

**PRUDENTIAL GUIDELINES
FOR INSURANCE INSTITUTIONS
IN NIGERIA**

ISSUED BY

**THE NATIONAL INSURANCE
COMMISSION**

**EFFECTIVE
1ST OCTOBER 2022**

TABLE OF CONTENTS

Preamble.....	viii
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PART A: INSURERS AND REINSURERS

1. PROTECTION OF POLICY HOLDERS FUNDS.....	1
1.1.0 Background.....	1
1.2.0 Requirements for Protection of Policyholders Fund.....	1
1.3.0 Ring-Fencing Actions.....	1
2. ANNUAL RETURNS AND ACCOUNTS.....	4
2.1.1 Annual Returns and Accounts.....	4
2.1.2 Annual Returns and Accounts.....	4
2.1.3 Annual Returns and Accounts.....	4
2.1.4 Annual Returns and Accounts.....	4
2.1.5 Annual Returns and Accounts.....	5
2.1.6 Annual Returns and Accounts.....	5
2.1.7 Annual Returns and Accounts.....	5
2.2.0 Accounting Period.....	5
2.3.0 Filing Fees.....	5
2.4.0 Insurance Levy Returns and Recovery of 1% Levy on Approval-In-Principle to Insure Abroad.....	6
2.5.0 Approval of Annual Returns.....	6
2.6.0 Dividend.....	6
2.7.0 Admissible Assets and Liabilities.....	7
2.8.0 Age Analysis of Outstanding Claims.....	7
2.9.0 Trade Receivables (Age Analysis of Trade Receivables).....	8
2.10.0 Impairment.....	8
2.11.0 Quarterly Returns.....	8
2.12.0 Off-Shore Operations.....	9
2.13.0 Penalties.....	9

2.14.0	Disclosure.....	9
2.15.0	Audit.....	9
2.16.0	Claims Reserving Methods and Documentation.....	11
3.	INVESTMENTS.....	12
3.1	Introduction.....	12
3.2	Responsibilities of Board of Directors on Investments.....	12
3.3	Investment Policy.....	12
3.4	Assets and Liabilities Management.....	13
3.5	Investment Management Committee.....	13
3.6	Investment Departments.....	14
3.7	Stress Testing.....	14
3.8	Asset Allocation.....	14
3.8.2	General Requirements.....	16
3.8.3	Policyholders' Fund.....	16
3.8.4	Shareholders' Fund.....	18
3.9	Investment of Proceeds of Capital Raising.....	23
3.10	Investment Accounting and Reporting.....	23
4.	REINSURANCE.....	24
4.1	Reinsurance Arrangements and Exposure Limits.....	24
4.2	Reinsurance Treaties/Arrangements (Except Oil and Gas).....	24
4.3	Reinsurance Arrangement (Oil and Gas Insurance).....	25
4.4	General Requirements for Foreign Facultative Reinsurance Arrangements.....	25
4.5	Requirements for Approval-in-Principle to Reinsure Abroad (AIP).....	27
4.6	Requirements for No Objection.....	28
4.7	Requirements Letter of Attestation (LOA).....	29
4.8	Requirements for Post Placement Reports and Certificate for Offshore Reinsurance (COR).....	29

5.	AVIATION INSURANCE	31
5.1	Background.....	31
5.2	General Requirements for Aviation Insurance.....	31
5.3	Underwriting/Due Diligence.....	31
5.4	Reinsurance/Exposure Limits.....	32
5.5	Submission of Aviation Insurance Returns.....	33
5.6	Compliance.....	33
6.	RISK MANAGEMENT FRAMEWORK FOR INSURERS AND REINSURERS IN NIGERIA	35
6.1	Introduction.....	35
6.2	General Requirements.....	36
6.3	Guidance Notes for Insurers and Reinsurers.....	38
6.3.1	Elements of a Risk Management Strategy.....	38
6.3.2	Risk Management Process.....	39
6.3.3	Material Risks in Insurance.....	40
6.4	Own Risk and Solvency Assessment.....	44
6.5	Financial Condition Report.....	44
7.	ANNUITY BUSINESS	48
7.1	Books of Accounts.....	48
7.2	Investment of Retiree Annuity Funds.....	48
7.3	Liabilities Adequacy Test.....	48
7.4	Returns of Transactions and Reporting Schedule.....	48
7.5	Head of Annuity Unit.....	48
8.	ACTUARIAL FUNCTION	50
8.1	Internal Actuarial Functions.....	50
8.2	External Actuary.....	51
8.3	Embedded values.....	51

9.	OUTSOURCING	52
9.1	Introduction	52
9.2	General Requirements	52
9.3	Broad Classification of Activities	53
9.4	Reporting Requirements	57
9.5	Remedies for Grievances Related to Outsourced Services	57

PART B: INSURANCE INTERMEDIARIES

10.	ACCOUNTS AND RETURNS	58
10.1.	Filing of Annual Returns and Accounts	58
10.2.	Bi-Annual Returns	59
10.3.	Personnel Returns	60
10.4.	Penalties	60
10.5.	Clients' Accounts	60
10.6.	Clients' Bank Account	61
10.7.	Returns on Clients' Account	62
10.8.	Insurance Levy Returns	62
10.9.	Audit	63

PART C: INSURANCE INTERMEDIARIES

11.	DIVESTMENT	64
11.1.	Introduction	64
11.2.	Insurance Companies	64
11.3.	Insurance Brokers	64
11.4.	Investment Through Holding Company	64
11.5.	Foreign Investor	65
11.6.	No Objection 60	65
11.7.	Procedure and Timelines	65
11.8.	Divestment of interest in related enterprises	65

12.	SHARE SERVICES	67
12.1.	Introduction	67
12.2.	General Requirements	67
12.3.	Governance	67
12.4.	Reporting	69
12.5.	Glossary	69
13.	HARMONISATION CARVE-OUT AND REGULATORY REPORTING REQUIREMENTS	70
13.1.	Introduction	70
13.2.	Harmonization Carve-Outs and Regulatory Requirements	70
13.3.	Presentation of Financial Statements (IAS 1)	71
13.4.	Title of the Financial Statements Reporting	71
13.5.	Frequency of Reporting	71
13.6.	Line Items in Statement of Financial Position	71
13.7.	Description of Line Item in Statement of Financial Position	72
13.8.	Classification of Current/non-current items	72
13.9.	Disclosure of Sub-classification of line items	72
13.10.	Disclosure of Elements of Equity	72
13.11.	Financial Statements of Composite Insurers	72
13.12.	Presentation of all Items of Income and expense Recognized in a Period (IAS 1)	73
13.13.	Expense Classification: (IAS 1)	73
13.14.	Income Tax relating to each component of other comprehensive Income (IAS 1)	73
13.15.	Analysis of Other Comprehensive Income (IAS 1)	73
13.16.	Disclosure on Dividends (IAS 1)	73
13.17.	Presentation of the Performance of Life Business	73

13.18. Presentation of Notes.....	74
13.19. Management Commentary.....	74
13.20. Presentation of Statement of Cash Flows.....	74
13.21. Property, Plant and Equipment (IAS 16).....	74
13.22. Depreciation Property, Plant and Equipment.....	75
13.23. Property, Plant and Equipment without Perfected Title Documents.....	75
13.24. Investment Properties (IAS 40)- Measurement after recognition.....	75
13.25. Basis of Determination of Fair Value.....	75
13.26. The Effect of Foreign Exchange Rates (IAS 21)- Presentation Currency.....	76
13.27. Consolidations and Separate Financial Statement (IAS 27).....	76
13.28. Measurement After Recognition.....	76
13.29. Interests in Joint Venture and Associates (IAS 28) Basis of Consolidation.....	76
13.30. Separate Financial Statements of the venture.....	76
13.31. Financial Instruments: Recognition and Measurement (IAS 39/ IFRS 9) Insurance Premium Receivable.....	76
13.32. Unquoted Investment.....	77
13.33. Financial Instruments – Presentation (IAS 32)- Presentation of Dividend.....	77
13.34. Earnings Per Share (IAS 33) Earnings Per Share.....	77
13.35. Provisions, Contingent Liabilities and Contingent Assets (IAS 37) Presentation of Reimbursed/Reimbursable Expense.....	77
13.36. Insurance Contracts (IFRS 4)- Unbundling of Deposit Components in an Insurance Contract.....	78
13.37. Insurance Contracts acquired in a Business combination or Portfolio	

transfer.....	78
13.38. Discretionary Participatory Features (DPF) in Insurance Contracts.....	78
13.39. Information on Sensitivity to Insurance Risk.....	78
13.40. Liability Adequacy Test.....	78
13.41. Non-Current Assets held For Sale and Discontinued operations (IFRS 5)	79
13.42. Financial Instruments: Disclosure (IFRS 7) – Disclosure of categories of Financial assets and Financial Liabilities.....	79
13.43. Disclosure of Specified items of income, Expense, Gains or Losses.....	79
13.44. Information about the nature and the risks arising from Financial Instruments.....	79
13.45. Sensitivity Analysis (IFRS 7).....	80
13.46. Capital Management.....	81
13.47. General Regulatory Requirement	81
13.48. Other Issues.....	81

PREAMBLE

- a. These Guidelines are issued in exercise of the powers conferred on the National Insurance Commission (“the Commission”) under the National Insurance Commission Act 1997 and the Insurance Act 2003.
- b. The Guidelines sets out the minimum prudential standards for underwriting, reinsurance, investments, reserving, outsourcing, intermediary services etc. required from Insurance Institutions to facilitate reliable, sound and sustainable growth of the insurance industry.
- c. It also provides the Board of Directors and Management of insurance institutions with a framework for the establishment of policies and procedures for internal controls.
- d. These Guidelines shall be read in conjunction with the provisions of the Insurance Act as well as other regulations, notices and circulars that the Commission may issue from time to time.
- e. These Guidelines are divided into three parts; viz: Part A applies to insurers and reinsurers; Part B applies to intermediaries; while Part C are for general application.
- f. All Insurance and Reinsurance companies are required to ensure strict compliance with these guidelines by formally directing their staff to comply.
- g. Reference in these guidelines to “insurer” also applies to “reinsurer”; while reference to intermediaries applies to insurance brokers and loss adjusters
- h. Reference to “days” in these Guidelines shall be construed as “working days”, however, where reference is made to 30 or 90 days, calendar days will apply.
- i. Items in any of the previous Guidelines which are not specifically mentioned in these Guidelines are repealed.
- j. These Guidelines shall come into effect on 1st October, 2022.

PART A: INSURERS AND REINSURERS

1. PROTECTION OF POLICYHOLDERS FUND

1.1.0 Background

1.1.1 By the provisions of the Insurance Act 2003, policyholders are protected against the risk of insolvency of an insurance company by not only establishing exclusive Funds but also setting standards for investments representing them. The objective of this Guideline is to ensure that:

- a. Investments held in compliance with Section 25 of the Insurance Act, 2003, are not pledged as security for the borrowings by companies.
- b. Funds relating to annuity and policyholders' Funds are adequately protected in the event of insolvency of an insurance company.
- c. Investments are held in the name of the relevant Insurance Company.
- d. Investments representing insurance Funds are not co-mingled with shareholders' investments.
- e. Asset-liability management strategies are strengthened.

1.2.0 Requirements for Protection of Policyholders' Funds

1.2.1 The following requirements shall apply:

- a. An Insurer shall strictly comply with the requirement of Sections 19 and 25 of the Insurance Act, 2003 at all times.
- b. An Insurer shall ensure that its accounting records show the amounts of Policyholders Funds and related assets at all times. For verification purposes, their periodic financial statements should show the position at least on a monthly basis.
- c. An Insurer's Investment policy shall clearly reflect the requirements of Section 25 of the Insurance Act 2003 and shall include measures to be taken to ensure:
 - i. That investment representing Policyholders Funds are not co-mingled with other Funds in the company's investment registers, in the record of Custodians of relevant assets and/or Registries for their titles.
 - ii. That a notation of proprietary and preferential interests of the policyholders is made in the mandate given to the custodians of the assets or registrars of their titles.

1.3.0 Ring-Fencing Actions:

1.3.1 The requirements above shall be given operational effect by the following ring-fencing actions:

- a. The Custodian of the financial assets (including Bankers) and/or Managers of relevant titles registry such as land registries, Central Securities and Clearing Systems Plc and Company Registrars, shall be required, in writing, to register the interest of policyholders in the assets with the following special notation:
 - i. That the assets shall not be used as collateral for any borrowing of any entity, including the Company itself.
 - ii. That the assets are maintained and shall be held as under the provision of Section 19(3) of the Insurance Act, 2003; and
 - iii. That, in the event of the insolvency or bankruptcy of the Insurer, the assets shall only be applied for the purpose of settling the claims of Policyholders under the control of the National Insurance Commission or its duly appointed agents.
- b. Copies of the letter to Custodian and Managers of titles registry shall be forwarded to the Commission within 5 working days of the inception of the investment or classification of an investment for purposes of this Guideline.
- c. The Custodians (including bankers) and Managers of titles Registries shall be required to confirm the notation of policyholders' interest direct to the Commissioner for Insurance, Plot 1239 Ladoke Akintola Boulevard, Garki II, Abuja.
- d. The withdrawal or disposal of any assets that will result in a shortfall in the asset cover for Policyholders' Funds, without the prior written permission of the National Insurance Commission is hereby prohibited.
- e. The hypothecation of assets representing Policyholders' Funds shall be disclosed in the annual financial statements of the company and any financial summary included in communications with policyholders, any lender or other members of the public. Any deficit shall be disclosed together with steps being taken to make it up.
- f. Assets not in the name of the Insurance Company shall not be acceptable as cover for Policyholders' Funds.
- g. Unsecured loans shall not be accepted as cover for Policyholders' Funds.
- h. Companies are required to report to the Commission any time that their investments cover for Policyholders' Funds fall below the statutory minimum as required by extant law. This notification shall include arrangement, being made to make up the deficiency.

- i. Statement of compliance with this requirement shall be submitted to the Commission on a quarterly basis and shall be signed by the Head of Internal Audit and Chief Compliance Officer.
- j. The financial statements of an Insurance Company shall not be taken to have complied with the requirements of the Insurance Act when the requirement of this Guideline is not complied with.
- k. The penalties payable for non-compliance with this and other Guidelines and Circulars issued by the Commission shall be accounted for in the financial statements issued and Quarterly Returns made by the company.

2. ANNUAL RETURNS AND ACCOUNTS

- 2.1.1 An Insurer is required to submit to the Commission, duly audited financial statements and annual returns in respect of its operations as at the end of the preceding financial year.
- 2.1.2 The duly audited financial statements and annual returns shall be submitted to the Commission in hard and soft copy or in a format to be prescribed from time to time by the Commission.
- 2.1.3 The returns shall be filed on or before 30th June of the following year.
- 2.1.4 The following shall accompany audited Annual Returns:
- a. Letter of Commitment duly signed by the CEO and CFO.
 - b. A copy of Management letter and the response of the Management to the issues raised therein.
 - c. Certificate of solvency issued by the external auditors.
 - d. Certificate of solvency issued by the External Actuary in the case of Life Business.
 - e. The report on Liability Adequacy Test (LAT) issued by the External Actuary.
 - f. Schedule of outstanding premium collected after the year end duly certified by the CEO and the External Auditor:
 - i. In case of insurance – ninety (90) days.
 - ii. In case of facultative reinsurance – fourteen (14) days.
 - iii. In case of treaty reinsurance – as per treaty agreement.
 - g. Details of trade receivables and age analysis at year end (all premiums acknowledged as having been received by the broker/co-Insurer but not yet remitted to the underwriter).
 - h. Completed Form L38 (formerly Form 11E) duly signed by the External Auditor and the CEO.
 - i. Schedule of unearned premium at the year-end (both Life and Non-Life).
 - j. Schedule of outstanding claims at the year end with reasons for their being outstanding (on each case)
 - k. Schedule of Age analysis of outstanding claims and reasons why they remained outstanding indicating the number and amount.
 - l. Claims paid schedule as at year end.
 - m. Claims recovered schedule as at year end.

- n. Claims recoverable schedule on paid and outstanding claims as at year end
 - o. Schedule of claims paid in the subsequent year up to the DATE OF SUBMISSION of annual returns and audited financial statements
 - p. Schedule of Reinsurance assets showing relevant details and age analysis of each transaction per debtor's ledger and a summary thereof.
 - q. Schedule of investments classified according to the funds they represent (policyholders' fund, investment contract funds, shareholders' funds, annuitants' funds, etc.) supported with relevant proof of valuation, existence and ownership. Also state the inception date of each investment with an institution notwithstanding subsequent reinvestment or variation in amount of each investment
 - r. Schedule of Fixed Assets (from ₦500,000.00 and above) purchased during the year and supported with verifiable evidence
 - s. Evidence of payment of filing fees and penalties for late submission, if applicable.
 - t. Risk Management Declaration duly signed by 2 Directors
- 2.1.5 An Insurer shall be deemed to have failed to file its annual returns if the provisions of Section.26 of the Insurance Act 2003 are not met 12 months after the end of the financial year.
- 2.1.6 Statements of Cashflow shall be prepared and presented on Direct Method Basis.
- 2.1.7 The Liability Adequacy Test in 2.4(e) above shall include disclosure on current net cashflow position, the duration, convexity of the assets and liabilities and an estimated movement in the net cashflow for deviations in yields, mortality/longevity risks, etc.
- 2.2.0 Accounting Period:**
- 2.2.1 For purposes of compliance with the above, accounting period shall run from 1st January to 31st December of each year.
- 2.3.0 Filing Fees:**
- 2.3.1 Each company shall at the time of submission of annual returns and audited financial statements pay the following filing fees and as may be prescribed from time to time by the Commission:
- a. Composite Insurers ₦2,000,000.00
 - b. Life Insurers ₦1,000,000.00
 - c. General Insurers ₦1,000,000.00
 - d. Reinsurers ₦2,000,000.00
 - e. Takaful Insurers ₦500,000.00
 - f. Micro insurers ₦300,000.00

2.4.0 Insurance Levy Returns and Recovery of 1% Levy on Approval-In-Principle to Reinsure Abroad (AIP):

- 2.4.1 An Insurer shall, not later than 31st of March of each year, file with the Commission a duly completed schedule of business generated by the insurer in the previous year for the purpose of insurance levy assessment. Assessments made pursuant to the above paragraph shall be confirmed, modified or varied on presentation of audited financial statement as at 31st December of each year. Any amount assessed must be fully settled on or before 30th September of the following year.
- 2.4.2 Every sum payable by an Insurer by way of insurance levy that remained unpaid after 30th September of the year of assessment shall attract interest at the rate of 2 .5% above the Central Bank of Nigeria Monetary Policy Rate (MPR).
- 2.4.3 In order to recover 1% Attestation Levy paid by an Insurer on Approval-In-Principle to Reinsure Abroad, only the Insurer or Lead Insurer that paid the levy to the commission on behalf of other Co-Insurers shall henceforth claim such levy by way of offset from the gross annual levy as assessed by the Commission at the time of processing its annual returns.
- 2.4.4 Any recovery arising on paragraph 2.4.3 shall be by market arrangement between the contracting parties on the AIP

2.5.0 Approval of Annual Returns:

- 2.5.1 An Insurer shall obtain approval to publish its Annual Financial Statements from the Commission before consideration by the shareholders at its Annual General Meeting (AGM).
- 2.5.2 An Insurer shall not publish its financial statements prior to approval by the Commission.
- 2.5.3 An Insurer shall publish the approved Annual Financial Statements in at least one newspaper having wide circulation in Nigeria not later than thirty (30) days from the date of approval.
- 2.5.4 An insurer shall publish the approved Financial Statements on its website not later than thirty (30) days from the date of approval.

