Endowment	Protection	Investment Linked	Group Life
Opening insurance contract assets	95.8	45.3	0.8	0.0	49.6
Opening insurance contract liabilities	90.5	43.3	0.6	0.0	46.5
Net opening balance	5.2	2.0	0.1	0.0	3.1
Changes related to current services	-	-	-	-	-
CSM for service provided	-	-	-	-	-
Risk Adjustment release for expired risks	18.5	(7.9)	(0.3)	(3.2)	29.9
Experience adjustments	-	-	-	-	-
Total changes related to current services	18.5	(7.9)	(0.3)	(3.2)	29.9
Changes related to future services	-	-	-	-	-
New contracts recognised	10.1	6.7	0.3	3.2	-
Changes in estimates reflected in CSM	9.0	9.0	(0.0)	(0.0)	-
Changes in estimates resulting in contract losses	(5.4)	(5.3)	(0.2)	0.0	-
Total changes related to future services	13.6	10.4	0.0	3.2	-
Changes that relate to past service	-	-	-	-	-
Adjustments to liabilities for incurred claims	-	-	-	-	-
Total changes that relate to past service	-	-	-	-	-
Insurance service result	(32.1)	(2.5)	0.3	0.0	(29.9)
Insurance finance expenses	-	-	-	-	-
Total change in comprehensive income	(32.1)	(2.5)	0.3	0.0	(29.9)
Total cash flows	-	-	-	-	-
Closing insurance contract assets	128.9	47.6	0.4	0.0	80.8
Closing insurance contract liabilities	122.7	45.9	0.3	0.0	76.4
Net closing balance	6.3	1.8	0.1	0.0	4.4

Similar to the insurance contract liabilities, the following table provides a reconciliation of the reinsurance contract assets as at 31st December 2023.

Reconciliation of Reinsurance Contract Assets <i>N'm</i>	Total	Endowment	Protection	Investment Linked	Group Life
Opening insurance contract assets	217.2	(2.0)	3.7	-	215.5
Opening insurance contract liabilities	-	-	-	-	-
Net opening balance	217.2	(2.0)	3.7	-	215.5
Insurance revenue	(388.9)	(25.9)	(1.3)	(0.0)	(361.6)
Insurance service expenses	-	-	-	-	-
Incurred claims and other expenses	93.2	-	-	-	93.2
Acquisition expenses	-	-	-	-	-
Changes related to future service	(18.2)	(18.0)	(0.0)	(0.2)	-
Changes related to past service	(47.0)	-	-	-	(47.0)
Total Insurance service expenses	28.0	(18.0)	(0.0)	(0.2)	46.2
Investment components	-	-	-	-	-
Insurance service result	(360.9)	(43.9)	(1.3)	(0.2)	(315.4)
Insurance finance expenses	55.0	54.6	0.4	-	-
Total change in comprehensive income	(305.9)	10.8	(1.0)	(0.2)	(315.4)
Premiums received	365.0	-	-	-	365.0
Claims and expenses paid	(93.2)	-	-	-	(93.2)
Acquisition costs paid	0.8	0.5	0.0	0.3	-
Total cash flows	272.6	0.5	0.0	0.3	271.8
Closing insurance contract assets	183.8	9.3	2.7	0.0	171.8
Closing insurance contract liabilities	-	-	-	-	-
Net closing balance	183.8	9.3	2.7	0.0	171.8

The table below provides a reconciliation of the risk adjustment element of the reinsurance contract assets as at 31st December 2023 stated in the previous table.

