160

NATIONAL INSURANCE COMMISSION

HEAD OFFICE: Plot 1239 Ladoke Akintola Boulevard Garki II, Abuja, P.M.B. 457, Garki Abuja, Nigeria ☎:09-8756021
E-mail: info@naicom.gov.ng, Website: www.naicom.gov.ng

NAICOM/SUP/CIRCULAR/04/14 **20th FEBRUARY 2014**

ALL CEOs OF INSURANCE COMAPNIES

Dear Sir/Madam,

2013 ACCOUNTS APPROVAL PROCESS

Background

It is necessary to provide some background information which will set the context for this circular. The Commission decided to facilitate a seamless transition to IFRS because it saw it as an opportunity to improve the quality of financial reporting by insurance companies. It is in this regard that, in addition to awareness, education and experience sharing events held for Directors, CEOs, CFOs and their External Auditors in 2011 /2012; we also made the following arrangements:

- Development of IFRS Harmonization Carve-Outs & Regulatory Requirements:
- Introduction of IFRS compliant Statutory Reporting Format
- Provision of IFRS Help Desk where each company got a minimum of 5 hours attention.
- Issued a circular to draw the attention of relevant Companies to major mistakes observed in 2012 returns submitted by others and how they can be corrected
- Held an experience - sharing meeting for insurers in Abuja, to explain IFRS conversion reconciliations and how to avoid other challenges for the benefit of the 44 Insurers/Reinsurers who were yet to submit their 2012 returns.
- Responded to several phone calls requesting for explanations on one aspect of IFRS or the other.

In view of the foregoing it is proper to state that the Commission invested a lot of resources into ensuring that the industry transited seamlessly to IFRS. In spite of this and the Commission's requirements that parties in financial reporting supply chain should prepare for their roles in the process, the performance of the industry in terms of quality of, submissions and timelines with respect to 2012 returns was below par as the following shows:

- Only one (1) company met the deadline of 30 April, 2013 set by Nigerian Stock Exchange
- Only seventeen (17) companies met the industry statutory reporting deadline of 30th June, 2013.
- Many financial reports contained material errors that needed to be corrected as evidenced by the volume of queries which took a lot of time to prepare.

Consequently, the 2012 approval process became tedious and challenging particularly more because it was the year of transition to IFRS. As indicated above, in anticipation of these difficulties, we took varied steps to minimize (if not prevent) this; regrettably, in addition to a number of cases of deliberate misstatements of certain balances, we discovered that many companies failed to properly discharge their responsibility of ensuring accuracy and completeness of their returns, compliance with IFRS and other regulatory requirements. The review process showed many cases of huge competence deficits in CFOs and Auditors, especially in their failure to give effect to corrections properly explained to them at the helpdesk.

In order to make the 2013 approval process more cost effective for all parties, the Commission took stock of the experience in the last approval process and decided to implement the following changes.

- The Board of Directors will be held accountable for financial returns submitted by each company. In this regard, the Board will be answerable for any errors, omissions or misstatements in financial statements that they have passed. The correction of all errors/ omissions and misstatements will be accompanied by relevant explanations and related corrective Board Resolutions.
- The review process will be carried out at two levels.
    - In the first level, we will rely on the report of the Directors, Auditors, Actuaries and other Professionals involved in the financial reporting process and therefore limit pre-approval reviews to legacy financial reporting issues, compliance with key regulatory requirements, presentation of accounts and obvious problem cases.
    - The second level will be after approval and will involve detailed review of areas requiring further investigations. Any material

162

errors discovered at this stage will, in addition to relevant penalties to be paid, lead to a restatement of the published financial statements. The restatement procedures will be as specified by the Financial Reporting Council.

- Shareholders will be relieved of loss of value attributable to penalties arising from failings in the financial reporting process. In this regard, the prescription of section 90 of the Insurance Act 2003 will be applied. (section reproduced hereunder)

  90.--(1) **Where an offence under this Act has been committed by a body corporate or firm or other association of individuals, a person who at the time of the commission of the offence was an officer or was purporting to act in such capacity is severally guilty of that offence and liable to be proceeded against and punished for the offence in like manner as if he had himself committed the offence, unless he proves that the act or omission constituting the offence took place without his knowledge, consent or connivance.**

  (2) In this section and the other provisions of this Act, officer-

  (a) in relation to a body corporate, includes a director, chief executive, manager and secretary,

  (b) in relation to the firm, includes a partner and other officer thereof, and

  (c) in relation to any other association of individuals, includes a person concerned in the management of the affairs of such association."

- The quality of financial report submitted will be a factor in the rating of insurance companies.
- Auditor and Actuaries who issue reports found to contain material errors or misstatements will be blacklisted and the list shared with other regulators, including the Financial Reporting Council. Where appropriate Professionals concerned will be reported to the Financial Reporting Council as well as their relevant Professional bodies for disciplinary action.
- For all pending issues arising from the review of financial reporting for the year ending December, 2012, the Commission will require the affected Companies to resolve them ahead of submissions of 2013 Audited accounts and returns.
- For year ending 31 December, 2013, in order to facilitate the early approval of each company's financial statements, the following information to be submitted to the Commission ahead of the submission of the audited financials.

  a) Tax Returns for 2011 and 2012

163

b) Details of existing reinsurance arrangements including movement in reinsurance share of claims paid in the format attached.
c) Direct confirmation to the Commission of balances due to/from Reinsurer as at 31st December, 2013
d) Reconciliation Statements between Reinsurer and the Insurer as at 31st December, 2013
e) Copy of the Company's (2013) 3rd quarter returns sent to the Nigerian Stock Exchange.
f) List of outstanding claims above N200,000 as at each quarter ending March, June, September and December 2013 (where this has not been previously forwarded to the Commission)
g) List of claims paid of N200,000 and above
h) Monthly returns on claims paid in 2014
i) For Insurance Company that has Daewoo Loan,
    - The Company should request the Lender to confirm directly to the Commission the amount due to them from the concerned Insurer as at 31st December, 2012 and 2013
    - A copy of the reconciliation of account between concerned Insurer and Daewoo should also be forwarded.

- Since IFRS is dynamic, the Commission will continue to keep its "Help Desk" open in furtherance of its commitment to improving and enhancing financial reporting practices in the Industry. In addition the Commission is open to receiving and will respond to written enquiries from Insurance Companies that need clarification on any element of the regulatory framework. Where necessary as we have always done, we will issue and/or hold interactive sessions

- Our Regulatory Reporting Templates for quarterly and annual returns are under review and the Commission shall issue the revised edition shortly.

Conclusion

Most of the issue that made the 2012 approval process tedious originated from competence deficits in the reporting entities and failure of their Boards to exercise appropriate oversight over their financial reporting practices.

Furthermore, the failure of Insurance Companies to meet reporting deadline is causing serious reputational damage to the industry and we are concerned that this will constrain the effectiveness of the efforts we are making to develop the industry and increase the relative attractiveness of the industry to investors. If existing practice is continued, the affected companies' accessibility to external capital to strengthen their solvency and finance growth will be severely constrained.

However, the Commission shall continue, as it had been doing in the past, to communicate emerging issues on insurance financial reporting to the Industry. Beyond this, we require all stakeholders to engage in serious capacity building for their Accounting staff on the insurance business model and financial reporting to correct the very wide knowledge gap that currently exist. This deficiency which has been exacerbated with the adoption of IFRS in Nigeria needs to be urgently addressed; otherwise we may continue to encounter difficulties and delays in the approval process arising from poor quality financial reports issued by affected companies.

N.O. Opara
Director (Supervision)
For: Commissioner for Insurance