2.6.0 Dividend

- 2.6.1 Any dividend distribution shall be subject to submission of prior written application by the insurer and approval of the Commission.
- 2.6.2 All dividend payments shall be made from distributable profits.
- 2.6.3 An insurer shall not distribute or pay any dividend to its shareholders if
- a. It fails to comply with Section 24 and 25 of the Insurance Act, 2003; or
 - b. The payment or distribution would result in it failing or being likely to fail to comply with Section 24 and 25 of the Insurance Act 2003; or
 - c. It fails to satisfy any other prudential requirements.

2.7.0 Admissible Assets and liabilities:

2.7.1 For the avoidance of doubt, the following shall not form part of admissible assets under Section 24 of the Insurance Act, 2003.

- a. All assets not in the name of the Insurer except where the title has reached irrevocable stage of perfection (i.e. stamp duty must have been paid for irrevocable stage to be presumed);
- b. Investment placed with fund managers and deposit with related entities and institutions not under SEC supervision or not insured as a Deposit Money Bank by NDIC;
- c. Investments in excess of the limits prescribed in clause 3.8.1 – 3.8.3 of this Guideline.
- d. Investment in related companies except insurance business;
- e. Goodwill;
- f. Deferred tax assets;
- g. Investment in foreign Securities. Foreign investment shall be any investment in Securities issued outside Nigeria whether quoted or unquoted.
- h. Existing Investments in an unquoted Company that have not reported profit or paid dividend in the preceding three years.
- i. loans (except as provided in Section 25 of Insurance Act, 2003) and loans to related entities.

2.7.2 Proportions of Land & Building and Investment Property admissible for Solvency Margin purposes shall not exceed the sum of:

- a. Real property allocated to policyholders' funds assessed in line with Section 25 of the Insurance Act 2003; and
- b. Real property allocated to shareholders' funds subject to 1/3 of the minimum shareholders' fund.

2.7.3 Reinsurance recoverable on claims paid below 90 days.

2.7.4 Right of Use Asset - Depending on the terms of the lease, the value should not be admissible for solvency purposes except where the asset will revert to the lessee at the end of the terms of the lease arrangement.

2.7.5 Liabilities for the purpose of Section 24 of the Insurance Act, 2003 shall exclude deferred tax.

2.8.0 Age Analysis of Outstanding Claims

2.8.1 An insurer shall disclose in their audited financial statements the sum and number of outstanding claims as at the end of the year according to:

- a. age analysis as follows:

	Days	No. of Claimants	Amount
1	0 – 90 days		
2	91 – 180 days		

3	181 – 270 days		
4	271 – 365 days		
5	Above 365 days		

b. by reasons as follows:

#	Reasons	0 – 90 days		91 – 180 days		181 – 270 days		271 – 365 days		Above 365 days		Total	
		Qty	₱	Qty	₱	Qty	₱	Qty	₱	Qty	₱	Qty	₱
1	Discharged Voucher signed and returned to policyholders												
2	Discharge Vouchers not yet signed												
3	Claims reported but incomplete documentation												
4	Claims reported but being adjusted												
5	Claims repudiated												
6	Awaiting adjusters final report												
7	Litigation awarded												
8	Awaiting Lead Insurer's instruction												
9	Third party liability outstanding												
10	Adjusters fee payable												
11	Etc.												
12	Total												

2.9.0 Trade Receivables (Age Analysis of Trade Receivables)

2.9.1 An insurer shall submit details of each Broker's, Coinsurer's and Reinsurer's indebtedness as at year end.

2.9.2 The submission shall be in the prescribed format.

2.9.3 An Insurer shall disclose in their audited financial statements, the sum outstanding as at year end according to age analysis as follows:

S/No.	Age of Debt	No of Policies	Amount
1	Within 14 Days		
2	Within 15- 30 Days		
3	Within 31 - 90 Days		
4	Within 91- 180 Days		
5	Above 180 Days		

2.9.4 Evidence that an insurer has reported unreceipted premium to the Commission shall be filled for trade receivables above 30 Days.

2.10.0 Impairment

2.10.1 Impairment of assets shall be determined in accordance with the requirements in the applicable IFRS.

2.11.0 Quarterly Returns:

2.11.1 An Insurer shall, within fifteen (15) days from the end of each quarter, file

financial report of its operations as at the end of the quarter in line with the regulatory reporting template.

2.11.2 The comparative figures in the Quarterly Return shall be:

- a. In the case of Statement of Financial Position, the position of the audited/unaudited Financial Statements of the preceding year,
- b. While in the case of income statement, two comparative figures showing the prior quarter position and the prior year-to-date position.

2.11.3 Internal auditor report as stated in paragraph 2.15.10 of this Guidelines.

2.11.4 A Life Insurance Company shall, within fifteen (15) days from the end of each quarter, submit the report of liability adequacy test on its portfolio to show the net cashflows of its projected assets and liabilities which shall include the duration, convexity of the assets and liabilities and an estimate movement in the net cashflows for deviations in yields, mortality/longevity risks, etc.

2.12.0 Off-Shore Operations:

2.12.1 Quarterly and Annual performance report on offshore investments shall be filed with the Commission.

2.12.2 Quarterly and Annual returns on the operations of off-shores subsidiaries shall be filed with the Commission

2.13.0 Penalties

2.13.1 Late filing of Quarterly Financial Reports shall attract a fine as prescribed by the Commission.

2.13.2 An Insurer shall be deemed to have failed to render Quarterly Financial Reports if such Reports are not submitted to the Commission on or before the end of the succeeding month.

2.13.3 Failure to render Quarterly Financial Reports shall attract a penalty as prescribed by the Commission.

2.13.4 Any restatement of Financial Reports necessitating re-filing shall attract a fee equal to the original filing fee.

2.14.0 Disclosure:

2.14.1 **Contraventions:** All contraventions on which penalties have been imposed in any accounting year shall be disclosed in the audited annual accounts to be presented at the Annual General Meeting.

2.15.0 Audit:

2.15.1 All appointment of External Auditor by an Insurer shall be subject to approval by the Commission.

2.15.2 All notifications of the appointment to the Commission shall be accompanied by a copy of the Service Level Agreement (SLA)/Terms of Engagement between the Insurer and the External Auditor.

2.15.3 All Insurers are required to send a profile of their external auditors to the

Commission not later than two (2) months prior to the commencement of each audit. At a minimum, the profile shall contain:

- a. The name of the auditor
- b. The names of the audit partners
- c. Designation
- d. Qualifications
- e. Years of experience
- f. Years of experience in the audit of insurance companies and the names of the Insurer(s)
- g. Evidence of registration with Financial Reporting Council

2.15.4 The tenure of an appointed External Auditor shall be for a period of four (4) years in the first instance and may be re-appointed for a further period of four (4) years and no more.

2.15.5 The audit team shall be rotated at least once every two (2) years.

2.15.6 Where an external auditor ceases to act before the end of his tenure for an insurer, the insurer shall within fourteen (14) days of the cessation, based on the terms of engagement, inform the Commission of the fact of, and any reason for the cessation.

2.15.7 An external auditor shall not later than one month after the end of the audit of the insurer's financial year, report to the Commission under confidential cover, if the auditor is satisfied that:

- a. There has been a contravention of the Insurance Act and this Guidelines or that an offence under any other law has been committed by the insurer or an officer of the insurer.
- b. Losses have been incurred by the insurer which substantially reduce its capital funds.
- c. There has been an irregularity by the directors or senior management which jeopardizes the interest of the policyholders.
- d. There has been an event or occurrence which affects or is likely to affect the auditor's confidence in the competence of the directors or the management to conduct the business of an insurer in a prudent, safe and sound manner.
- e. He is unable to rely on the work of any expert with reasons for non-reliance.

2.15.8 The Commission may direct an insurer to remove any appointed external auditor who act in contravention of or fails deliberately to comply with the provision of this guidelines.

2.15.9 An Insurer is required to establish an Internal Audit unit to be headed by a professionally qualified Accountant who must be a senior Management staff.

2.15.10 The Internal Audit report of an Insurer shall be filed with the Commission not later than fifteen (15) days from the end of every quarter. The report shall contain at least the following headings:

- a. Executive summary of significant findings
- b. Status of prior audit findings
- c. Details of current period audit activities/findings; indicating the audit subject, objective, findings, auditee's response and auditor's recommendation.

2.16.0 Claims Reserving Methods and Documentation

2.16.1 Insurers shall have appropriate claims reserving policies and procedures approved by its Board of Directors. At a minimum such policies shall include the following:

- a. The date on which the reserve shall be initiated;
- b. The process to be followed to adjust the initial reserve amount;
- c. The method of reserving for each form or category of insurance acceptance.
- d. The measurement method to be used (case estimates and or any triangulation estimate); and
- e. Authorization limits to adjust reserves.

2.16.2 The insurer shall have documented methods for quantifying claims reserves. The reserve shall be:

- a. Established upon the notification of a claim;
- b. Updated when additional information is received to ensure that it reflects the anticipated extent of the liability; and
- c. Reviewed on an on-going basis.

2.16.3 The insurer shall therefore develop a proper procedure for coding/registration and statistical processing of claims. This would involve the use of claims reserving methods such as case estimates and/or triangulation estimates per class of business.

2.16.4 An insurer shall in addition to the reserves required to be included pursuant to the provisions of the Insurance Act 2003 and any other relevant regulation, provide reserves for meeting outstanding claims.

2.16.5 An insurer shall furnish to the Commission such details of the methods used in calculating the reserves to be provided.

2.16.6 The Commission may disallow any method used in calculating the reserves where it is satisfied that the method does not result in the provision of adequate reserves

3. INVESTMENTS

3.1.0 Introduction

3.1.1 Investment is a core function of an Insurer which requires regulatory consideration to ensure that all Insurers maintain admissible investments sufficient and adequate to meet its statutory obligations.

3.1.2 The purpose of these guidelines is to ensure that the assets of insurers at all times are managed in a manner that is consistent with insurers' liability profiles and that investments are made in a sound and prudent manner taking into consideration the security, liquidity, diversification and return on investment

3.2.0 Responsibilities of Board of Directors on Investment

3.2.1 The Board of Directors shall be responsible for the formulation and approval of the strategic investment policy, taking account of the applicable regulation, the analysis of the asset/liability relationship, the insurer's overall risk tolerance, its long-term risk-return requirements, its liquidity requirements and its solvency position.

3.2.2 The Board of Directors should be responsible for establishing policies on related issues of a more operational nature, including the selection and use of brokers and the methodology and frequency of the performance measurement and analysis

3.2.3 The Board of Directors must always retain ultimate responsibility for the company's investment policy and procedures, regardless of the extent to which associated activities and functions are delegated

3.2.4 The Board of Directors must ensure that adequate controls, including management reporting and internal audit of the insurer are in place, and designed to monitor that assets are being managed in accordance with the investment policy and mandate(s), and legal and regulatory requirements

3.2.5 The Board of Directors shall, at least annually, review the adequacy of its overall investment policy in the light of the insurance company's activities, and its overall risk tolerance, long-term risk-return requirements and solvency position.

3.3.0 Investment Policy

3.3.1 An Insurer is required to have a written investment policy approved by the Board of Directors which shall guide it in acquiring, exchanging, holding, selling and managing investments.

3.3.2 The Board shall review the investment policy and its implementations on an annual basis or at shorter intervals as it may decide and make such modifications to the investment policy as is necessary to bring it in line with the investment provisions of the extant Laws and Regulations; keeping in mind protection of policyholders' interest and pattern of investment laid down in these Guidelines or in terms of the agreement entered into with the policyholders

- 3.3.3 At a minimum, the policy shall address the following:
- a. Policies, Procedures and Controls covering all aspects of the investing activities;
 - b. Quantified objectives regarding the composition of classes of investments, including maximum internal limits;
 - c. Periodic evaluation of the investment portfolios as to their risk and reward characteristics;
 - d. Competency requirements for the individuals making day-to-day investment decisions to assure that investments are managed in an ethical and capable manner;
 - e. The types of investments to be made and those to be avoided based on their risk and reward characteristics and the Insurer's level of experience with the investments;
 - f. The relationship of classes of investments to the Insurer's liabilities;
 - g. The Insurer's investment evaluation criteria and the manner of its implementation;
 - h. The level of investment risk (based on quantitative measures) appropriate for the Insurer given the level of capitalization and expertise available to the Insurer.
- 3.3.4 The details of the Investment Policy or its review as periodically decided by the Board shall be made available to the internal auditor. The auditor shall comment on such review and its impact on the investment operations, systems and processes in their report to be placed before the Board Audit Committee.
- 3.3.5 The investment policy as approved by the Board shall be filed with the Commission on annual basis. All subsequent reviews shall be filed with the Commission highlighting all areas where changes have been made.
- 3.4.0 Asset-Liability Management**
- 3.4.1 An insurer shall put in place an effective procedure for monitoring and managing their assets and liability positions to ensure that their investment activities and asset positions are adequate to settle their liabilities when they become due.
- 3.4.2 An insurer shall develop an asset-liability management policy which should be appropriate to the nature, scale and complexity of the insurer's operation.
- 3.4.3 An insurer shall prepare regular and timely reports on the status of asset-liability matching and such report shall be submitted to the Commission not later than fifteen (15) days after the end of every quarter
- 3.5.0 Investment Management Committee**
- 3.5.1 An Insurer shall constitute a Management Investment Committee. The minutes of the meeting including the resolutions thereof shall be maintained.

- 3.5.2 The Investment Committee shall:
- a. Ensure compliance with the Board approved investment policy.
 - b. Consider and recommend optimal investment mix consistent with risk profile approved by the Board of the Insurer
 - c. Evaluate report on the value of the daily marked-to-market portfolios and make proposals to the Management of the Insurer.
 - d. On periodic basis, review the performance of the major Securities of the investment portfolios of the Insurer.
 - e. Carry out such other functions relating to investment strategy as the Board of the Insurer may from time to time determine.

3.6.0 Investment Department/Unit

- 3.6.1 An insurer shall establish and maintain an Investment Department/unit to be headed by an experienced management staff who shall be a member of the Management Investment Committee.
- 3.6.2 The insurer shall file with the Commission on quarterly basis (15days after end of quarter) a report on its investments.

3.7.0 Stress testing

- 3.7.1 An insurer shall develop a framework on stress testing; and routinely carry out stress testing so as to identify vulnerabilities and assess their impact
- 3.7.2 An insurer shall consider appropriate assumptions, design scenarios and carry out stress-testing in order to assess the impact of adverse market conditions on its investments while taking into consideration the risk associated with the investments
- 3.7.3 The stress-testing shall be discussed among the board of directors, senior management and staff assigned to manage insurer's investments. This shall be supported by appropriate documentation for the purpose of an independent review
- 3.7.4 Where an insurer identifies any vulnerability that could impact on its investment, the insurer shall take appropriate action to remedy the vulnerability
- 3.7.5 The report of the stress-testing shall be submitted to the Commission not later than fifteen (15) days after the end of every quarter.

3.8.0 Asset Allocation:

- 3.8.1 An Insurer shall structure its investment portfolio to meet the minimum requirements of the Insurance Act 2003 and minimize risk that could arise from over-concentration of assets in terms of security, type and maturity as follows:

3.8.2 General Requirements

- 3.8.2.1 All investment decisions shall be guided by the Board approved investment policy, and the basis for investment selection shall be properly documented for independent review.

- 3.8.2.2 An insurer shall invest its funds' assets with the objectives of ensuring that, for its portfolio as a whole;
- a. assets are sufficiently secure
 - b. assets generate sufficient cashflows to pay all its obligations when due and maintains fair returns
 - c. assets are adequately diversified.
- 3.8.2.3 No insurer shall invest in any asset whose risks it cannot properly assess and manage; and all investments shall be kept in the name of the insurer.
- 3.8.2.4 Investment in derivatives shall not exceed 5% of shareholders' fund. Such investments shall be for risk management purposes only and must be approved by the Commission.
- 3.8.2.5 No insurer shall have more than 20% of the total current accounts balances and bank placements domiciled in any one bank regulated by CBN. Any amount above the 20% threshold shall not be allowed for Solvency Margin purpose.
- 3.8.2.6 No insurer shall have more than 20% of the total current accounts balances and placements domiciled in Non-Bank Financial Institutions regulated by SEC. Any amount above the 20% threshold shall not be allowed for Solvency Margin purpose.
- 3.8.2.7 No Takaful insurer shall have more than 25% of the total accounts balances domiciled in any one bank regulated by the CBN. Any amount above the 25% threshold shall not be allowed for solvency Margin purpose.
- 3.8.2.8 No Insurer shall invest its fund in equity or debt instruments issued by its parent company, co-subsidiaries of the parent company and any entity where the Directors and Significant Shareholders of the insurer have investment interests.
- 3.8.2.9 No Insurer shall invest in any company that either has not reported profits or paid dividend in the preceding three years. An exception to this is where the additional investment is statutorily required or a new company that has a grace period of 5 years to breakeven.
- 3.8.2.10 No Insurer shall outsource its investment functions, except investment with portfolio managers regulated by SEC under a Custodian arrangement. The portfolio management agreement shall be approved by the Commission before effecting the relationship.
- 3.8.2.11 No Insurer shall invest in Commercial Papers not issued through a trading facility registered by SEC and/or CBN, and must have a rating not lower than investment grade by a recognized rating agency.
- 3.8.2.12 The following conditions shall apply to borrowings by an Insurer:
- a. No insurer shall borrow an amount up to 2.5% of its shareholders' funds without the approval of the Commission.
 - b. Any borrowing that will result in the total borrowings exceeding 5% of

the shareholders' fund shall be with the approval of the Commission.