Reconciliation of Risk Adjustment on Reinsurance Contract Assets N'm	Total	Endowment	Protection	Investment Linked	Group Life
Opening insurance contract assets	3.4	0.5	0.0	-	2.9
Opening insurance contract liabilities	-	-	-	-	-
Net opening balance	3.4	0.5	0.0	-	2.9
Changes related to current services	-	-	-	-	-
CSM for service provided	-	-	-	-	-
Risk Adjustment release for expired risks	(1.8)	(0.1)	(0.0)	-	(1.6)
Experience adjustments	-	-	-	-	-
Total changes related to current services	(1.8)	(0.1)	(0.0)	-	(1.6)
Changes related to future services	-	-	-	-	-
New contracts recognised	0.2	0.2	-	-	-
Changes in estimates reflected in CSM	2.7	2.7	(0.0)	-	-
Changes in estimates resulting in contract losses	0.0	0.0	-	-	-
Total changes related to future services	2.9	2.9	(0.0)	-	-
Changes that relate to past service	-	-	-	-	-
Adjustments to liabilities for incurred claims	-	-	-	-	-
Total changes that relate to past service	-	-	-	-	-
Insurance service result	(1.1)	(2.8)	0.0	-	1.6
Insurance finance expenses	-	-	-	-	-
Total change in comprehensive income	(1.1)	(2.8)	0.0	-	1.6
Total cash flows	-	-	-	-	-
Closing insurance contract assets	4.6	3.3	0.0	-	1.3
Closing insurance contract liabilities	-	-	-	-	-
Net closing balance	4.6	3.3	0.0	-	1.3

Please see the Appendix for more detailed reconciliation tables.

3.2 Solvency

The table below provides CAPEX's balance sheet adequacy and solvency margins over the years 2021 -2023.

<i>Amounts in N'000</i>	2023	2022 restated	2021
Insurance contract liabilities	7,511,145	6,001,001	4,039,570
Shareholders' Funds	9,226,284	6,827,477	6,261,240
Balance Sheet Solvency Margin	123%	114%	155%
Minimum Required Statutory Capital	2,000,000	2,000,000	2,000,000
Capital Adequacy Ratio	461%	341%	313%

The Company's available shareholders' funds exceeded the minimum level of ~~N2bn~~ over period 2021 – 2023. The Capital Adequacy Ratio has consistently increased over the years and remained in excess of the minimum required statutory capital, standing at 461% at 31 December 2023.

We note there has discussions within the industry around taking the minimum required statutory capital from ~~N2bn~~ to ~~N8bn~~ for life insurance companies. The Capital Adequacy Ratio at 2023 will be 115% assessed against an ~~N8bn~~ Minimum Required Statutory Capital.

The solvency is measure of insurance company's ability to absorb risks, and the above suggest that CAPEX is solvent. We do however recommend a risk-based solvency approach which would allow key risks to be individually assessed and better managed.

The following tables show how sensitive the balance sheet solvency margin and capital adequacy ratio are to changes in the confidence interval used to set the Risk Adjustment.

Balance Sheet Solvency Margin Sensitivity to Risk Adjustment Confidence Level

	2023	2022 restated
50% confidence interval	+3%	+3%
60% confidence interval	+1%	+2%
Base (70% confidence interval)	123%	114%
80% confidence interval	-1%	-1%
90% confidence interval	-4%	-3%
99.5% confidence interval	-8%	-6%

Capital Adequacy Ratio Sensitivity to Risk Adjustment Confidence Level

	2023	2022 restated
50% confidence interval	+6%	+4%
60% confidence interval	+2%	+2%
Base (70% confidence interval)	461%	341%
80% confidence interval	-2%	-1%
90% confidence interval	-7%	-4%
99.5% confidence interval	-14%	-8%

3.3 Business Plan

CAPEX's proposed budget for the year ending 31 December 2024 is shown in the tables below.

Amounts in N'000	2024 Budget	2023 Actual	2022 restated Actual
INSURANCE CONTRACTS			
Premiums received	12,500,000	7,982,952	4,962,592
Insurance revenue	9,976,507	5,448,585	4,108,030
Incurred claims	(4,180,000)	(1,640,493)	(2,152,229)
Acquisition costs	(195,000)	(625,601)	(706,004)
Fulfilment expenses	(1,875,004)	(737,472)	(49,725)
Other (management) expenses	(3,393,750)	(2,216,728)	(1,822,639)
Investment income	964,921	1,400,535	417,721
Profit before tax	1,018,440	754,613	(4,655)
<i>As a % of premium received:</i>			
Insurance Revenue	79.8%	68.3%	82.8%
Incurred Claims [A]	(33.4)%	(20.5)%	(43.4)%
Acquisition costs [B]	(1.6)%	(7.8)%	(14.2)%
Fulfilment expenses [C]	(15.0)%	(9.2)%	(1.0)%
Other (management) expenses [D]	(27.2)%	(27.8)%	(36.7)%
Investment Income	7.7%	17.5%	8.4%
Profit before tax	8.1%	9.5%	(0.1)%
Combined ratio on Insurance Services = [A] + [B] + [C] + [D]	(77.2)%	(65.4)%	(95.3)%