- c. An Insurer's total borrowings at any given time shall not exceed 10% of its shareholders fund.
- d. Any borrowing with option to convert to equity of the company shall be with the approval of the Commission.

3.8.3 Policyholders' Fund:

3.8.3.1 Subject to the liquidity required for relevant obligations of the Insurers/ Reinsurers, the following limits shall be observed with regards to investment-type decision on Policyholders' funds:

- a. Debts and Equity Securities offered by any one company, not more than 20% of Policyholders fund
- b. Quoted equity, including Global Depository Receipt (GDR) not more than 30% (in total), and not more than 10% of Policyholders fund per issuer.
- c. Unquoted equity: not more than 10% (in total); not more than 5% (per issuer) of Policyholders fund. This investment shall be in a company that has minimum corporate rating of investment grade by at least one recognized risk rating agency.
- d. Federal Government Securities, including Sukuk, Infrastructure bonds and Eurobond (in total): not less than 35% of policyholders fund.
- e. State Government Securities, including Sukuk, mortgage bonds and Eurobond (in total), not more than 20% of policyholders' funds, which must be guaranteed by Federal Government and approved by SEC.
- f. Debt instrument, including Sukuk, Asset Backed Securities (ABS), Mortgage Backed Securities (MBS), Global Depository Notes (GDN), Eurobond and Infrastructural Bonds issued by corporate entities (in total), not more than 10% of Policyholders fund (in total), and not more than 5% per issuer.
- g. Equipment leasing, not more than 5%
- h. Real estate:
 - i. In the case of Life insurance funds, not more than 35% and
 - ii. In the case of Non-life insurance funds, not more than 25%

3.8.3.2 Any investment beyond the threshold prescribed above (i–viii) shall be subject to the Commission's prior approval.

3.8.3.3 Policyholders' funds may be invested in debt instruments issued by the Federal Government of Nigeria or Central Bank of Nigeria, if such Securities are;

- a. Readily marketable i.e. listed/proposed for listing on a registered

- Securities Exchange and;
 - b. Issued in accordance with existing relevant legislation(s).
- 3.8.3.4 Policyholders' funds may be invested in debt instruments issued by any State Government, provided such Securities;
- a. Have the full guarantee of the Federal Government
 - b. Are readily marketable i.e. listed/proposed for listing on a registered Securities Exchange; and
 - c. Are issued in accordance with existing relevant legislation(s).
- 3.8.3.5 Policyholders' funds may be invested in debt instruments issued by Corporate entities if:
- a. They have clearly defined term/maturity features, periodic and terminal payout, as well as interim, terminal and contingency redemption features.
 - b. They must have been lawfully issued.
 - c. Investment shall be in a company that has minimum corporate rating of investment grade range by at least one recognised risk rating agency
 - d. They are quoted on a registered Security Exchange or listed on the 2nd tier of a registered Stock exchange.
- 3.8.3.6 An Insurer shall not invest policyholders' funds in the shares or any other Securities issued by the following:
- a. Own shares;
 - b. A Significant shareholder and Director of the Insurer;
 - c. Subsidiaries or Associates, Joint ventures and affiliates of the company or its shareholders.
- 3.8.3.7 An Insurer shall not sell, transfer or exchange policyholders' funds assets to:
- a. Itself
 - b. Any shareholder, Director or affiliate of the Insurer
 - c. Any employee of the Insurer
 - d. Other related party (related party as defined by accounting standard)
- 3.8.3.8 Policyholders' funds shall not be pledged as collateral for any borrowing by an Insurer.
- 3.8.3.9 Policyholders' funds shall not be invested offshore. Where there is offshore policyholders' liability, the insurer shall hold equivalent offshore investments.

3.8.4 Shareholders' Funds:

3.8.4.1 Investment of shareholders' funds in unquoted equity, including investments in associates, subsidiaries, joint ventures and other related companies shall be limited to 20% of such funds. This investment shall be in a company that has minimum rating of investment grade range by at least one recognised risk rating agency.

3.8.4.2 The limit in (a) above shall not apply to investments in insurance and insurance related businesses such as pension, workmen compensation, health insurance and other similar businesses.

a. Investments of shareholders' funds in collective investment funds (such as Unit trust, open-ended investment companies, Real Estate Investment Trust scheme (REITS), Exchange Traded Funds (ETF) and similar non-interest (Shariah compliant funds) shall be limited to 10% of shareholders' funds (maximum of 5% of such funds per any one issuer).

b. Investment of shareholders' funds in infrastructure funds registered by SEC shall be limited to 10% of shareholders' funds (maximum of 5% of such funds per any one issuer).

c. Investment of shareholders' funds in Supranational Bonds, Sukuk and Eurobonds (excluding foreign Eurobonds) issued by eligible Multilateral Development Financial Organisation (MDFO) in which Nigeria is a member (e.g. World Bank Group, African Development Bank, International Financial Corporation, etc.) shall be limited to 20%.

d. Investment of shareholders' funds in Assets Backed Securities (ABS) including Mortgage Bond and Mortgage Backed Securities (MBS) shall be limited to 10% (maximum of 5% of such funds per any one issuer).

e. Investments in "b", "c", "d" and "f" above shall be with the approval of the Commission.

f. Any investments of Shareholders' funds above the threshold provided in (a) above shall be subject to the prior approval of the Commission.

g. Investment of shareholders' funds offshore shall be subject to the Commission's approval.

3.8.4.3 **For investments in c, d, e and f above; the following conditions shall apply:**

a. Collective Investment Funds:

i. The Fund is approved and registered by SEC.

ii. The Fund has memorandum listing on a Securities Exchange registered by SEC.

iii. The Promoters shall retain a minimum percentage of the Fund,

subject to SEC Rules. This shall however not apply to Open-end Funds.

- iv. The Principals managing the Funds shall each have a minimum of ten (10) years relevant and continuous investment management experience, five (5) years of which must have been in senior management positions.
- v. There are full disclosures of information on the Fund to investors including investment and risk management strategies, corporate governance standards, yearly audited financial statements, amongst others.

3.8.4.4 Where it is an Exchange Traded Fund (ETFs):

- a. The Sponsor and Fund Manager are recognized or registered with SEC.
- b. It shall be listed and trade-able on a Securities Exchange registered by SEC.
- c. The Fund Manager shall possess the relevant expertise to issue the ETF as well as establish and maintain a secondary market for the issuance.
- d. The underlying securities or assets of the ETF shall be held in a Custody arrangement or Depository Account approved or recognized by SEC.

3.8.4.5 Where it is a Real Estate Investment Trusts (REITs)

- a. The Fund is approved and registered by SEC.
- b. Shall have a minimum credit rating of investment grade range by a registered and recognized Rating Company.
- c. The minimum rating specified above shall be maintained throughout the tenor of the investments.
- d. If at any time an existing investment is no longer authorized, as a result of either a credit rating withdrawal or a credit rating downgrade or for any other reason, the Insurer shall forward its exit strategy to the Commission within 30 days.
- e. The Insurer shall not rely only on ratings assigned by Rating Companies, as they are only complementary to the Insurer's internal due diligence and analysis, before investment in any instrument or issuer.
- f. However, where it is an Initial Public Offer, the Fund Manager shall have a minimum Investment Manager rating of 'BBB'.
- g. The Principal Officers of the Fund shall have a minimum of 10 years relevant investment management experience or relevant project management experience, five years of which must have

been in senior management positions.

- h. The face value of the issue is not less than N1 billion.
- i. The Prospectus shall specifically state that the securities shall subsequently be listed or have memorandum listing on a registered and recognized Securities Exchange within a stipulated period.
- j. The Promoters shall retain a minimum of 5% of the Fund, subject to SEC Rule, issued from time to time.
- k. Make full disclosure of information on the Fund to investors, including corporate governance standards, annual valuation reports of underlying assets and any information necessary for assessing inherent risks in each investment, including issues of title to land and properties.

3.8.4.6 Infrastructure Funds registered with SEC.

- a. The infrastructure project shall be:
 - i. Not less than N5 billion in value.
 - ii. awarded to a concessionaire with good track record through an open and transparent bidding process in accordance with the due process requirements set out in the Infrastructure Concession and Regulatory Commission Act (ICRC Act) and any regulation made pursuant thereto and certified by the Infrastructure Concession and Regulatory Commission (ICRC) and approved by the Federal Executive Council (FEC).
 - iii. Core infrastructure projects, whose business plans and financial projections indicate that they are viable as well as economically and financially rewarding for investment by Policyholders' Funds/Shareholders' Funds.
- b. The bonds or sukuks issued to finance the infrastructure project shall:
 - i. Have been duly issued.
 - ii. Shall have a minimum credit rating of an investment grade range by a registered and recognized Rating Company.
 - iii. The minimum rating specified above shall be maintained throughout the tenor of the investments.
 - iv. If at any time an existing investment is no longer authorized, as a result of either a credit rating withdrawal or a credit rating downgrade or for any other reason, the Insurer shall forward its exit strategy to the Commission within 30 days.
 - v. The Insurer shall not rely only on ratings assigned by Rating Companies, as they are only complementary to The Insure internal due diligence and analysis, before investment in any instrument or issuer.

- vi. Have clearly defined term/maturity feature, periodic and terminal payout.
 - vii. Where such securities have any embedded options e.g. call option, put option, etc. they must be clearly stated in the offer document/prospectus.
 - viii. The securities are to be listed on a securities exchange registered by SEC or tradable on any trading facility approved by the Central Bank of Nigeria.
 - ix. Have robust credit enhancements e.g. guarantees by the Federal Government or eligible bank/ development finance institution or MDFOs.
 - x. Have a maturity date that precedes the expiration of the concession; and
 - xi. Have a feasible and enforceable redemption procedure in the event of project suspension, cancellation or, in the case of regulated sectors, when changes in regulatory or policy decisions make the project to differ significantly from its original financial projections.
- c. Where infrastructure projects are financed through Infrastructure Funds, Policyholders' Funds/Shareholders' Funds investments shall be subject to the following additional requirements:
- i. The value of the Infrastructure Fund shall not be less than N5billion.
 - ii. The Infrastructure Fund shall have well defined and publicized investment objectives and strategy as well as disclosures of pricing of underlying assets, including any other necessary information.
 - iii. All annual financial statements of the Fund shall be audited by reputable firms of chartered accountants.
 - iv. The Infrastructure Fund shall have satisfactory pre-defined liquidity/exit routes such as IPO, sale to other PE Funds, Trade sale, sale to a strategic investor etc.
 - v. The Funds shall be managed by experienced Fund Managers, versed in infrastructure financing and registered with the SEC as Fund Managers.
 - vi. A minimum of 60% of the Infrastructure Fund shall be invested in projects within Nigeria.
 - vii. The key Principals, namely the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), of the Fund Manager shall each have at least ten (10) years relevant and continuous experience in infrastructure financing or investment management; and shall not exit the Fund without prior notice

to the insurers, which shall not be less than 90days from the exit date. This 'exit clause' shall be expressly stated as a condition in the investment agreement/ covenant between the insurer and the Fund Manager.

- viii. Where an Infrastructure Fund does not have Development Finance Institutions or MDFOs as co-investors, but the Fund Manager has a minimum Investment Manager rating of BBB issued by a rating company registered or recognized by SEC, the Fund Manager shall retain a minimum investment of 3% of the Infrastructure Fund.
- ix. Where the Infrastructure Fund has Development Finance Institutions or Multilateral Development Finance Organizations as co-investors, the Fund Manager shall retain a minimum of 1% of the Infrastructure Fund.
- x. The Fund shall have an Advisory Board with independent representatives of institutional investors being in majority.
- d. Prior to investment as well as during the tenor of investment in any Infrastructure Fund, the insurers are to ensure that the above-mentioned Advisory Board has responsibility over audit functions regarding:
 - i. The evaluation of projects prior to investment;
 - ii. Transactions with parties related to the Infrastructure Fund Manager;
 - iii. Strategies concerning divestiture of investments in which the Private Equity Fund has interests.

3.8.4.7 Supranational Bonds and Sukuk issued by eligible MDFOs.

- a. The bonds/debt instruments in which Policyholders' Funds/Shareholders' Funds assets are to be invested, shall have a minimum credit rating of an investment grade by a registered or recognized Rating Agency.
- b. The issue is approved by the CBN and/or SEC.
- c. A minimum of 60% of the proceeds are utilized for projects within Nigeria.
- d. The amount on issue shall not be less than N5 billion.

3.8.4.8 Asset Backed Securities (ABS) including Mortgage Bonds and Mortgage Backed Securities or Sukuk:

- a. Shall have a minimum credit rating of an investment grade by a registered or recognized Rating Agency.
- b. The minimum rating specified above shall be maintained throughout the tenor of the investments.

- c. If at any time an existing investment is no longer authorized, as a result of either a credit rating withdrawal or a credit rating downgrade or for any other reason, the Insurer shall forward its exit strategy to the Commission within 30 days.
- d. The Insurer shall, in addition to ratings assigned by Rating Agencies, conduct internal due diligence and analysis before investment in any instrument.
- e. The market value of the mortgages securitizing the issued MBS shall not be lower than the ratio 1.3:1. Any shortfall in the value of the collateral can be made up by FGN Securities. The face value of the shortfall shall not exceed 25% of the MBS.
- f. They are trade-able on a securities exchange registered by SEC.
- g. Make full disclosure of information on the MBS to investors including corporate governance standards, annual valuation reports of underlying pool of assets backing the securities, and any other information necessary for assessing inherent risks in each investment, including issues of title to land and properties.

3.9.0 Investment of proceeds of capital raisings:

- 3.9.1 An Insurer can invest not more than 25% of the proceeds of public offers and private placements of shares in non-insurance related companies or ventures provided the amount is not greater than the limit in 3.8.3(a) above.

3.10.0 Investment Accounting and Reporting

- 3.10.1 **Valuation of Investments** – Valuation rules for both financial reporting and solvency assessments will be as prescribed by International Financial Reporting Standards (IFRS), except where the Commission directed otherwise for the purpose of regulatory reporting.
- 3.10.2 In line with Section 17(1) (f) of the Insurance Act 2003, an Insurer is required to keep and maintain a register of all investments.
- 3.10.3 All investments representing insurance and annuity funds (where ring fenced) shall be specifically indicated in the records of the Custodians/Registrars.
- 3.10.4 All Investments relating to insurance and annuity funds shall be distinguished from those representing other funds in the financial statements.

4. REINSURANCE

4.1.0 Reinsurance Arrangements and Exposure Limits:

4.1.1 All Reinsurance Treaties and Retrocession must comply with the following minimum requirements:

- a. In exercise of the powers conferred on the Commission by the provisions of Section 72 (2) (f) of the Insurance Act, 2003, all insurance or reinsurance businesses have been domesticated. All foreign placements shall be by way of reinsurance only subject to the prior approval of the Commission.
- b. All reinsurance/retrocession arrangements must be in line with the annual reinsurance programme of the Company as approved by the Board of Directors.
- c. The Foreign Reinsurer(s) shall, at a minimum, have a Financial Strength Rating (FSR) of excellent category or a credit rating of investment grade by an internationally recognized rating agency, in addition to a market reputation for claim settlement.
- d. An insurer shall not expose itself and/or its shareholders' fund by accepting any risk for which, in the event of a loss, it does not have the requisite financial capacity and/or reinsurance support to settle the corresponding claims.
- e. An insurer shall ensure that, where reinsurance support (treaty or facultative) is obtained, the requisite reinsurance premium is paid in accordance with the terms and conditions of the reinsurance contract.
- f. For purposes of documentation, an insurer shall, in respect of its facility declarations and other facultative placements, obtain necessary reinsurance confirmation/evidence of cover for its records prior to inception of the policy. Where this is not possible owing to the peculiar or exceptional nature of the placement, it shall be done within a reasonable time but not later than 30 days after inception.
- g. During treaty renewals/negotiations, available local reinsurance capacity must be exhausted prior to any foreign treaty placement.

4.2.0 Reinsurance Treaties/Arrangements (except Oil and Gas):

4.2.1 An Insurer shall ensure that the Treaty Slips are fully signed by all the participating Reinsurers.

4.2.2 All Reinsurance Treaties and Life Treaty Cover-notes/addendum/endorsements, for the following year, shall be filed with the Commission on or before 31st December of the preceding Year or 15 days before the effective renewal date for those whose treaty renewal dates do not fall on 1st of January. In both cases, the submissions shall also be accompanied by the following:

- a. Signed slips of all reinsurance arrangements and not only Cover-

notes issued/signed by the reinsurance brokers;

- b. Evidence of premium remittance for the previous Four (4) Quarters, (i.e. 4th, 1st, 2nd and 3rd Quarters);
- c. Evidence of payment of Minimum and Deposit (M&D) Premium for the following year on the General business Treaties; and
- d. The Financial Strength Rating of the foreign Reinsurers.

4.3.0 Reinsurance Arrangements (Oil and Gas Insurance):

The following requirements shall be in addition to the requirements of the Guidelines for Oil and Gas Insurance in Nigeria.

- 4.3.1 All Reinsurance Treaties/Arrangements, for the following year, shall be filed with the Commission on or before 15th December of the preceding Year or 15 days before the effective renewal date for those whose treaty renewal dates do not fall on 1st of January. The reinsurance arrangements shall be duly signed by the Reinsurers/Security Providers and accompanied by a formal Letter from the Reinsurers stating in numerical terms their maximum capacity for Operational Risks and Construction Risks.
- 4.3.2 Where an insurer purchases non-proportional excess of loss reinsurance, the reinsurance treaty/facility must state the maximum capacity granted to the insurer in numeric terms. For proportional treaty/facility, the reinsurance treaty or facility must state proportional line share and the maximum capacity granted in numeric terms.
- 4.3.3 Where excess of loss reinsurance is purchased, the deductible must not be more than 2.5% of Shareholders' Fund (SHF) for construction risk and 5% of SHF for operational risks. For proportional treaty/facility, the insurer's retention shall not be more than 2.5% of SHF for construction risk and 5% of SHF for operational risks.
- 4.3.4 No reinsurer/security provider shall grant Oil & Gas Reinsurance cover to Local Insurer(s), on the aggregate, more than its known maximum capacity. Thus it shall be the duty of the local insurer to ensure that it is apprised of the aggregate capacity of the reinsurer(s) and total prior exposure of the prospective reinsurer/security provider(s) to other Nigerian local insurers, to enable determination of available capacity of the reinsurer(s) prior to accepting reinsurance cover from the reinsurer.
- 4.3.5 Reinsurance premium remittance by any insurer in contravention of the above shall attract a penalty of 5 times the reinsurance premium paid to the reinsurer.

4.4.0 General Requirements for All Foreign Facultative Reinsurance Arrangements:

- 4.4.1 Foreign facultative insurance/reinsurance placement of all risks from Nigeria must comply with Section 72 (4) of the Insurance Act 2003 which requires prior approval of the Commission. All intending applicants for Offshore Placement are required to comply with these requirements.

- 4.4.2 An Insurer that intends to arrange any facultative reinsurance of any risk abroad shall apply for Approval-in-Principle (AIP) and subsequently submit Post Placement Reports for issuance of Certificate for Offshore Reinsurance (COR) within the timeline required.
- 4.4.3 It is the duty of the Lead Insurer/Coinsurer to arrange appropriate reinsurance for a risk. The Insurer may handle the reinsurance arrangements by itself or appoint a Reinsurance Broker to place the risk on its behalf.
- 4.4.4 Where the Insurer intends to utilize the services of a Reinsurance Broker to place the reinsurance and/or apply for the Commission's Approval-in-Principle (AIP) to reinsure a proportion of any risk abroad, the Insurer may issue a Letter of Authority to the Broker, appointing the Broker as the Reinsurance Brokers for that particular risk.
- 4.4.5 Where a Letter of Authority has been issued to the Reinsurance Broker, it shall be the responsibility of the Broker to ensure compliance with local content requirements as may be required by the Commission. Where no such authority has been issued, the responsibility shall lie with the Lead Insurer.
- 4.4.6 In order to reduce undue exposure of Policyholders and Insurers to potential unprotected proportion of a risk as well as to provide time for review of request for Approval-In-Principle, all applications must be submitted to the Commission at least ten (10) days prior to the commencement period of insurance.
- 4.4.7 There shall be no Assignment of a Reinsurance Policy. The financial interest of a third party may, however, be noted in the reinsurance policy by way of either a "Loss Payee" or "Lien Clause" or other related conventional reinsurance clauses.
- 4.4.8 There shall be no Direct Premium Payment Cut through Clause which allows direct payment of premium to the Reinsurer or its Agent by the Insured.
- 4.4.9 All Primary Policies must unambiguously state the Order Hereon to read 100% of 100%, while the Reinsurance Slip must state the exact proportion intended to be ceded offshore.
- 4.4.10 All applications for Approval in Principle, Letter of Attestation and Certificate of Offshore Reinsurance shall be filed in compliance with the template as prescribed by the Commission. Non-utilization of the template for applications would be rejected by the Commission.
- 4.4.11 Incomplete submission shall henceforth be treated as non-submission and a fresh application shall be required. All prospective applicants are therefore required to ensure strict compliance with the procedure and documentary requirements for each category of application.
- 4.4.12 All applications adjudged to have material non-compliance with the

requirements of the law would be disapproved. Applicants are therefore strongly advised to note and be guided accordingly. The applicant would be duly notified.

- 4.4.13 Failure to provide further clarification or documents required by the Commission within the timeline specified in the letter will result in closure of the file. All such applicants shall have to file a new application with all documentary requirements.
- 4.4.14 Where Approval-in-Principle (AIP) has been granted by the Commission, the applicant (Insurer or Reinsurance Broker) shall, within Ninety (90) days from the date of issuance of the AIP or Thirty (30) days from the date of issuance of the Letter of Attestation, whichever is earlier, submit a Post-Placement Report and apply for Certificate for Offshore Reinsurance. The Post-Placement Report shall contain the requisite information as may be required by the commission and as indicates in the relevant paragraphs.
- 4.4.15 The effective period of all foreign facultative reinsurance placement shall be as indicated in the letter conveying Approval-In-Principles. Insurers are required to note that the approved effective period on the AIP is strictly for the reinsurance proportion of the risk as all primary insurance placements are wholly placed locally for which the approval of the Commission is not required

4.5.0 Requirements for Approval-In-Principle to Reinsure Abroad (AIP)

- 4.5.1 All requests for Approval-in-Principle to place a specified proportion of risk abroad must be accompanied by the following:
- a. Details of the Risk: the Specimen Primary policy.
 - b. Copy of the Specimen Local Brokers Slip (where necessary).
 - c. Copy of the specimen Foreign Reinsurance Slip.
 - d. Sum insured – which should where necessary, include the Combined Single Limit or Loss Limit or Estimated Maximum Loss.
 - e. Detailed Premium Worksheet.
 - f. Proportion of the risk to be retained in the Nigeria market.
 - g. Proportion of the risk to be ceded abroad.
 - h. Schedule of proposed participating local underwriters and the allotted proportion.
 - i. Evidence of having offered all other Local Insurers and their responses (declinature) thereto.
 - j. Details of local Broker Involved (including contact e-mails, telephone and address of the CEO of the broking firm).
 - k. Details of the intended foreign reinsurer(s) and foreign reinsurance broker(s) stating:
 - i. Name of the company(ies),
 - ii. Addresses,
 - iii. Total Proportion of risk to be ceded offshore,

- iv. Phone numbers/email addresses of contact persons.
 - v. Current financial strength rating of each of the intended foreign reinsurer(s).
 - vi. Intended Foreign Reinsurers' Country of Registration/ License.
- l. Letter of Authority from the Lead/Ceding Insurer (where the application is filed by a Broker).
 - m. Statement of compliance with Maximum Exposure Limits (retention/deductible) with respect to percentage of Shareholders Fund (2.5% for construction and 5% for Operational risks in respect of Oil and Gas Risks).
 - n. An undertaking to remit the corresponding 1% Levy (on the Gross Premium) to the Commission in respect of each transaction.
 - o. Confirmation that the proposed policy is in conformity with the Nigerian Civil Aviation Authority Act's current minimum passenger liability limit in relation to Aviation risks.
 - p. Such other requirements as may be prescribed by the Commission from time to time.

4.6.0 Requirements for Request for No Objection

- 4.6.1 Subject to exhaustion of the capacity of the Nigerian Insurance Industry, a No Objection shall be requested in the following cases:
 - 4.6.2 Where a risk is retained 100% locally without foreign facultative reinsurance support and the individual insurer is subsequently constrained to secure additional capacity from foreign facultative reinsurers due to rejection/declinature from facility providers and/or pre-agreed local facultative reinsurers.
 - 4.6.3 Where AIP has been granted to the Lead Insurer/Reinsurance Broker and the participating coinsurer is constrained to secure additional capacity from foreign facultative reinsurers, sequel to its inability to manage its acceptance as a result of rejection/declinature from facility providers and/or pre-agreed local facultative reinsurers.
 - 4.6.4 Where there is no available capacity in the local market for a particular risk and the Local Insurer is obliged to secure support for 100% of the risk offshore. The Insurer shall issue a Primary Policy in respect of the risk to the insured.
 - 4.6.5 Requests for "No Objection" to place an accepted proportion of a risk offshore, shall be accompanied by:
 - a. Evidence of declinature from the Reinsurance Facility Providers stating the reasons for the declinature or reasons for recourse to facultative reinsurers.
 - b. Evidence of declinature from other Local Insurers not currently participating in the risk.

- 4.6.6 All requests for No Objection to extend cover must be accompanied by the following:
- a. Letter/Email instruction from the insured requesting for the extension of cover giving reasons for the extension.
 - b. Specimen Local Endorsement.
 - c. Specimen Foreign Endorsement.
 - d. Premium Calculation Worksheet.
 - e. Such other requirements as may be prescribed by the Commission from time to time.

4.7.0 Requirements for Letter of Attestation (LOA):

- 4.7.1 All requests for Letter of Attestation must be accompanied by the following:
- a. Debit note from the Foreign Broker/Reinsurer
 - b. Confirmation of Receipt of Premium from the Insured (such as copy of bank statements, telex, transaction receipt issued by the bank, screenshot of the bank statement or other evidence of credit into the account).
 - c. Signed Schedule/Slip of local underwriters.
 - d. For short term policies, a copy of the Renewal Endorsements must also be submitted along with the request.
 - e. Quarterly Bordereau for proportional treaties
 - f. Such other requirements as may be prescribed by the Commission from time to time.

4.8.0 Requirements for Post Placement Report and Certificate for Offshore Reinsurance (COR):

- 4.8.1 All requests for Certificate for Offshore Reinsurance must be accompanied by the following:
- a. Final Policy or Endorsement Issued by the Local Insurer to the insured which shall include the Signed Schedule of Local Underwriters (Where not earlier provided at the Letter of Attestation stage);
 - b. Schedule attaching to the Policy or Cover Note issued by the Reinsurers or the Foreign Brokers to the reinsured, which must amongst others state the Reinsurers' Order Hereon and each Reinsurer's signed proportion (must be signed, stamped and dated by all the participating reinsurers). Where a lead Reinsurer is mandated to sign on behalf of the subscribing Reinsurers, a copy of the principal agreement where all reinsurers had agreed that the lead can bind cover on their behalf shall be submitted along with the schedule attaching to policy/cover note.
 - c. Evidence of full Premium Collection:

- d. Evidence of Premium Remittance to Local Insurers;
- e. Evidence of Premium Remittance to Foreign Reinsurers;
- f. For (c) – (e) above evidences such as copy of bank statements, telex, transaction receipt issued by the bank, screenshot of the bank statement or other evidence of credit into the account, are acceptable;
- g. Evidence of Payment of 1% ISS Levy; an
- h. Any other relevant information.

5. AVIATION INSURANCE

5.1.0 Background

5.1.1 In furtherance of the National Insurance Commission's responsibility of establishing standards for the conduct of insurance business in Nigeria and protecting Policyholders/members of the public, it has become necessary to provide supplementary standards for Aviation Insurance business in Nigeria.

5.1.2 Consequently, the National Insurance Commission, in the exercise of the statutory powers conferred on it by the enabling laws, hereby issue the following requirements for compliance by all insurance institutions in Nigeria

5.2.0 General Requirements

5.2.1 All Aviation Insurance business shall be conducted in accordance with insurance laws and other relevant regulations.

5.2.2 The establishment of underwriting terms and conditions for any Aviation and its associated risks in Nigeria shall be the responsibility of an Insurer duly licensed to transact insurance business in Nigeria. This is without prejudice to an Insurer's need to seek expert advice from its facultative reinsurers for appropriate riskrating/pricing.

5.2.3 An Insurer shall ensure that all Aviation Insurance transactions are conducted in compliance with Contract Certainty principles and requirements.

5.2.4 An Aviation Insurance Liability policy for any Nigeria domiciled risk shall conform to the minimum Passenger Liability Limit as required by the Nigerian Civil Aviation Authority.

5.3.0 Underwriting/Due Diligence

5.3.1 Every Insurer and/or Coinsurer shall, prior to accepting, signing and/or stamping any Aviation Insurance policy/schedule of coinsurers, carry out Risk Measurement and Exposure Assessment vis-a-viz its available capacity (net retention and aviation reinsurance treaties).

5.3.2 The risk measurement/exposure assessment shall be documented and ratified by an appropriate authority (CEO, DGM, AGM, Controller or Head of Department/Unit) not later than 24 hours from the time the risk was accepted, signed and/or stamped by the Authorized Persons (Aps).

5.3.3 An Insurer shall designate professionally qualified and experienced personnel(s) as its Authorized Person(s) for the purpose of underwriting, accepting, signing and/or stamping of all Aviation Insurance risks. All Aviation slips/policies shall be signed, stamped and dated by the AP(s) who shall not sign, stamp or accept any Aviation Insurance risk without complying with the requirement of this guideline.

5.3.4 An Insurer shall file with the Commission the profile of its AP(s).

5.3.5 At a minimum, the profile shall contain:

- a. Full names of the designated Authorized Person(s)

- b. Designation and Location
 - c. Qualifications (professional/educational)
 - d. Years of experience
 - e. Years of experience in Aviation Insurance or related field
 - f. Evidence of CIIN professional qualification
 - g. Specimen Signature of the Authorized Persons.
 - h. Contact details (mobile numbers and email addresses)
- 5.3.6 An Insurer shall file with the Commission any subsequent change or replacement of the Authorized Person(s) prior to the coming into effect of the change.
- 5.4.0 Reinsurance/Exposure Limits**
- 5.4.1 An Insurer's Treaty and/or facultative reinsurance arrangements with a foreign reinsurer shall not be placed with a company having a Financial Strength Rating (FSR) lower than "A-" (S&P) or "A" (A.M. Best).
- 5.4.2 The Aviation Insurance Treaty shall allow automatic acceptance by the Reinsurers. For the avoidance of doubt, a facultative reinsurance arrangement, facility or line slip subject to declaration or to be agreed shall neither be categorized/recognized nor accepted as Treaty.
- 5.4.3 The Net Retention/Deductible of an Insurer under any treaty, on per risk basis, shall not constitute more than 5% of its Shareholders' Fund.
- 5.4.4 Where an insurer decides to write an aviation insurance risk for its net account only without reinsurance treaty, the insurer shall not accept nor commit more than 5% of Shareholders' Fund determined under prior year audited accounts approved by the Commission.
- 5.4.5 An Insurer shall submit to the Commission its Board Approved Maximum Exposure Limit/Risk Appetite (in numeric terms) on all aviation risks acceptances and its Aviation Insurance Treaty for the following year on or before the 15th of December of every year or 15 days before the effective renewal date for those whose treaty renewal dates do not fall on 1st of January. The submission shall be accompanied by a copy of the Board Resolution.
- 5.4.6 The Board Approved Maximum Exposure/Risk Appetite for Aviation Insurance shall clearly indicate the Net Retention/Deductible of the Insurer which shall not be more than 5% of its Shareholders' Fund.
- 5.4.7 The Board Approved Maximum Exposure Limit/Risk Appetite (in numeric terms) shall not exceed the Insurer's gross capacity and categorized into each of the following:
- a. Hull and Spares
 - b. Liability
 - c. War, Hijacking and Allied Perils
 - d. Excess War, Etc.

- e. It shall also clearly indicate any excluded aviation insurance risk/policy and/or insured.
- 5.4.8 An Insurer's maximum acceptance on any aviation related risk shall not exceed its Gross Capacity which shall be its Net Retention/Deductible and/or its Treaty limit/capacity as approved by the Board except where, prior to accepting, signing and/or stamping that particular Aviation Insurance policy/schedule of coinsurers, the Lead Insurer/Coinsurers had obtained Approval in Principle and/or where the Insurer/Coinsurer had obtained formal offer of local facultative support from other Local Insurers that is not participating in the risk.
- 5.4.9 Where an Insurer does not intend to transact aviation insurance risk for the following year, the insurer is required to formally notify the Commission on or before the 15th of December of every year.
- 5.5.0 Submission of Aviation Insurance Returns**
- 5.5.1 An Insurer/Coinsurer shall submit to the Commission, returns on any Aviation Insurance Policy/Certificate and/or Endorsement issued thereto. The returns which shall be in electronic (Microsoft Excel) format as per the Template (Attach the template) that may be issued by the Commission from time to time shall be sent to aviatin@naicom.gov.ng, and naicomaviation@gmail.com, not later than 72 hours from the date of accepting, signing and/or stamping the insurance document,/and/or endorsement, certificate. Submission in other Microsoft format or media other than as specified above shall be deemed as incomplete submission.
- 5.5.2 The Lead Insurer shall inform the Commission through the designated emails, not later than 72 hours where an aviation insurance policy/certificate earlier issued is cancelled. The notification of cancellation shall be accompanied by a copy of the Cancellation Endorsement. The return shall be submitted using the template prescribed by the Commission. The template shall not be altered or modified as doing so shall render the submission invalid and be construed as non-submission.
- 5.5.3 Where an Insurer does not transact an aviation business in the quarter, the Insurer shall file a "Nil Return".
- 5.5.4 Where the insurance placement and premium payment was through an Insurance Broker, it shall be the duty of the Broker to submit to the Commission evidence of premium collection and the proposed schedule of premium remittance to the insurers, not later than 72 hours from the date of receipt of the premium from the Insured.
- 5.5.5 Rendition of returns as required in this section shall not absolve the Insurance institution from obtaining other necessary written approval as may be required by extant laws and regulations.
- 5.6.0 Compliance**
- 5.6.1 Nothing in this guideline shall preclude an insurer from compliance with any other regulations and returns rendition requirement as may be required by the Commission unless specifically stated as such.

- 5.6.2 Failure to comply with the provisions of this guideline, shall in addition to imposition of penalties, result in the Insurer being banned from writing further business in this class and may lead to the suspension or withdrawal of its license.
- 5.6.3 All Insurance Institutions are required to ensure strict compliance with this guideline by formally directing its staff to comply as the Commission will not hesitate to impose severe sanctions on erring insurance institutions in Nigeria.

6. RISK MANAGEMENT FRAMEWORK FOR INSURERS AND REINSURERS IN NIGERIA

6.1.0 Introduction

- 6.1.1 This guideline is issued in the exercise of the powers conferred on the National Insurance Commission (the Commission) under the Insurance Act 2003, and the National Insurance Commission Act 1997.
- 6.1.2 For the purposes of this guideline, risk is the possibility that an event will occur and adversely affect the achievement of a company's objectives thereby decreasing value for the company's stakeholders. Risk Management is the process of identification, assessment and mitigation of risk to which the company is exposed.
- 6.1.3 For the purposes of this guideline, a risk management framework is the totality of systems, structures, policies, processes and people within the company by which the company identifies, assesses, mitigates and monitors all internal and external sources of risk that could have a material impact on the company's operations.
- 6.1.4 The guideline sets minimum standard required from each and every insurer and reinsurer by which they can provide a reasonable assurance to the Commission, policyholders, shareholders and other stakeholders that the risks to which they are exposed are being soundly and prudently managed.
- 6.1.5 This guideline shall be used by the Commission as a tool for conducting ongoing assessment of the risk management systems of all insurers and reinsurers.
- 6.1.6 Nothing in this guideline shall prevent an insurer or reinsurer from applying a risk management framework that is also used within its group company, provided that such framework has been approved and adopted by the Board of the insurer or reinsurer for its purpose and meets the requirements of this guideline.
- 6.1.7 This guideline may be revised from time to time by the Commission.