Amounts in N'000	2024 Budget	2023 Actual	2022 restated Actual
REINSURANCE CONTRACTS			
Reinsurance premiums paid	(747,174)	(488,742)	(209,128)
Inward commissions & fees	208,500	100,560	67,571
Reinsurance recoveries ***	67,200	93,189	58,600
Reinsurance contract remeasurements****	(67,389)	(65,898)	2,956
Net income or (expense) on reinsurance	(538,863)	(360,891)	(80,001)
<i>As a % of reinsurance premium paid:</i>			
Inward commissions & fees	27.9%	20.6%	32.3%
Reinsurance recoveries	9.0%	19.1%	28.0%
Reinsurance contract remeasurements	(9.0)%	(13.5)%	1.4%
Net income or (expense) on reinsurance	(72.1)%	(73.8)%	(38.3)%

The anticipated 57% increase in written premiums of ₦12,500m for 2024 underwriting year is expected to be driven by:

- Increasing market share from 3% to 5%,
- Increase premium production from ₦6.6bn to ₦9.5bn for Group Life and from ₦1.4bn to ₦3.0bn for individual business
- The expected increase in individual business sales would be through CAPEX agency operations whilst the Lagos and Abuja Market operations would drive the increase in Group Life

- The sales will be supported by operational digitization, improved brand awareness, alliances with other financial institutions, direct prospecting and expansion of the Lagos Market SBU.

The implied target combined ratio of 77.2% in 2024 compared to the 65.4% achieved in 2023, is driven by higher incurred claims ratio in 2024 compared to 2023. We note that the implied target incurred claims ratio of 33.4% would require robust underwriting to achieve, particularly with the Group Life business. The expected expense ratio for 2024 is 43.7% which is consistent with the actual expense ratio of 44.8% recorded in 2023. To achieve the expense ratio in the current economic headwinds in the Nigerian market, particularly inflationary pressures would require robust expense management policies to be in place.

CAPEX could achieve the targeted level of profitability, which is a 35% increase on 2023, through rigorous management of expenses and concerted increase of premium income underpinned by strict underwriting.

3.4 Material Risks

Expense Risk

CAPEX achieved an expense ratio² of 44.8% in 2023 which is an improvement compared to the 52.0% achieved in 2022. We see that the target for 2024 is 43.7% which is consistent with the actual ratio achieved in 2023 but will require robust reduction and control of expenses in the face of inflationary pressures.

Pricing Risk

This is the risk that the premiums charged do not adequately reflect the underlying risks being written. This leads to the premium charged being inadequate which adversely impacts profitability and solvency. The combined ratio of at most 100% is ideal but this was above this for protection business in 2023 and 2022. We note that the combined ratio for 2023 was an improvement on 2022. Also, for the Endowment product, the product is onerous as the expected benefits benefit is higher than the expected premiums.

Allowing for relevant rating factors and employing strict underwriting manages this risk. We will recommend that the business looks at repricing the existing products as some of the

² This is the sum of the Acquisition Cost ratio, Fulfilment expense ratio and Other (management) expense ratio

assumptions used in the pricing might no longer be suitable in the correct economic environment.

Insurance Risk

In assessing this we considered the incurred claims ratio for Group Life at an aggregate level for the year ending 31 December 2023. This ratio improved from 43.4% in 2022 to 20.5% in 2023. This was better than the Company's 2023 target of 38.9%. For the 2024 projected business plan, this target is 33.4% which would depend on CAPEX's management of, and the emerging experience from, the Group Life business which has accounts for almost all the claims incurred.

For the Endowment and Investment Linked lines of business, the insurance risk (mortality and lapse) is not material due to the product features as they are mainly savings products with the sum at risk being the difference between the sum assured and the accumulated fund.

For the protection product, the portfolio is quite small, hence the insurance risk is quite immaterial as a measure to the overall business.

Catastrophe Risk

This is the risk of high-severity and low-frequency loss events. Given CAPEX's concentration of business in Group Life business, this will mainly be from epidemic outbreaks. This can be mitigated by diversifying the spread of lives covered, geographically, socio-economically and medically through its underwriting procedures. Reinsurance can also be used to mitigate this risk and we note that CAPEX's reinsurance arrangements do not seem to provide adequate value for money and need to be reviewed.

Economic Risk

This specifically relates to the impact of market conditions, specifically, fiscal measures and inflationary pressures on the operations of CAPEX. Please see the sensitivities section below which provides an illustration of CAPEX exposure to economic risks, namely interest rates and inflation.

Currency Risk

CAPEX holds assets in US Dollars, as such is exposed to currency risk. For those foreign-denominated assets held to back foreign denominated liability exposures, the currencies of the assets and the liabilities must be the same to minimise currency risk. We understand that this is the case.

3.5 Sensitivity Analysis

This section presents the results of sensitivity analysis on the best estimate liability and risk adjustment as at 31 December 2023.

Sensitivities on Best Estimate Liabilities - December 2023 (Excludes Group Life)									
Amounts in N'000	Stress Factor	Endowment		Protection		Investment Linked		Total	
Base		2,293,883		17,459		1,087,661		3,399,002	
Interest_Up	10%	-354,197	-15.4%	-2,148	-12.3%	-602	-0.1%	-356,946	-10.5%
Interest_Down	10%	+581,633	+25.4%	+3,208	+18.4%	+4,473	+0.4%	+589,314	+17.3%
Inflation_Up	10%	+77,454	+3.4%	+2,543	+14.6%	+298	+0.0%	+80,295	+2.4%
Inflation_Down	10%	-60,613	-2.6%	-2,031	-11.6%	-162	-0.0%	-62,806	-1.8%
Lapse_Up	10%	-2,753	-0.1%	-117	-0.7%	-4	-0.0%	-2,874	-0.1%
Lapse_Down	10%	+2,873	+0.1%	+118	+0.7%	+4	+0.0%	+2,995	+0.1%
Mortality_Up	10%	-1,748	-0.1%	+170	+1.0%	-40,174	-3.7%	-41,752	-1.2%
Mortality_Down	10%	-1,199	-0.1%	-171	-1.0%	-48	-0.0%	-1,417	-0.0%
Expenses_Up	10%	+36,964	+1.6%	+1,575	+9.0%	-1,458	-0.1%	+37,080	+1.1%
Expenses_Down	10%	-36,636	-1.6%	-1,575	-9.0%	-168	-0.0%	-38,378	-1.1%

Sensitivities on Risk Adjustment - December 2023 (Excludes Group Life)									
Amounts in N'000	Stress Factor	Endowment		Protection		Investment Linked		Total	
Base		45,878		349		29		46,256	
Interest_Up	10%	-7,084	-15.4%	-43	-12.3%	-12	-41.3%	-7,139	-15.4%
Interest_Down	10%	+11,633	+25.4%	+64	+18.4%	+89	+306.7%	+11,786	+25.5%
Inflation_Up	10%	+1,549	+3.4%	+51	+14.6%	+6	+20.4%	+1,606	+3.5%
Inflation_Down	10%	-1,212	-2.6%	-41	-11.6%	-3	-11.1%	-1,256	-2.7%
Lapse_Up	10%	-55	-0.1%	-2	-0.7%	-0	-0.3%	-57	-0.1%
Lapse_Down	10%	+57	+0.1%	+2	+0.7%	+0	+0.3%	+60	+0.1%
Mortality_Up	10%	-35	-0.1%	+3	+1.0%	-18	-61.4%	-49	-0.1%
Mortality_Down	10%	-24	-0.1%	-3	-1.0%	-1	-3.3%	-28	-0.1%
Expenses_Up	10%	+739	+1.6%	+31	+9.0%	+3	+12.0%	+774	+1.7%
Expenses_Down	10%	-733	-1.6%	-31	-9.0%	-3	-11.5%	-768	-1.7%

We see that the total best estimate liability and risk adjustment is most exposed to increase in interest rate down and increases in inflation.

We can also see the varying levels of sensitivity across the lines of business, for instance, protection and investment linked business are more sensitive to expense and inflation changes than the endowment business, based on the percentage change observed.

On the demographic risks, we note lower rates of lapses than expected, would increase the best estimate liability and risk adjustment. The results above suggest that CAPEX's exposure

to mortality risk is minimal – the risk arises in its protection business but this is offset by the endowment and investment link business.