6.2.0 General Requirements

- 6.2.1 All insurers and reinsurers shall establish and maintain a Risk Management Framework. The Risk Management Framework must, at a minimum, include the following:
- a. Documented Risk Management Strategy
 - b. Documented Risk Management Policies, Procedures and Controls
 - c. A written Business Plan that is approved by the Board
 - d. Chief Risk Officer
 - e. Enterprise Risk Management Committee
 - f. Up-to-date Risk Register
 - g. A Review Process

- h. A well-defined Risk Governance and Responsibilities
 - i. A system for Independent Review
- 6.2.2 The Risk Management Framework must address all material risks (material risks are explained in the guidance notes attached to this guideline), and should at a minimum, cover the following areas:
- a. Market risk/Investment risk
 - b. Credit risk
 - c. Operational risk
 - d. Liquidity risk
 - e. Reinsurance risk
 - f. Underwriting risk
 - g. Provisioning risk/Reserving risk
 - h. Claims management risk
 - i. Group risk
 - j. Reputational risk
 - k. Legal/Litigation risk
 - l. Such other risks to which the company may be exposed.
- 6.2.3 All insurers and reinsurers shall establish a process for identifying, assessing, controlling, mitigating and monitoring all material risks. This must be developed having regard to the company's risk management philosophy, set of shared beliefs, attitudes, values, culture and operating style. Accordingly:
- a. There must be defined risk appetite which should state the amount of risk the company is willing to accept and retain.
 - b. The company must be clear about who is in charge of risk oversight, assign authority and responsibility and set out an appropriate organizational structure.
 - c. The company must set standards for Integrity, Ethical Values and a Risk Culture.
 - d. The company must secure commitment to competence, knowledge and skill of staff in relation to the management of risk.
- 6.2.4 The Board of Directors shall have responsibility for:
- a. Ensuring an adequate Risk Management Framework including principle for how risks should be identified, assessed, monitored and controlled or mitigated within the company's operations.
 - b. Defining the company's risk appetite in line with the company's financial resources, business strategies, management expertise and overall willingness to take risk.

- c. Reviewing and approving the Risk Management policies and procedures.
- d. Re-evaluating the framework and risk appetite at least annually, considering changes in the risk profile of the business (changes in products, markets, operating environment).
- e. Ensuring that the Risk Management Framework is regularly audited by appropriately trained and competent personnel that are operationally independent of the risk management activities.

6.2.5 The Senior Management shall have responsibility for implementing the framework for risk management approved by the Board. In implementing the framework, the Senior Management shall have responsibility for:

- a. Ensuring an appropriate organizational structure, with appropriate level of independence between staff responsible for risk management and those responsible for insurance operation.
- b. Ensuring an appropriate level of skilled resources for managing risk, with clearly assigned responsibilities.
- c. Developing policies and procedures for identifying, assessing, monitoring and controlling or mitigating risks that reflect the principles set by the Board. The policies and procedures must cover material risk that affects insurance business.
- d. Translating the risk appetite expressed by the Board into a system of risk limitation strategies and controls.

6.2.6 All insurers and reinsurers shall establish a Risk Management Department/Unit:

- a. The Risk Management Department/Unit shall be responsible for measuring, monitoring and controlling risk, consistent with the established policies and procedures.
- b. The Risk Management Department/Unit shall be headed by a Chief Risk Officer.
- c. The Chief Risk Officer shall be responsible for establishing the risk culture throughout the company.
- d. The Chief Risk Officer shall possess all necessary skills and shall have access to all resources relevant for attaining complete understanding of the risks associated with the insurance business.
- e. The Chief Risk Officer shall submit a periodic report to the senior management and to the Board on key aspects of the operation of the Risk Management Framework and significant risk exposures.
- f. The reporting must include any significant breaches of risk management policies or risk limits and any material loss incidents, and address all material risk classes as well as considering the overall risk profile.
- g. The Risk Management Department/Unit shall on regular basis re-

assess the methodologies, models and assumptions used to measure and limit risk.

- 6.2.7 All insurers and reinsurers shall, at a minimum, adopt the 'three lines of defense' model of risk governance with clearly defined roles and responsibilities.
- 6.2.8 All insurers and reinsurers shall ensure that the Risk Management Framework is subject to effective and comprehensive review by operationally independent, appropriately trained and competent persons. The frequency and scope of the review should be appropriate to the company, having regards to such factors as the size, business mix, complexity of the company's operations and the extent of any change to its business profile or its risk appetite.
- 6.2.9 The Board of all insurers and reinsurers shall provide the Commission with a declaration on risk management (Risk Management Declaration), relating to each financial year of the company, signed by at least two directors. This declaration must be submitted to the Commission yearly along with the annual returns and accounts of each company and the declaration must conform to the Acceptable format as may be prescribed by the Commission from time to time.
- 6.2.10 Annual return to be provided to the commission providing update of all the above requirements from page 34 - 37 paragraph 6.2.9

6.3.0 Guidance Notes on the Guideline for Installing Risk Management Framework for Insurers and Reinsurers

6.3.1 Elements of a Risk Management Strategy

- 6.3.1.1 The risk management strategy is a high level document which contains:
 - a. The company's strategy for managing risk;
 - b. The extent and circumstances under which the company is prepared to accept risk; and
 - c. The key elements of the risk management framework, which gives effect to the strategy for managing risk.
- 6.3.1.2 A company's risk management strategy must therefore, at a minimum:
 - a. Detail the company's approach to the matters listed in a - c above;
 - b. Identify the policies and procedures for dealing with the following matters;
 - i. The process for identifying and assessing material risks.
 - ii. The process for establishing and implementing mitigation and control mechanisms for material risks.
 - iii. The process for monitoring and reporting of risk issues (including communication and escalation mechanisms).
 - iv. The process for monitoring and reporting and ensuring continual compliance with the requirements of this guideline.

- v. The company's approach to management of capital; and
 - vi. The company's approach to disaster recovery/business continuity management.
- c. Describe the relationship within the risk management framework between the Board, Board committees and senior management;
 - d. Identify those in position with managerial responsibility for the risk management framework and instilling an appropriate risk culture across the life of the company; and
 - e. Describe the process by which the risk management framework is reviewed and the intended coverage and timing for these reviews.

6.3.2 Risk Management Process

6.3.2.1 Enterprise Risk Management (ERM) is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy- setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives." Below is a summary of a risk management process.

6.3.2.2 Risk Identification

Risk identification involves itemising specific occurrence which will have material impact on financial condition, capital and/or sustainability of a company. At this stage, it is vital that all potential categories of risk are identified. The objective is to achieve a comprehensive risk list or risk register which contains details of all types of risks, their assessment, owners and status of the risks. Companies are able to identify the risks they are exposed to through a detailed process of examining their operational activities.

6.3.2.3 Risk Assessment and Control

Risk assessment is vital to determine the probability of a risk occurring and the frequency and severity or impact on the business. The frequency of occurrence and impact can be measured in "High", "Medium" and "Low" terms. Risk assessment can use qualitative and quantitative methods although quantitative methods can be more precise. A risk map should be designed that highlights the findings of risk assessment. The map should indicate key risks faced and factored into the risk appetite of the company. At the same time, the company should perform a comprehensive information and communication technology (ICT) risk assessment. The goal of this assessment is to ensure that the company's critical information systems can fully support and further the company's operations. The risk assessment outcome must be complemented with a risk control mechanism. This must be done in close consultation with the various departments associated with each risk. The report generated must

detail out how each risk will be treated.

Having assessed relevant risks, management should determine how it will respond by reviewing likelihood and impact, evaluating costs and benefits, and selecting options that bring residual (remaining risk) within the entity's risk tolerances. The response may be through any or all of the following:

- a. Avoidance or not participating in events that give rise to risk.
- b. Forbidding certain "risky business" e.g., company not authorized to invest in certain risky investment instruments.
- c. Reduction in specific actions taken to reduce likelihood or impact or both e.g. disaster recovery plan in place to reduce the impact of a natural disaster.
- d. Sharing portions of the risk (co-insurance or pool).
- e. Acceptance and coping with the risk.

6.3.2.4 Risk Monitoring and Risk Reporting

Companies should monitor the actual risk taken relative to the established risk appetite and risk limits. This will require a basis for measuring the level of risk in each risk class being taken. Risk monitoring may be achieved by regular management approaches such as variance analysis, comparisons of information with disparate sources and dealing with unexpected occurrences.

Risk reporting involves periodic reporting on key aspects of the operation of the risk management framework and significant risk exposures. The reporting must cover significant breaches of risk management policies or risk limits and any material loss incident.

6.3.3 Material Risks in Insurance

The following are typical material risks in insurance business:

6.3.3.1 Market risk/Investment risk

This is the risk to a company's financial condition resulting from adverse movements in the level or volatility of market prices. All insurers and reinsurers should establish a basis for measuring and calculating the probability of loss and possible impact on the company's capital resources caused by adverse changes in the price of stock and shares, property, exchange rates and other market conditions that are relevant. Companies should have regards to investment limits set in the Operational guidelines for insurers and reinsurers and diversify assets to prevent overconcentration and overexposure to any particular market.

6.3.3.2 Credit risk

This is the risk that counterparty will default on payment or fail to perform an obligation to the company. Insurer and reinsurers should establish a

system for conducting due diligence on the credit worthiness of any party to which they have credit exposure. Companies should set limits of credit exposure and should have a process for monitoring and controlling such exposure.

6.3.3.3 **Operational risk**

This is the risk of loss from inadequate or failed internal processes, from people and systems or from external events which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. Companies should have policies that cover risk that may arise from staffing issues, for example, failure to address areas such as reporting line, delegation, suitability of employee, compliance culture, HR practice, employee remuneration, quality of training and outsourcing staff arrangement. Companies' policies should also cover process and systems issues to address areas such as measures for preventing system failure, measures to comply with regulatory requirements, measures for business continuity, internal and external documentation process and review, dependency and reliability of IT systems, quality of IT support and maintenance, IT security confidentiality, data integrity and authorised access. Companies should assess their vulnerability to operational risks and prioritise their action accordingly. A robust control environment should be put in place, which must include documented policies and procedures which incorporate appropriate checks and balances and a risk register which identifies potential and actual operational risks and controls are put in place to mitigate those risks.

6.3.3.4 **Liquidity risk**

This is the risk that the company will have insufficient cash flow to meet its operational and financial payment obligations because of inability to liquidate assets or obtain funding. Companies should prepare a report to be submitted to their management on a regular basis providing a liquidity overview, covering an appropriate period of time, comparing expected inflows and outflows and specifying the assumptions. Management should consider the actions that would be taken in the event of liquidity squeeze and document the contingency plans that will be used.

6.3.3.5 **Reinsurance risk**

This is the risk of inadequate reinsurance cover which may be triggered by a situation such as the insolvency of a reinsurer, discovery of exposures without current reinsurance coverage, or exhaustion of reinsurance covers through multiple losses. Insurance companies must ensure that they maintain adequate reinsurance arrangements and treaties in respect of the classes or category of insurance business the insurer is authorized to transact. It must have a documented policy

stating:

- a. Systems for the selection of reinsurance brokers and other reinsurance advisers;
- b. Systems for selecting and monitoring reinsurance programmes;
- c. Clearly defined managerial responsibilities and controls;
- d. Presence of a well-resourced reinsurance department that prepares clear methodologies for determining all aspects of a reinsurance programme.
- e. Senior management should review an insurer's reinsurance management systems on a regular basis.

6.3.3.6 **Underwriting risk**

Underwriting is the process by which an insurer determines whether and under what conditions to accept a risk. Weaknesses in the systems and controls surrounding the underwriting process can expose an insurer to the risk of unexpected losses which may threaten the capital adequacy of the insurer. All insurers must have an underwriting policies and procedure manual. The company's underwriting process must be subject to internal audit and there should be a peer review of policies underwritten. In addition, companies should have a process for assessing brokers' procedures and systems to ensure that the quality of information provided to the insurer is of a suitable standard; and in the case of re insurers, audits of ceding companies to ensure that reinsurance assumed is in accordance with treaties in place.

6.3.3.7 **Provisioning/Reserving risk**

Reserving risk is the risk that insurance liabilities recorded by the Insurer, net of reinsurance and other recoveries in respect of those liabilities, will be inadequate to meet the net amount payable when the insurance liabilities crystallise. Companies should maintain appropriate systems, controls and procedures to ensure that the provision for insurance liabilities is, at all times, sufficient to cover any liabilities that have been incurred, or are yet to be incurred on contracts of insurance accepted by the Insurer, as far as can be reasonably estimated.

6.3.3.8 **Claims Management risk**

This is the risk that the insurer may be unable to manage the settlement process by which insurers fulfil their contractual obligation to policyholders. All insurers should have in place a claims management policy and procedure for ensuring that claims are handled fairly and promptly. In establishing and maintaining effective claims handling systems and procedures, senior management of insurers should consider factors including the following:

- a. Appropriate systems and controls should be in place to ensure that

all liabilities or potential liabilities notified to the insurer are recorded promptly and accurately. Accordingly, the systems and controls in place should ensure that a proper record is established for each notified claim;

- b. Suitable systems should be in place for claims handling procedures, timeliness of processing and dealing with backlogs;
- c. Suitable controls should be maintained to ensure that estimates for reported claims and additional estimates based on statistical evidence are appropriately made on a consistent basis and are properly categorised;
- d. Regular reviews of the actual outcome of the estimates made should be carried out to check for inconsistencies and to ensure that procedures remain appropriate. The reviews should include the use of statistical techniques to compare the estimates with the eventual cost of settling the claims, after deducting the amounts already paid at the time the estimates were made;
- e. Appropriate systems and procedures should be in place to ensure that claim files without activity are reviewed on a regular basis;
- f. Appropriate systems and procedures should be in place to assess the validity of notified claims by reference to the underlying contracts of insurance and reinsurance treaties;
- g. Suitable systems and procedures should be in place to accommodate the use of suitable experts such as loss adjusters, lawyers, actuaries, accountants etc. as and when appropriate, and to monitor their use; and
- h. There should be suitable systems and procedures in place to identify and handle large or unusual claims, including systems to ensure that senior management are involved from the outset in the processing of claims that are significant because of their size or nature.

6.3.3.9 **Business risk**

This is the risk that a company's market position may be eroded resulting in the future profitability of the company being reduced. Companies are to ensure that such risk are clearly identified and considered when setting or revising corporate strategy.

6.3.3.10 **Reputational risk**

This is the risk of events that undermine public trust in a company's brand. Trust and integrity are essential for maintaining longstanding customer relationship and for building new ones.

6.3.3.11 **Legal risk**

This arises from the potential that unenforceable contracts, litigations, or adverse judgments can disrupt or otherwise negatively affect the operations or condition of the company.

6.4.0 Own Risk and Solvency Assessment (ORSA)

- 6.4.1 An insurer shall perform its own risk and solvency assessment (ORSA), at a minimum, annually, to assess the adequacy of its risk management, and current projected future solvency position with a time horizon which is consistent with that used in its business planning when undertaking its ORSA.
- 6.4.2 The Insurer shall document the rationale, calculations and action plans arising from this assessment.
- 6.4.3 An Insurer shall ensure that its board and senior management take responsibility for the ORSA.
- 6.4.4 An insurer shall on annual basis submit the results of its ORSA to the Commission not later than 60 days after the year end.

6.5.0 Financial Condition Report

- 6.5.1 An insurer shall on annual basis appoint an independent Actuary who shall conduct and submit a Financial Condition Report with details of inter alia; measures governing the business operations, corporate governance, risk management, solvency and financial performance of an insurer
- 6.5.2 A copy of the Financial Condition Report shall be submitted to the Commission with the insurer's annual returns and shall be published on the insurer's website within 14 days of the date the report was filed with the Commission.
- 6.5.3 The Board of directors should assure themselves and demonstrate within this report that adequate capital support is in place to minimise the risk of possible financial failure of the insurer.
- 6.5.4 The Commission may at any time require an insurer to compile and submit, within a reasonable period of time, a Financial Condition Report. This request by the Commission may be made on an ad hoc basis (over and above the annual submission requirement) depending on the nature of the insurer's financial position.
- 6.5.5 The report shall, in a minimum, contain details of the following main headings:
- a. Executive Summary
 - b. Developments since previous financial year end
 - c. Business overview and information requirement
 - d. Recent experience and financial performance
 - e. Valuation of Assets and Liabilities

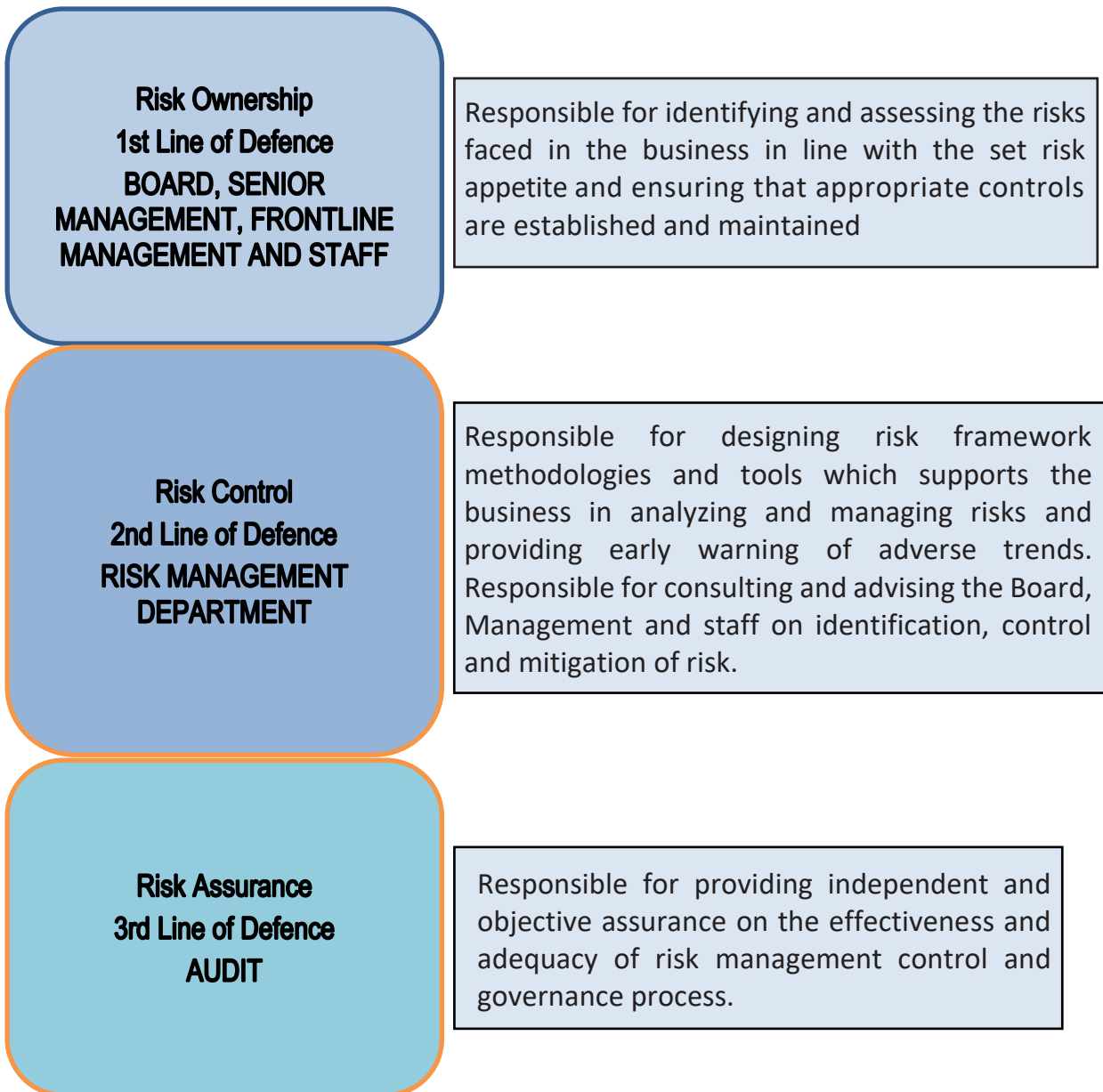
- f. Pricing and Premium Adequacy
- g. Asset Liability Management
- h. Capital Management and Capital Adequacy
- i. Reinsurance Management Strategy
- j. Risk Management
- k. Conclusions and Recommendations

6.5.6 These guidelines provide a minimum standard/scope to ensure that the coverage of the FCR is comprehensive enough to present both the short- and long-term view of the Company to the Board.

6.5.7 These guidelines should not restrict the scope of the external actuary's investigation. The external actuary is encouraged to widen the scope of the FCR to include other issues if in his professional opinion these issues are important and relevant to the insurer, and enhances the understanding of the insurer's financial and solvency position.

RISK MANAGEMENT: APPENDIX 1

Three lines of defence model



RISK MANAGEMENT: APPENDIX 2

Risk Management Declaration

The Board must provide the Commission with a Risk Management Declaration stating that, to the best of its knowledge and belief, having made appropriate enquiries:

- a) The company has systems in place for the purpose of ensuring compliance with this guideline;
- b) The Board is satisfied with the efficacy of the processes and systems surrounding the production of financial information of the company;
- c) The company has in place a Risk Management Strategy, developed in accordance with the requirements of this guideline, setting out its approach to risk management; and
- d) The systems that are in place for managing and monitoring risks, and the risk management framework, are appropriate to the company, having regard to such factors as the size, business mix and complexity of the company's operations.

7. ANNUITY BUSINESS

7.1.0 Books of Account

7.1.1 Life Insurance Company shall maintain separate books of account in respect of the annuity funds, distinct from its other insurance operations.

7.1.2 The annuity funds and supporting assets shall be disclosed separately by way of notes in the audited financial statements and all management accounts of the Life Insurance Company.

7.2.0 Investment of Annuity Funds

Investment of annuity funds (other than retiree life annuity fund) shall comply with the investment requirements of this Guidelines.

7.3.0 Liability Adequacy Test

7.3.1 A Life Insurance Company shall by its in-house or external actuary carry out a liability adequacy test of its annuity portfolio on a quarterly basis to show the net cashflows of its projected assets and liabilities which shall include the duration and convexity of the assets and liabilities and an estimate movement in the net cashflow for deviations in yields, mortality/longevity risks, etc.

7.3.2 A Life Insurance Company shall be required to correct negative cashflow positions and submit evidence of such within 30 days otherwise the Life Insurance Company shall be required to hold capital equal to the negative cashflows as a mismatch capital to make up for the negative cashflow position in addition to the minimum regulatory capital.

7.3.3 A Life Insurance Company shall not be permitted to underwrite a new policy until it produces satisfactory evidence of having corrected negative cashflow positions or injected the required mismatch capital.

7.4.0 Returns of Transactions and Reporting Schedule

7.4.1 A Life Insurance Company shall render the following monthly and quarterly returns on its activities as prescribed by the Commission not later than the 15th day of the following month and quarter:

- a. Monthly schedule of new annuity policies written;
- b. Monthly Schedule of payments;
- c. Quarterly schedule of annuity business;
- d. Quarterly Summary of Exits from Life Insurance Company;
- e. Quarterly schedule of Deaths;
- f. Quarterly Schedule of Investment;
- g. Notes to quarterly schedule of investment.

7.5.0 Head of Annuity Unit

7.5.1 The Head of the Annuity Unit must be a "fit and proper" person having recognized insurance professional qualification(s) or person having other related qualification with requisite experience in the relevant annuity roles

and must have undergone retirement planning competency training certified by the Commission.

- 7.5.2 The appointment of the Head of the Annuity Unit shall comply with extant laws and regulations.

8. ACTUARIAL FUNCTION

8.1.0 Internal Actuarial Functions

- 8.1.1 An insurer shall have and maintain an actuarial function that is well positioned, resourced and staffed to carry out the role of the actuarial function as it relates to monitoring and review of its product(s) pricing, computation of technical provisions, ALM, etc.
- 8.1.2 The Head of the Actuarial Department must be a “fit and proper” person having recognized actuarial professional qualification(s) or person having other related qualification with requisite experience in the relevant actuarial roles. Appointed resident actuary shall be approved by the commission
- 8.1.3 The appointment of the Head of the Actuarial Department/Unit shall comply with extant laws and regulations.
- 8.1.4 The actuarial function shall be required to have access to and periodically report on matters such as:
- a. Any circumstance that may have a material effect on the insurer from an actuarial perspective;
 - b. The adequacy of the technical provisions and other liabilities;
 - c. The prospective solvency position of the insurer; and
 - d. Any other matters as determined by the Board.
- 8.1.5 The actuarial department shall be required to evaluate and provide advice on the following:
- a. The insurer’s actuarial and financial risks;
 - b. The insurer’s investment policies and the valuation of assets;
 - c. The insurer’s solvency position, including a calculation of minimum capital required for regulatory purposes and liability and loss provisions;
 - d. The insurer’s prospective solvency position;
 - e. Risk assessment and management policies and controls relevant to actuarial matters or the financial condition of the insurer;
 - f. Underwriting policies;
 - g. Reinsurance arrangements;
 - h. Product development and design, including the terms and conditions of insurance contracts;
 - i. Scenario and sensitivity testing;
 - j. Sufficiency and quality of data used in the calculation of technical provisions;
 - k. Risk modelling and use of internal models, where applicable; and
 - l. Any other requirement as may become necessary.

- m. An insurer shall render to the Commission bi-annual returns/update on the above requirements

- 8.1.6 An insurer must ensure that the actuarial function has access to all relevant data, information, reports, and must take all reasonable steps to ensure access to all relevant service providers of the insurer, that its actuarial function reasonably believes are necessary to fulfil its responsibilities.

- 8.1.7 The Head of actuarial function should not hold positions within or outside of the insurer that may create conflicts of interest or compromise his or her independence.

- 8.1.8 The Head of actuarial function has the obligation to notify the Commission if he or she resigns for reasons connected with his or her duties or with the conduct of the insurer's business and give the reasons for resigning. The Head of actuarial function shall also notify the Commission and provide an explanation if his or her appointment is revoked by the insurer.

- 8.2.0 **External Actuary:**
- 8.2.1 All Insurers are required to send a profile of the external actuary to the Commission for approval not later than two (2) months prior to the commencement of valuation. In addition, the submission shall contain evidence of registration with the Financial Reporting Council of Nigeria.

- 8.2.2 The adequacy of the liabilities on both life and non-life insurance contracts shall be based on valuation carried out on annual basis by an Actuary recognized by the Commission and registered with the Financial Reporting Council.

- 8.3.0 **Embedded values:**
- 8.3.1 An insurer shall report on the financial condition of the company by including the embedded values as determined and certified by the External Actuary by way of disclosure in the audited financial statements.

9. OUTSOURCING

9.1.0 Introduction

- 9.1.1 Insurers in Nigeria are increasingly using outsourcing, as a means of both reducing cost and accessing expertise, not available internally and achieving strategic aims. 'Outsourcing' is "insurer's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the insurer itself, now or in the future". These outsourcing arrangements are becoming increasingly complex.
- 9.1.2 Joint Forum set up by Basel Committee on Banking Supervision, International Organization of Securities Commissions and International Association of Insurance Supervisors has devised high-level principles on outsourcing in financial firms which gives guidance to firms, and to regulators, in effectively managing risks involved in outsourcing without hindering the efficiency and effectiveness of firms.
- 9.1.3 These Guidelines are issued based on best practices adopted internationally as outlined in above documents and under the provisions of the Insurance Act 2003 and National Insurance Commission Act 1997. The aim is to provide direction and guidance to insurers and ensure proper corporate and regulatory oversight over their outsourcing of activities.
- 9.1.4 Except otherwise stated, in these Guidelines, reference to Insurer also include Reinsurer.

9.2.0 General Requirements

- 9.2.1 An insurer shall ensure that:
- a. Outsourcing arrangements neither diminish its ability to fulfill its obligations to policyholders nor impede effective supervision by the Commission.
 - b. The service provider employs the same standards in performing the services as would be employed by them if the activities were conducted in house. Accordingly, insurers shall not engage in outsourcing that would result in their internal control, business conduct or reputation being compromised or weakened

9.3.0 Broad classification of activities of Insurers

In these Guidelines, the activities of insurers are broadly classified into two categories namely-"Core" and "Non-Core."

9.3.1 Core Activities

An Insurer shall not outsource any of the core activities listed below:

- a. Underwriting.
- b. Enterprise Risk Management.

- c. Investment and related functions.
- d. Accounting functions, and internal auditing
- e. Claims Management
- f. Reinsurance cession
- g. Complaint Management.
- h. Compliance with AML/CFT Requirements.
- i. Internal actuarial functions.

9.3.2 **Non-Core Activities**

Any activity not listed above may be outsourced. However, the following activities may not constitute outsourcing for the purposes of this guideline:

- a. Sale of insurance policies by agents or insurance brokers, and ancillary services relating to those sales.
- b. Independent advisory and consultancy services.
- c. Loss adjusting service.
- d. Independent (external) audit review.
- e. Medical examination by assigned medical and health clinics and centres.
- f. Market information services.
- g. Purchase of goods and commodities.
- h. Repair and maintenance of fixed assets.
- i. Maintenance and support of licensed software.
- j. Specialized recruitment and procurement of specialized training.
- k. Employment of contract or temporary personnel.
- l. Common network infrastructure (e.g. VISA, MasterCard).
- m. Banking services.
- n. Printing services.
- o. Transportation services.
- p. Mail and courier services.
- q. Cleaning services.
- r. Utilities and telephone.
- s. Any other services as the Commission may from time to time prescribe.

9.3.3 An insurer shall, prior to outsourcing any services, have a written Board approved outsourcing policy, which at a minimum shall provide for the following:

- a. The objectives of outsourcing and criteria for approving an

- outsourcing arrangement;
 - b. The framework for evaluating the materiality of outsourcing arrangements;
 - c. The framework for a comprehensive assessment of risks involved in outsourcing and management of the risk;
 - d. The framework for monitoring and controlling outsourcing arrangements;
 - e. The identities of the parties involved and their roles and responsibilities in approving, assessing and monitoring the outsourcing arrangements, and how those responsibilities may be delegated and details of any authority limits; and
 - f. The review mechanism to ensure the outsourcing policy and the monitoring and control procedures are capable to accommodate changing circumstances of the insurer and cater for market, legal and regulatory developments.
- 9.3.4 An insurer shall have in place, appropriate documented procedure manual and ensure that the procedures are such that all relevant staff of the insurers are fully aware of.
- 9.3.5 The Board of Directors of an insurer shall review the performance of all outsourced service providers every year with respect to compliance with provisions of extant laws and regulations.
- 9.3.6 In case of termination of contract between insurer and outsourced service provider, the compensation or penalty or any payment in lieu of foreclosure shall be in line with the outsourcing agreements.
- 9.3.7 An Insurer shall establish a comprehensive outsourcing risk management framework to address the outsourced activities and the relationship with the service provider, which at a minimum shall cover the following:
- a. The financial, reputational and operational impact on the insurance company of the failure of a service provider to adequately perform the activity.
 - b. Cost Benefit Analysis.
 - c. Potential losses to policyholders and their counterparts in the event of a service provider failure.
 - d. Consequences of outsourcing the activity on the ability and capacity of the insurer to conform with regulatory requirements and changes in requirements.
 - e. Interrelationship of the outsourced activity with other activities within the Insurance Company.
 - f. Affiliation or other relationship between the insurer and the service provider.
 - g. Regulatory status of the service provider; degree of difficulty and time required to select an alternative service provider or to bring the

business activity in-house, if necessary.

- h. Complexity of the outsourcing arrangement.
- i. Data protection, security and other risks management capacities of the service providers.

9.3.8 Outsourcing arrangement shall be governed by a written contract that clearly describes all material aspects of the outsourcing arrangement, including the rights, responsibilities, and expectations of all parties. The outsourcing contracts shall, at a minimum, contain the following components:

- a. Clearly defined activities to be outsourced, including appropriate service and performance levels. The service provider's ability to meet performance requirements in both quantitative and qualitative terms should be assessable in advance.
- b. A statement that the contract shall neither prevent nor impede the insurer from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers of conducting inspection, investigation, obtaining information from either the insurer or the third party service provider.
- c. A provision which confers on the insurer right of access to all books, records and information relevant to the outsourced activity in the third party service provider;
- d. A provision for continuous monitoring and assessment by the insurer of the service provider to enable prompt remedial actions where necessary.
- e. A termination clause and minimum periods to execute a termination provision. The termination clause shall allow the outsourced services to be transferred to another third-party service provider or to the insurer. Also the clause shall include provisions relating to insolvency or other material changes in the corporate form, and clear delineation of ownership of intellectual property following termination, including transfers of information back to the insurer and other duties that continue to have an effect after the termination of the contract.
- f. Insurer and its outsourced service providers shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.
- g. The insurer shall take appropriate steps to require that outsourced service providers protect confidential information of both the insurer and its clients from intentional or inadvertent disclosure to unauthorized persons.
- h. The insurer shall ensure that the outsourced service provider does not have any conflict of interest. The outsourced service provider or any of their group entities shall not be able to derive any benefit by causing loss to the insurer or policyholder. For instance, the

outsourced service provider shall not have the responsibility of repairing the damaged vehicle, supply of spare parts and marketing of the policy. In case of existence of conflict of interest among group entities, the insurer shall avoid outsourcing to such entities.

- 9.3.9 No employee of the insurer shall be directly or indirectly involved in (i) creation of, or (ii) any outsourced activity of the outsourced entity.
- 9.3.10 The insurer shall ensure that there is no risk of loss of control over outsourced activity and potential impersonal treatment of policy holder / agents, before outsourcing any activity.
- 9.3.11 Where the third-party service provider is either a group entity and having a common director with the insurer, the insurer shall ensure that the transfer pricing is done according to the sound principles and or all such transactions shall be disclosed to the Commission as soon as the agreement is completed and before payment is made to the third-party service provider.
- 9.3.12 Provisions relating to dispute resolution, liability and indemnity, insurance, etc.
- 9.3.13 Outsourcing of activities allowed in these guidelines is subject to following general principles:
- a. Subject to the provisions of these Guidelines, insurance brokers, agents and other regulated entities and professionals shall not be contracted to perform any outsourced activity other than those permitted by the respective rules and regulations governing their licensing and functioning.
 - b. In considering or renewing an outsourcing arrangement, appropriate due diligence should be performed to assess the capability of the service provider to comply with obligations in the outsourcing agreement. The due diligence shall take into consideration qualitative and quantitative, financial, operational and reputational factors.
 - c. An insurer shall ensure that the service provider's systems are compatible with its own and also their standards of performance are acceptable to it. Where possible, the insurer should obtain independent reviews and market feedback on the service provider to supplement its own findings.
 - d. The due diligence shall involve an evaluation of all available information about the service provider, including but not limited to:
 - i. Past experience and competence to implement and support the proposed activity over the contracted period;
 - ii. Financial soundness and ability to service commitments even under adverse conditions;
 - iii. Business reputation and culture, compliance, complaints and outstanding or potential litigation;
 - iv. Security and internal control, audit coverage, reporting and monitoring environment, business continuity management;

- v. External factors like political, economic, social and legal environment of the jurisdiction in which the service provider operates and other events that may impact service performance; and
- vi. Ensuring due diligence by service provider of its employees.

9.4.0 Reporting Requirements

9.4.1 The activities outsourced under these guidelines shall be reported to the Commission within 30 days from the date of entering into outsourcing agreement and thereafter bi- annually.

9.5.0 Remedies for Grievances related to Outsourced Services

9.5.1 Every insurer shall have an in-house complaint management machinery to deal with grievances relating to services provided by the outsourced agencies. Wide publicity should be given through print and electronic media on this. The complaint management machinery shall deal with every grievance in a fair, objective and just manner and provide detailed explanation in writing to the policyholder, beneficiary or third-party for every grievance denied. It shall also analyze grievances received to help identification of the problem areas in which modifications of policies and procedures could be undertaken with a view to making the delivery of services easier and more expeditious.

9.5.2 Where the services of a service provider are terminated by an insurer on grounds of mischief, fraud and non-compliance with terms and conditions of outsourcing agreement, the insurer shall promptly notify Commission and providing reasons for such termination.