4. ACTUARIAL STANDARDS

Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

The following Technical Actuarial Standards are applicable in relation to this report and have been complied with where material:

- TAS 100: Generic TAS - Principles for Technical Actuarial Work, which applies to all technical actuarial work and promotes high-quality technical actuarial work.
- TAS 200: Insurance - Insurance (TAS 200) promotes high-quality technical actuarial work in insurance on matters where there is a high degree of risk to the public interest.



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Fellow of the Institute and Faculty of Actuaries
FRC/2015/NAS/00000012946

5. APPENDIX: Aggregate Reconciliation of Insurance Contract Liabilities and Reinsurance Contract Assets

Reconciliation of the liability for remaining coverage and the liability for incurred claims for insurance contracts -

Reconciliation of carrying amounts by LRC/LIC: insurance	Liability for Remaining Coverage (LRC)		Liability for Incurred Claims	Insurance Contract Liabilities (ICL)
	Non-onerous	Onerous	LIC	
Opening insurance contract assets	4,579,670,566	380,426,339	1,417,857,839	6,377,954,745
Opening insurance contract liabilities	4,321,044,621	350,680,808	1,329,276,000	6,001,001,429
Net opening balance	258,625,945	29,745,532	88,581,839	376,953,316
Insurance revenue	(5,448,584,804)	-	-	(5,448,584,804)
Insurance service expenses				
Incurred claims and other expenses	-	(784,738,914)	2,377,964,417	1,593,225,503
Acquisition expenses	625,600,899	-	-	625,600,899
Changes related to future service	-	1,251,462,437	-	1,251,462,437
Changes related to past service	-	-	1,341,153,084	1,341,153,084
Total Insurance service expenses	625,600,899	466,723,523	3,719,117,502	4,811,441,924
Investment components	(1,105,655,518)	-	1,105,655,518	-
Insurance service result	(5,928,639,424)	466,723,523	4,824,773,020	(637,142,881)
Insurance finance expenses	(1,239,562,362)	-	-	(1,239,562,362)
Total change in comprehensive income	(7,168,201,786)	466,723,523	4,824,773,020	(1,876,705,242)
Premiums received	7,982,952,206	-	-	7,982,952,206
Claims and expenses paid	-	-	(3,970,502,185)	(3,970,502,185)
Acquisition costs paid	(625,600,899)	-	-	(625,600,899)
Total cash flows	7,357,351,307	-	(3,970,502,185)	3,386,849,122
Closing insurance contract assets	4,762,643,966	880,361,525	2,309,092,386	7,952,097,878
Closing insurance contract liabilities	4,510,194,142	817,404,331	2,183,546,835	7,511,145,308
Net closing balance	252,449,824	62,957,195	125,545,552	440,952,570

Reconciliation of the components of insurance contract liabilities

	Estimates of present value of future cashflows	Risk Adjustment	CSM	Total
Reconciliation of carrying amounts by BEL/RA/CSM: insurance				
Opening insurance contract assets	6,021,119,592	95,751,467	261,083,685	6,377,954,745
Opening insurance contract liabilities	5,666,767,468	90,541,136	243,692,825	6,001,001,429
Net opening balance	354,352,123	5,210,331	17,390,861	376,953,316
Changes related to current services				
CSM for service provided	0	0	(77,164,591)	(77,164,591)
Risk Adjustment release for expired risks	0	18,502,851	0	18,502,851
Experience adjustments	(3,171,096,662)	-	-	(3,171,096,662)
Total changes related to current services	(3,171,096,662)	18,502,851	(77,164,591)	(3,229,758,402)
Changes related to future services				
New contracts recognised	189,083,679	10,106,010	154,231,222	353,420,910
Changes in estimates reflected in CSM	(61,585,748)	8,970,763	52,614,985	-
Changes in estimates resulting in contract losses	903,482,161	(5,440,634)	-	898,041,527
Total changes related to future services	1,030,980,092	13,636,138	206,846,207	1,251,462,437
Changes that relate to past service				
Adjustments to liabilities for incurred claims	1,341,153,084	-	-	1,341,153,084
Total changes that relate to past service	1,341,153,084	0	-	1,341,153,084
Insurance service result	798,963,486	(32,138,989)	(129,681,616)	637,142,881
Insurance finance expenses	(1,260,933,059)	-	21,370,697	(1,239,562,362)
Total change in comprehensive income	2,059,896,545	(32,138,989)	(151,052,314)	1,876,705,242
Total cash flows	3,386,849,122			3,386,849,122
Closing insurance contract assets	7,398,097,270	128,942,890	425,057,717	7,952,097,878
Closing insurance contract liabilities	6,993,720,045	122,680,125	394,745,138	7,511,145,308
Net closing balance	404,377,226	6,262,765	30,312,579	440,952,570