- a. These guidelines shall not be construed to be authorizing any activity which otherwise is prohibited by extant laws and regulations.
- b. An insurer shall terminate all existing outsourcing contracts entered into in contravention of these guidelines within ninety (90) days from the date of commencement of these guidelines.

PART B: INSURANCE INTERMEDIARIES

10. ACCOUNTS AND RETURNS

10.1.0 Filing of Annual Returns and Accounts:

10.1.1 Insurance Brokers:

- a. In compliance with Section 42 (3) of the Insurance Act 2003, all Insurance Brokers shall file an audited statement of accounts comprising Statement of Financial Position, Statement of Profit or Loss and other comprehensive income, Statement of Changes in Equity, Statement of Cash Flow, Accounting policies and notes to the accounts with the Commission not later than six (6) months after the accounting year. The accounting year shall run from 1st January to 31st December.
- b. The underlisted returns and schedules are to accompany the annual audited financial statements and shall form an integral part of filing of annual returns as at the reporting date. Insurance brokers are advised to note that audited accounts may not be considered for purposes of processing of approval unless such account is accompanied by these schedules:
 - i. Schedule of Client's Accounts (Form 7.1A), to be certified by the external auditor and accompanied with certificate on oath, made under the Insurance Act 2003.
 - ii. Schedule of Commission income (Form 7.1B).
 - iii. Schedule of direct commission expenses (Form 7.1C).
 - iv. Schedule of equity instruments (quoted and unquoted) as at the reporting date (Form 7.1D).
 - v. Financial assets - debt instruments measured at amortized cost - (Form 7.1E).
 - vi. Financial assets - debt instruments measured through other comprehensive income (Form 7.1F).
 - vii. Schedule of remittances after year end in respect of business generated in the previous year (Form. 7.1G).
- c. Certificate on oath of External Auditors, made under the Insurance Act 2003.
- d. Each Broker shall at the time of submission of annual returns and audited financial statements pay filing fee of ₦100,000.00; and as may be prescribed from time to time by the Commission.
- e. The filing shall be in accordance with the prescribed format.
- f. Any restatement of Financial Reports necessitating re-filing shall attract a fee equal to the original filing fee.

10.1.2 **Loss Adjusters:**

- a. All Loss Adjusters shall file audited statement of accounts comprising Statement of Financial Position, Statement of Profit or Loss and other comprehensive income, Statement of Changes in Equity, Statement of cash flow, Accounting policies and notes to the accounts with the Commission not later than six (6) months after the accounting date. The accounting year shall run from 1st January to 31st December.
- b. Each Loss Adjuster shall at the time of submission of annual returns and audited financial statements pay filing fee of ₦50,000.00; and as may be prescribed from time to time by the Commission.
- c. The filing shall be in accordance with the prescribed format.
- d. Any restatement of Financial Reports necessitating re-filing shall attract a fee equal to the original filing fee.

10.2.0 **Bi-Annual Returns:**

10.2.1 All Insurance Brokers and Loss Adjusting firms shall, within thirty (30) days from the end of each half year, file unaudited returns of their operations as at the end of the half year with the Commission as follows:

10.2.2 **Insurance Brokers**

- a. Revised unaudited Clients' Accounts (Form. 7.2A)
- b. Revised bi-annual statement of business generated in the half-year (Form. 7.2B).
- c. Schedule of remittances in respect of business generated in the half-year (Form. 7.2C).
- d. Statement of business generated in the half year stating:
 - i. Name of insured;
 - ii. Sum Insured;
 - iii. Gross Premium (Local & Foreign);
 - iv. Premium received from insured;
 - v. Premium remitted to Insurers;
 - vi. Outstanding premium; and
 - vii. Commission earned.

10.2.3 **Loss Adjusters:**

- a. Statements of claims adjusted in the half year stating:
 - i. Name of insured;

- ii. Sum Insured;
- iii. Nature of claim;
- iv. Class of Insurance;
- v. Name of Insurer;
- vi. Adjusted amount of claim (including Nil adjustment); and
- vii. Total Adjuster's Fee.

10.3.0 Personnel Returns:

- 10.3.1 All insurance institutions shall each file with the Commission the personnel status of its establishments as at the end of each year in line with the format (See schedule D) and as may be prescribed by the Commission.
- 10.3.2 Every member of staff of insurance broking firms and loss adjusting firms, including Executive Directors, must be full time employees on the firm's pay roll.

10.4.0 Penalties:

- 10.4.1 Late filing of returns shall attract a fine of ₦5, 000.00 per day for each day of default.
- 10.4.2 Failure to render returns shall be a ground for cancellation of registration.

10.5.0 Clients' Accounts

- 10.5.1 In order to minimize differences arising from accounting mismatch and associated problems, and in line with Section 40 (1) of the Insurance Act. 2003, the following shall apply subject to specific requirements under the IFRS.
- 10.5.2 Record of Clients' Account
- 10.5.3 All Insurance Brokers shall keep record of clients' account as distinct from own operating records such that a separate auditable statement of financial position can be extracted from clients' account.
- 10.5.4 No Insurance Broker shall be allowed to carry premium receivable and premium payable as assets and liabilities respectively in its own statement of financial position except such premium receivable and payable is not in conflict with "No Premium No Cover" provision.
- 10.5.5 In every Insurance Broker's statement of financial position, clients' accounts shall be separated and reported as off statement of financial position item with details in the notes to the accounts.

- 10.5.6 Insurance Broker's records of clients' account shall contain the following details:
- a. Cheques/cash in hand
 - b. Clients' bank balances
 - c. Premium receivable from clients
 - d. Premium payable to Reinsurer
 - e. Commission payable to Insurance Brokers
 - f. Premiums received awaiting remittance to Insurers
 - g. Commission received awaiting remittance
 - h. Claims received awaiting remittance
 - i. VAT deducted awaiting remittance.
- 10.5.7 The relationship between control accounts for above records shall be as follows:
- a. The total of cheques /cash in hand plus Bank Balance must be equal to the total premium and commission awaiting remittance.
 - b. The total premium receivable must be equal to the total premium and commission payable.
- 10.5.8 For ease of reconciliation, all Brokers are required to exchange statement of accounts with Insurers on all transactions between them on quarterly basis.
- 10.5.9 All reconciling items shall be cleared within 60 days.
- 10.5.10 Only suitably qualified and competent staff shall be assigned to the maintenance of clients' records.
- 10.5.11 In line with Section 42 (1) of Insurance Act 2003, all Brokers shall keep separate records in respect of:
- a. Insurance business entered with Insurers registered in Nigeria; and
 - b. Insurance business entered into with persons outside Nigeria.

10.6.0 Clients' Bank Account

- 10.6.1 Clients' funds shall be separated from Broker's funds
- 10.6.2 All clients' bank account name must be pre-fixed by "Clients' Account of...". (For example, the name of clients account opened by New Agenda Insurance Brokers would be "Clients' Account of New Agenda Insurance Brokers").
- 10.6.3 Every mandate for clients' accounts shall specify that the account is a client' account and therefore subject to the requirements of Insurance Act 2003 and relevant Regulations and Guidelines. It shall also state

that the funds in the account can neither be used as collateral for any facility nor offset against any liability.

10.6.4 All Brokers shall cause their bankers to forward to the Commission certificate of compliance with the above requirement which shall contain the following:

- a. Account Name,
- b. Account Number,
- c. Account type (Current or Term Deposits) and
- d. Mandate for operations of the account(s).

10.6.5 All clients' Bank Account shall be maintained only in deposit money banks insured by NDIC.

10.6.6 The following shall be the only permissible outgoings from the clients' bank account:

- e. Identifiable payments to Insurers and Reinsurers;
- f. Brokers' commission; and
- g. Bank charges
- h. Any other payments as may be allowed by the Commission

10.7.0 Returns on Clients' Account

10.7.1 All Brokers shall on a bi-annual basis file with the Commission statement in respect of operation of the clients' banks account which shall contain the following details:

- a. An unaudited statement of financial position of clients' account;
- b. Statement of balances in clients' bank account for each month in the quarter
- c. Statement of movement in the clients' bank accounts detailing
 - i. Total Premium Received;
 - ii. Total Commission Paid;
 - iii. Total Premium Paid; and
 - iv. Any other relevant information.

10.7.2 Non-compliance with the requirements of this paragraph will attract sanction as provided under the law.

10.8.0 Insurance Levy Returns:

10.8.1 Insurance intermediaries shall, not later than 31st March of each year, file with the Commission a duly completed assessment Forms 1C & 1D

of Insurance Regulations 2003 as applicable for insurance brokers and loss adjusters respectively, for the purpose of Insurance levy assessment. Assessments made pursuant to this paragraph shall be confirmed, modified or varied on presentation of audited financial statement as at 31st December of each year.

- 10.8.2 Every sum payable by any Broker and Loss Adjuster by way of insurance levy that remained unpaid after 30th September of the year of assessment shall attract interest at the rate of 2.5% above the Central Bank of Nigeria Monetary Policy Rate (MPR).

10.9.0 Audit:

- 10.9.1 The Head of Internal Audit shall report to the Board Audit Committee through its Chairman only on:
- a. Quarterly audit Report
 - b. Annual Audit Report
 - c. Any Special Audit Report as may be required by the Board.
- 10.9.2 The Managing Director/CEO should be copied in all the reports.
- 10.9.3 Apart from the above listed reports, the Head of Internal Audit should report to the Managing Director/CEO on all other day to day administrative activities.
- 10.9.4 The tenure of an external auditor appointed in any insurance intermediary shall be for a maximum period of 5 years. The appointment of such external auditor must be communicated to the Commission. A waiting period of five (5) years before reappointment shall be applicable.

PART C: GENERAL APPLICATION

11. DIVESTMENT

11.1.0 Introduction

11.1.1 These guidelines set out the minimum requirements with respect to changes in ownership of an insurance institution and divestment of its interest in a related enterprise in which it has significant control. This is to ensure that significant owners of an insurance institution remain suitable and that divestment is carried out in a transparent manner and at arm's length.

11.2.0 Insurance Companies

11.2.1 No transfer of shares of non-quoted insurance company shall be made except in accordance with the extant laws.

11.2.2 All transfer of shares in quoted companies shall be in accordance with the Investment and Securities Act.

11.2.3 Transfer of shares in insurance companies that are not quoted shall be subject to approval of the Commission and must satisfy "fit and proper person" test.

11.2.4 Divestment plans involving a merger with, or an acquisition by other insurance companies are allowed subject to the Commission's extant guidelines.

11.2.5 Proposed changes in management of the affected insurance company must be approved by the Commission.

11.2.6 All insurance companies being divested from shall include their proposed new identities in their submissions to the Commission.

11.2.7 From the effective date of these guidelines, until the final approval and issuance of fresh license, no movement of funds and/or any other form of transfer of funds other than in the ordinary course of insurance business shall be permitted in any of the affected companies.

11.3.0 Insurance Brokers

11.3.1 All divestment from an insurance broking firm shall be by sale or any other mode of transfer approved by the Commission.

11.3.2 All investors shall guarantee that all collected premium are remitted to the underwriters.

11.4.0 Investment Through Holding Company (HOLDCO):

11.4.1 For the purposes of the divestment process, NAICOM shall treat HOLDCOs as institutional investors and they shall be required to:

- a. Put in place an independent governance structure for the insurance institution.
- b. Have a Board of Directors consisting of at least two (2) independent directors

- c. Subject all board members and management to NAICOM's 'fit and proper person' tests.
- d. Make available to the Commission a new business plan.

11.5.0 Foreign Investors

11.5.1 All foreign investors must be guided by the existing laws, rules and regulation.

11.6.0 No Objection

11.6.1 Except the shares are acquired on the floor of the Nigeria Stock Exchange, all affected entities shall apply to the Commission for a “No Objection” on behalf of the parties involved before proceeding with the divestment plans.

11.6.2 Request for a “No Objection” shall be contained in a Memorandum of Information, addressing the following:

- a. Description of preferred divestment route
- b. A business continuity plan
- c. Proposed management structure post-divestment
- d. Identity of potential investors (proxies or trusts are not acceptable)
- e. Declarations as to the following:
 - i. That all insurance funds are adequate and related qualifying investments required under the Insurance Act are being and will continue to be maintained.
 - ii. That there are no pending regulatory sanctions (supported by clearance documents from relevant regulators).
 - iii. That all outstanding claims have been declared and will be honoured by new owners.

11.7.0 Procedure and Timelines

11.7.1 Request for No Objection for divestment shall be made to the Commission not later than Thirty (30) days of the Board's resolution.

11.7.2 Parties to the divestment transaction shall provide monthly update of the investment status to the Commission.

11.7.3 Upon final approval, the Commission shall issue new registration documents.

11.8.0 Divestment of interest in a related enterprise

11.8.1 Where an insurer resolves to divest its interest in a Related Enterprise (subsidiaries, associates, joint venture, etc.), such insurer shall ensure that:

- a. The proposed divestment arrangement is duly approved by the Board of Directors;
- b. The divestment is transparent and carried out on an arm's length

basis in accordance with all the relevant laws, and any rules made by the Commission, in that regard;

- c. Interests of all stakeholders, particularly that of the policyholders of the insurance company are considered; and
- d. More importantly, the long-term financial viability and soundness of an insurer is well protected and assured.

11.8.2 Where a shareholder, directors or other related parties of an insurance company resolve to acquire or hold the interest of the insurer in it Related Enterprise, such insurer shall ensure that:

- a. The acquisition, transfer, arrangement, scheme, reconstruction or reorganization is transparent and carried out on an arms' length basis, and in accordance with all the relevant laws, and any guidelines or rules provided by the Commission in that regard;
- b. Proper documentation of all the activities is maintained for any subsequent independent review;
- c. Interests of the policyholders of the insurer are considered; and
- d. More importantly, the long-term financial viability and soundness of the insurer is well protected and assured.

11.8.3 In all cases, the consideration for the divestment of Related Enterprise shall be on **cash basis only**. Any other basis other than by cash shall be with the approval of the Commission.

11.8.4 The Commission must be notified of all the board approved divestment arrangement with supporting relevant documents, especially the basis of arriving at the consideration. The Commission shall be notified not later than 5 working days prior to the consummation of the transaction.

12. SHARED SERVICES

12.1.0 Introduction

12.1.1 These guidelines provide guidance to insurers who participate in centralized or shared services arrangements with related entities or entities in the group. The objectives include the following:

- a. To set out regulation in respect of shared services arrangement between an insurer and its related parties.
- b. To ensure that fees received or paid reflect the services rendered.
- c. To promote the development of indigenous capacity and local content.

12.2.0 General Requirements

12.2.1 The insurer shall establish policies and procedures for shared services arrangement.

12.2.2 The policy which must be approved by the Board shall as a minimum include the following:

- a. The services to be shared.
- b. The roles and responsibilities of the parties involved.
- c. The methodology for pricing shared services, including standards for timely recording and settlements.
- d. A review and reporting process.

12.2.3 The policy shall be submitted to the Commission for its approval not later than 30 days before the policy comes into effect.

12.2.4 All share services agreement shall be entered into on an arm's length basis. That is, the terms and conditions of the agreement shall be such that it must be consistent with similar agreements reached by related entities.

12.2.5 Shared service fees shall be documented for all transactions between the service provider and the recipient. Such documentation shall include the contracts, invoices, bills or other similar documents.

12.3.0 Governance

12.3.1 It is the responsibility of the Board of the insurer to ensure that:

- a. The approved shared services agreement is in line with extant laws and regulations, and
- b. Appropriate governance structures and policies are in place for the control and monitoring of shared services arrangement.

12.3.2 The board shall be responsible for the oversight of shared service arrangements and ensure the reasonableness of fees charged for the services.

- 12.3.3 A shared services agreement shall be executed between the recipient and the provider, and should, at a minimum, include:
- a. Commencement clause
 - b. Agreement to provide services
 - c. Scope of services
 - d. Applicable costing methods
 - e. Compensation and cost sharing
 - f. Reporting and timing of payments
 - g. Standards for performance of service
 - h. Access to employees and information
 - i. Confidentiality
 - j. Notices
 - k. Indemnification
 - l. Force majeure
 - m. Duration
 - n. Termination (termination for cause and termination for convenience)
 - o. Dispute resolution mechanism/procedure
 - p. Governing law
- 12.3.4 All shared service agreement must include a clause requiring the parties to review the agreement.
- 12.3.5 An insurer shall retain the right to review performance criteria for the services rendered by the shared service provider.
- 12.3.6 An insurer shall disclose in their annual audited report and website, the services shared within the group.
- 12.3.7 All shared services agreement involving foreign entities and their Nigerian insurance institution shall include a provision for capacity building. The Nigerian insurance institution shall demonstrate that both the subsidiaries and their officials are benefiting from the technical services agreements.
- 12.4.0 Reporting**
- 12.4.1 The shared service agreement shall be submitted to the Commission for approval.
- 12.5.0 Glossary**
- 12.5.1 **Arm's length:** this means the principle that the conditions of a controlled transaction should not differ from the conditions that would have applied between independent persons in comparable transactions carried out under comparable circumstances.
- 12.5.2 **Provider:** an institution or company that renders shared services to other institutions within the group under shared services arrangement

- 12.5.3 **Recipient:** an institution or company in a group that benefits from shared services rendered by another institution within the group under a shared services arrangement.
- 12.5.4 **Shared services:** shared services are services provided on an agreed fee sharing basis by a member of a group to one or more other members of the group.

13. IFRS HARMONIZATION CARVE-OUTS & REGULATORY REPORTING REQUIREMENT FOR NIGERIAN INSURANCE INDUSTRY

13.1.0 Introduction

13.1.1 The adoption of International Financial Reporting Standards (IFRS) in 2012 offered the Nigerian Insurance Industry a unique opportunity to enhance international acceptability of its financial statements and increase its relative attractiveness to International investors. It is in the light of this that the National Insurance Commission (Commission) took both a developmental and regulatory approach to its role in the implementation of IFRS in the industry.

13.1.2 While IFRS offers a significant number of benefits, it also suffers from the possible lack of homogeneity in the financial reports arising from accounting treatment options it permits. In order to avoid the loss of comparability of financial statements that could arise from each reporting entities applying differing accounting treatments for same item, there is need for options adopted by reporting entities in each jurisdiction to be harmonized. This solution has particular relevance to the Insurance industry because of the challenges many users have in comprehending the financial statements of insurance entities.

13.1.3 This document is the outcome of interactions with different stakeholders in the Nigerian Insurance Industry during which the need for a harmonized financial reporting framework was identified. It characterizes the reporting context for financial reporting practices by Nigerian Insurance institutions.

13.2.0 Harmonization Carve-Outs and Regulatory Requirements

13.2.1 The harmonization carve-outs specified in this document seek to limit choices from the measurement, presentation and disclosure options permitted by IFRS, without limiting the ability of each Insurer to give effect to the impact of its business and management models on its financial reporting practices. It also addresses certain areas which, while not being matters in which options have been expressly mentioned in IFRS, are subjects that Insurers could report differently on if relevant issues are not clarified and harmonized.

13.2.2 The regulatory requirements communicate the position that the Commission will adopt in the use of data derived from financial statements in the calculation of prudentially significant metrics and additional disclosures that are considered relevant.

13.2.3 The structure of their presentation is as follows

- a. All items are listed in the order of IFRS starting with IAS 1.
- b. For each issue/item, the permitted accounting treatments are first identified.
- c. Then, the harmonization carve-outs and the regulatory/prudential

requirements (where relevant), are stated.

13.3.0 Presentation of Financial Statements (IAS 1)

13.3.1 Structure and Content of Accounting policies

a. Harmonization carve-out:

- i. Accounting policies should be relevant to each company's business and management model, operations and circumstances.
- ii. Accounting Policies should explain the basis of accounting for items in the financial statements and be properly sequenced. For each area covered, the information should be presented in the following sequence as much as relevant: classification, recognition, measurement, impairment, etc.
- iii. All reporting entities should provide information on key assumptions, sources of estimation in the preparation of their financial statements and ensure completeness in their disclosure.

13.4.0 Title of the financial statements ((IAS 1)

13.4.1 **Harmonization carve-out:** The titles of the financial statements used in the insurance industry shall be as used in the standard, namely:

- a. Statement of Financial Position
- b. Statement Profit or Loss and Other Comprehensive Income
- c. Statement of Changes In Equity
- d. Statement of Cash Flows
- e. Notes to the Financial Statements:
 - i. The Notes providing information about the basis of preparation of the financial statements and specific accounting policies; and
 - ii. The Notes containing sub-classifications of line items in the financial statements.

13.5.0 Frequency of reporting

13.5.1 **Harmonization Carve-out:** Financial statements of insurance companies shall be prepared for at least one-year period.

13.5.2 **Prudential requirements:** Although Companies are required to render quarterly and annual returns to the Commission; they may also be required to produce monthly management accounts as may be deemed necessary by the Commission.

13.6.0 Line Items in Statement of Financial Position.

13.6.1 **Harmonization Carve-out:** It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. Similarly, an entity shall not disclose

information that is so aggregated that it obscures important differences between individual transactions or associated risks.

13.6.2 Prudential requirements:

- a. There is no specific regulatory requirement on presentation as the Commission shall use the medium of quarterly and annual return to obtain additional presentation requirement.
- b. Only the Assets admissible for solvency margin purpose under the Insurance Act 2003, any regulation issued thereon and guidelines issued by the Commission shall be recognized for purposes of solvency margin computation.

13.7.0 Description Of Line Item In Statement Of Financial Position

13.7.1 Harmonization Carve-out: Line items in the statement of financial position shall, as far as possible, be described using generic titles. However, technical terms may be used to describe the sub-classifications in the notes. The details of the sub-classification should, however, reflect the requirements of IFRSs and the size, nature and function of the amounts involved. For instance, where there is an item required to be disclosed by an IFRS, such item should, as far as material, be disclosed as a sub-classification of a line item; where it is not itself a line item. This shall make the statement of financial position more comparable and understandable.

13.8.0 Classification of Current/non-current items:

13.8.1 Harmonization Carve-out: All insurance companies should present items in the financial statements in decreasing order of liquidity.

13.9.0 Disclosure of sub-classification of line items:

13.9.1 Harmonization Carve-out: Sub-classification of line items shall not be presented in the statement of financial position. Rather, they shall be disclosed in the notes.

13.10.0 Disclosures of elements of equity:

13.10.1 Harmonization Carve-out: Features of capital and description of the nature and purpose of each reserve within equity, required by IAS1.79 should be disclosed in the notes to the financial statements.

13.11.0 Financial statements of Composite Insurers:

13.11.1 Harmonization Carve-out: There shall be only one set of company financial statements for composite insurance companies. The existing practice where life and non-life profit and loss accounts and statement of financial positions are produced in columnar presentation shall be discontinued. The results of financial performance and position by lines of businesses shall be presented in section on segment reporting in the notes.

- 13.12.0 Presentation of all Items of Income and expense recognized in a period (IAS 1)**
- 13.12.1 **Harmonization Carve-outs:** Only a single statement of profit or loss and other comprehensive income shall be prepared.
- 13.13.0 Expense Classification: (IAS 1)**
- 13.13.1 **Harmonization Carve-outs:** Expenses should be classified by nature
- 13.14.0 Income tax relating to each component of other comprehensive income (IAS 1):**
- 13.14.1 **Harmonization Carve-outs.** An entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments in the notes.
- 13.15.0 Analysis of Other Comprehensive Income (IAS 1):**
- 13.15.1 **Harmonization Carve-outs:** The analysis of other comprehensive income by item required in IAS 1.106 shall be presented in the statement of changes in equity.
- 13.16.0 Disclosure on dividends (IAS 1):**
- 13.16.1 **Harmonization Carve-outs:** The amounts of dividends recognized as distributions to owners during the period, and the related amounts of dividends per share shall be disclosed in the statement of changes in equity.
- 13.17.0 Presentation of the performance of life business.**
- 13.17.1 Harmonization Carve-outs**
- a. **Investment contract:** Accounting policies and classification of investment contract should reflect relevant product profile (including their features).
 - b. **Description of line items:** The description of line items shall be simplified with indication (as much as possible) as to whether they are income or expense items as follows:
 - i. Gross Premium Income
 - ii. Reinsurance premium expenses
 - iii. Net premium Income
 - iv. Fees and Commission income
 - v. Gross Claims expense
 - vi. Claims expense recovery from reinsurance
 - vii. Change in Life fund
 - viii. Underwriting expenses
 - ix. Underwriting profit/loss
 - x. Investment income

- xi. Profit/loss on Investment contracts
- xii. Net realized gains and losses
- xiii. Fair value gains and losses
- xiv. Administration expenses
- xv. Other operating and administrative expenses
- xvi. Impairment provisions
- xvii. Finance costs
- xviii. Share of associate profit
- xix. Income tax expenses

- c. **Investment Income attributable to policyholders' fund:** Portion of Investment Income attributable to Policyholders' Funds and those attributable to Shareholders' Funds shall be presented as a sub-note under the Note on Investment Income

13.18.0 Presentation of Notes

13.18.1 **Issue:** IAS1.116 permits an entity to present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

13.18.2 **Harmonization carve-out:** The Notes providing information about the basis of preparation of the financial statements and specific accounting policies shall be presented before the accounts (statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows) while Notes containing the sub-classifications of line items should come after the accounts.

13.19.0 Management Commentary

13.19.1 **Harmonization carve-out:** All financial reports issued by insurance companies should include management commentary that incorporates all the elements listed in the pronouncement by IASB on the subject. In addition, all quarterly and annual statutory returns should be accompanied by relevant management commentary.

13.20.0 Presentation of Statement of Cash Flows (IAS 7)

13.20.1 **Harmonization Carve-outs:** Cash flow from operating activities shall be prepared using the direct method.

13.21.0 Properties, Plant and Equipment (IAS 16) - Measurement after recognition

13.21.1 **Harmonization Carve-outs:** Cost model shall be the basis for subsequent valuation of items under PPE; except for Land and Building which may be measured using the revaluation model.

13.21.2 **Prudential requirements:** Proportion of Land & Building and Investment property admissible for solvency margin purposes shall not exceed the sum of:

- a. Real property allocated to policyholders' funds assessed in line with Section 25 of the Insurance Act 2003; and
- b. Real property allocated to shareholders' funds subject to 1/3 of the minimum capital.

13.22.0 Depreciation Property, Plant and Equipment:

13.22.1 Harmonization Carve-outs

- a. **Rates:** Straight Line method of depreciation shall be adopted (IAS 16.62)
- b. **Depreciable Component:**
 - i. Each part of an item of PPE with a cost that is significant to the total cost of the item should be depreciated separately (IAS 16.43.
 - ii. Components of an item whose cost are insignificant individually will be depreciated together as a group

13.23.0 Property, plant and equipment without Perfected title documents:

13.23.1 **Harmonization Carve-outs:** The fact of affected property not being in the name of the reporting Insurer, the risk attributable and the estimated cost of perfecting its title should be disclosed in the Note. The effort being made towards perfection of the title should also be disclosed.

13.23.2 **Prudential requirements:** Properties not in the name of the reporting insurer shall not be admissible for purposes of assets covering policyholders' funds and solvency margin.

13.24.0 Investment Properties (IAS 40) - Measurement after recognition

13.24.1 Issues and Options:

- a. IAS 40.30 gives entities option to choose between cost and fair value models as their accounting policy.
- b. With regards to fair value, there are different methodologies for determining same. It will be necessary for a uniform method to be adopted industry wide.

13.24.2 Harmonization Carve-outs:

- a. Fair value model shall be the basis for subsequent valuation of Investment properties.
- b. A choice of a uniform methodology will be made in consultation with the Nigerian Institute of Estate Valuers and Surveyors.

13.25.0 Basis of Determination of Fair Value

13.25.1 **Harmonization Carve-outs:** The fair value of Investment property shall

be determined by an independent Valuer registered with the Financial Reporting Council of Nigeria.

13.26.0 The Effect of Foreign Exchange Rates (IAS 21) - Presentation Currency

13.26.1 **Harmonization Carve-out:** The presentation currency for insurance institution shall be the NAIRA.

13.27.0 Consolidations and Separate Financial Statement (IAS 27) - Presentation of consolidated financial statements

13.27.1 **Harmonization Carve-outs:** All insurance and reinsurance entities with subsidiaries shall prepare consolidated financial statements.

13.28.0 Measurement after Recognition

13.28.1 **Harmonization Carve-outs:** When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates at cost and test for impairment at each reporting date.

13.29.0 Interests in Joint Venture and Associates (IAS 28) - Basis of consolidation

13.29.1 **Harmonization Carve-out:** Investments in a joint venture or associate shall be recognized in the consolidated accounts using the equity method. (IAS 28.16)

13.30.0 Separate financial statements of the venture

13.30.1 **Harmonization Carve-out:** Insurers and Reinsurers with interest in a joint venture/associate shall account for same in their separate financial statements at cost and test for impairment

13.31.0 Financial Instruments: Recognition and Measurement (IAS 39/ IFRS 9) - Insurance Premium Receivable:

13.31.1 Harmonization carve-outs:

- a. **Valid Premium Receivable:** Only premiums confirmed as having been received on the insurer's behalf by brokers or co-insurers (in the case of co- insurers) shall be accepted as insurance premium receivables.
- b. **Disclosure of Premium Receivable:** Premium receivable should be included as the first item in the note on trade and other receivables. The amount of such premium that has been received after the year end should be disclosed.
- c. **Impairment test:** Impairment will be determined in accordance with IAS 39/IFRS 9 as may be applicable.

13.31.2 Prudential requirements

- a. Only premium that has been received and confirmed as been held on insurer's behalf by insurance brokers and duly certified thereto will be acceptable for solvency margin purposes.
- b. Premium received by lead insurers awaiting remittance to co-insurers should be held in trust account and not co-mingled with the insurer's own assets. Relevant balances will not be considered as admissible assets for the determination of assets covering policyholders' funds.

13.32.0 Unquoted investment:

13.32.1 Harmonization framework:

- a. The basis of valuation of unquoted investment should be disclosed. In order to avoid delays in the confirmation of financial statements, the basis of valuation of all unquoted investment should be submitted to the Commission for review prior to inclusion in the financial statements.

13.32.2 Prudential requirements: For the purpose of cover for policy holders' funds and solvency margin computation,

- a. Any investment in unquoted equity, subsidiary or jointly controlled operation/entity that has neither made profit nor yielded any return for the past three (3) years shall not be admissible
- b. Investment in unquoted equity, subsidiary or jointly controlled operation/entity shall be valued at the lower of cost or fair value for solvency margin purposes.

13.33.0 Financial Instruments – Presentation (IAS 32) - Presentation of Dividend

13.33.1 Harmonization Carve-outs: Dividends classified as expense (eg, preference share dividend) shall be presented in the statement of comprehensive income as a separate item (IAS32.40)

13.34.0 Earnings Per Share (IAS 33) - Earnings Per Share for the discontinued operation

13.34.1 Harmonization Carve-outs: An insurer that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation in the notes.

13.35.0 Provisions, Contingent Liabilities and Contingent Assets (IAS 37) - Presentation of reimbursed/ reimbursable expense

13.35.1 Harmonization Carve-outs: Items of expenses shall not be offset against amounts recognized for reimbursements. It should be noted that in addition to reinsurance recovery, this requirement will also apply to subrogation and salvage recovery, the related assets of which must be

disclosed.

13.36.0 Insurance Contracts (IFRS 4) - Unbundling of deposit components in an insurance contract:

13.36.1 **Harmonization Carve-outs:** The deposit component of an insurance contract shall be unbundled if it can be measured separately. However, if it cannot be measured reliably, reason should be disclosed in the Note to the financial statements.

13.37.0 Insurance contracts acquired in a business combination or portfolio transfer:

13.37.1 **Harmonization Carve-outs:** In accounting for contracts and rights acquired in a business combination or portfolio transfer, no insurer will use an expanded presentation permitted but not required under IFRS 4.31.

13.38.0 Discretionary Participatory Features (DPF) in Insurance Contracts

13.38.1 **Harmonization Options:** Both the guaranteed and the DPF elements of relevant insurance contract or financial instrument shall be accounted for as liability. Furthermore, all premium received in respect of contract with DPF shall be treated as revenue without separating any portion that relate to the equity component.

13.39.0 Information on Sensitivity to Insurance Risk:

13.39.1 **Harmonization Carve out:**

- a. Either the qualitative or quantitative information about sensitivity shall be provided in line with the requirement of IFRS4.34(c)(i) and IFRS4.39A. This shall be provided for assumptions not supported by observable market prices or rate and shall be required for all variables that have a material effect.
- b. If an insurer chooses to disclose a quantitative sensitivity analysis, and that sensitivity does not reflect significant correlations between key variables, the insurer shall explain the effect of those correlations.
- c. If an insurer chooses to disclose qualitative information about sensitivity, it is required to disclose information about those terms and conditions of insurance contracts that have material effect on the amount, timing and uncertainty of cash flows

13.40.0 Liability Adequacy Test

13.40.1 **Harmonization Carve-outs:**

- a. The adequacy of the liabilities on both life and non-life insurance contracts shall be based on valuation carried out on annual basis by an Actuary approved by the Commission and registered with the

Financial Reporting Council.

- b. The disclosures on liability adequacy testing shall include the following:
 - i. The accounting policy for liability adequacy testing, including the frequency and nature of the testing
 - ii. The cash flows considered;
 - iii. Valuation methods and assumptions
 - iv. The discounting policy; and the aggregation practices
- c. The rate of discount to be applied in the LAT will be agreed by the market and cleared with the Commission.
- d. The test should determine the gross position. The reinsurance elements can be derived but disclosed separately.

13.40.2 **Prudential requirement:** Where market agreed rate for discount of liabilities is, in the views of the Commission, not prudent enough, the Commission shall determine rate to be applied for its regulatory purposes

13.41.0 Non-Current Assets Held for Sale and Discontinued Operations (IFRS 5) - Presentation of certain information on discontinued operations

13.41.1 **Harmonization Carve-outs:** Presentation of the analysis of revenue, expenses, taxes, cash flows etc. from discontinued operations shall be made in the notes to the financial statements.

13.42.0 Financial instruments: Disclosure (IFRS 7) - Disclosure of categories of financial assets and financial liabilities

13.42.1 **Harmonization Carve-out:** The carrying amounts of identified categories of financial instruments shall be disclosed in the notes.

13.42.2 **Prudential requirement:** Hypothecated assets shall be disclosed under the note on Capital Management Disclosure in the financial statements, with reference to the section of the law limiting the use of the assets.

13.43.0 Disclosure of specified items of income, expense, gains or losses

13.43.1 **Harmonization Carve-out:** Details of items of income, expense, gains or losses shall be specified in the notes

13.44.0 Information about the nature and the risks arising from financial instruments

13.44.1 **Harmonization Carve-out:** The required disclosure shall be made in the notes to the financial statements

13.45.0 Sensitivity analysis (IFRS 7)

13.45.1 **Harmonization Carve-out: None:** Alternatives only relevant to (re)Insurers using Value at Risk (VaR). Since it is model-driven, options are left open.

13.46.0 **Capital Management**

13.46.1 **Harmonization Carve Out:**

- a. Insurers shall be required to disclose information on their compliance with statutory minimum capital base for life, non-life, composite and Reinsurance businesses
- b. Also, insurer shall disclose information on their compliance with solvency margin requirements during the period and refer to the relevant Section of the Insurance Act, 2003.
- c. Insurer that did not comply with any one of the above requirements shall disclose the consequences of such non-compliance and actions being taken to make good the shortfall.

13.47.0 **General Regulatory Requirement:** Insurer shall disclose in the financial statements that they are regulated by National Insurance Commission (NAICOM) and also disclose all relevant sections of the Insurance Act and Guidelines issued by the Commission that have financial reporting implication e.g. hypothecation.

13.48.0 **Other Issues**

13.48.1 **Compliance with Financial Reporting Council Act 2011** - All insurers are required to ensure compliance with the requirements of the Financial Reporting Act 2011 as this will satisfy the Commission's other supervisory interests.

Form OF 1

S/ N	Particulars	First 6 months	Up to 12 months
1.	Activity out sourced (detailed description)		
2.	Name of the Vendor		
3.	Total Amount Agreed		
4.	Amount Paid so far		
5.	Whether vendor belongs to insurer group		
6.	%of outsourcing payments to Operating Expense		

Date:

Signature of CEO

**Commissioner for Insurance
Federal Republic of Nigeria
October 2022**