Reconciliation of the liability for remaining coverage and the liability for incurred claims for reinsurance contracts

	Liability for Remaining Coverage (LRC)		Liability for Incurred Claims	Insurance Contract Liabilities (ICL)
	Non-onerous	Onerous	LIC	
Reconciliation of carrying amounts by LRC/LIC: reinsurance				
Opening insurance contract assets	134,108,710	-	83,050,000	217,158,710
Opening insurance contract liabilities	-	-	-	-
Net opening balance	134,108,710	-	83,050,000	217,158,710
Insurance revenue	(388,898,355)	-	-	(388,898,355)
Insurance service expenses				
Incurred claims and other expenses	-	-	93,189,038	93,189,038
Acquisition expenses	-	-	-	-
Changes related to future service	(15,969,343)	(2,228,535)	-	(18,197,878)
Changes related to past service	-	-	(46,984,246)	(46,984,246)
Total Insurance service expenses	(15,969,343)	(2,228,535)	46,204,792	28,006,914
Investment components	-	-	-	-
Insurance service result	(404,867,698)	(2,228,535)	46,204,792	(360,891,441)
Insurance finance expenses	54,991,989	-	-	54,991,989
Total change in comprehensive income	(349,875,709)	(2,228,535)	46,204,792	(305,899,452)
Premiums received	364,974,734	-	-	364,974,734
Claims and expenses paid	-	-	(93,189,038)	(93,189,038)
Acquisition costs paid	785,180	-	-	785,180
Total cash flows	365,759,914	-	(93,189,038)	272,570,876
Closing insurance contract assets	149,992,915	(2,228,535)	36,065,754	183,830,134
Closing insurance contract liabilities	-	-	-	-
Net closing balance	149,992,915	(2,228,535)	36,065,754	183,830,134

Reconciliation of the components of reinsurance contract assets
Assets with positive sign, liabilities with negative sign

	Estimates of present value of future cashflows	Risk Adjustment	CSM	Total
Reconciliation of carrying amounts by BEL/RA/CSM: reinsurance				
Opening insurance contract assets	199,175,922	3,449,597	14,533,191	217,158,710
Opening insurance contract liabilities	-	-	-	-
Net opening balance	199,175,922	3,449,597	14,533,191	217,158,710
Changes related to current services				
CSM for service provided	0	0	(24,223,054)	(24,223,054)
Risk Adjustment release for expired risks	0	(1,770,899)	0	(1,770,899)
Experience adjustments	(269,715,364)	-	-	(269,715,364)
Total changes related to current services	(269,715,364)	(1,770,899)	(24,223,054)	(295,709,317)
Changes related to future services				
New contracts recognised	(8,150,395)	165,724	(7,984,671)	(15,969,343)
Changes in estimates reflected in CSM	(177,526,860)	2,667,576	174,859,284	-
Changes in estimates resulting in contract losses	(2,271,932)	43,397	-	(2,228,535)
Total changes related to future services	(187,949,187)	2,876,696	166,874,613	(18,197,878)
Changes that relate to past service				
Adjustments to liabilities for incurred claims	(46,984,246)	-	-	(46,984,246)
Total changes that relate to past service	-46,984,246	0	-	(46,984,246)
Insurance service result	504,648,797	(1,105,797)	(142,651,558)	360,891,441
Insurance finance expenses	54,057,261	-	934,728	54,991,989
Total change in comprehensive income	450,591,536	(1,105,797)	(143,586,287)	305,899,452
Total cash flows	272,570,876			272,570,876
Closing insurance contract assets	21,155,262	4,555,394	158,119,478	183,830,134
Closing insurance contract liabilities	-	-	-	-
Net closing balance	21,155,262	4,555,394	158,119,478	183,830,134