THE TIER-BASED MINIMUM SOLVENCY CAPITAL MODEL FOR INSURANCE COMPANIES

Background Information

- The last capitalization programme of insurance companies was carried out in February 2007
- The industry, by a unanimous consensus, agreed to a desirable recapitalization at the Insurers Committee Retreat held on 15th& 16th February, 2018 in Abeokuta
- Effect of macroeconomic and institutional factors on Insurers
- Effect of 2008 global financial crisis and recent economic recession in Nigeria, on Insurers
- The inability of some insurers to honour **contractual** commitments they have made to the insured and other stakeholders
- Improper capital structures can lead to the **extinction** of the insurance industry

1. Background Information (cont'd)

- Companies take too much risk with their capital, with additional risks of increasing incidence of emergence of holding companies
- **Insolvencies** become more common, public confidence in insurance erodes, and the insurance industry declines
- ICP 24.1 states in part, that *"the supervisor identifies underlying trends….; develops and* ***applies appropriate tools*** *that take into account the nature, scale and complexity of insurers, as well as non-core activities of insurance groups, to* ***limit significant systemic risk***"
- The "Tier-Based Minimum Solvency Capital" (TBMSC) structure is a complimentary measure to the ongoing implementation of the Risk-Based Supervision (RBS) programme

2. Policy Trust of the Recapitalization Programme

i. Enabling soundness and profitability of insurers through optimal capitalization
ii. Support the stability of the financial system;
iii. Introduction of proportionate capital that support the nature, scale and complexity of the business conducted by insurers;
iv. A 3-Level Tier-Based Minimum Solvency Capital (TBMSC) model;
v. Specifies capital requirement for each Tier Levels, based on Risk classification for each Tiers;
vi. No mandatory injection of fresh capital fund by insurers;
vii. No cancellation of licence of any operator is anticipated; but subject to solvency control levels;
viii. Specifies intervention levels; and specific actions to be taken by the Commission and Operators on various level of impairment of the TBMSC; and
ix. To open up licensing window to interested investors at higher Tier Level
x. Restructuring of capital resources for improved liquidity and claims settlement

3. The New Tier-Based Minimum Solvency Capital 1/4

1) The Three (3) Level Tier-Based Minimum Solvency Capital

The New Three (3) Tier Capital Levels: *

Tier 3 – Base Capital (Existing minimum paid up capital)

Tier 2 – 50% additional on the Base Capital

Tier 1 – 200% additional on the Base Capital

* The present review does not extend to Re-Insurance Companies

N/B: Base (existing) capital: Life= ₦2.0B, N-Lf. = ₦3.0B & Comp. = ₦5-0B & Reins. = ₦10-0B

3. The New Tier-Based Minimum Solvency Capital 2/4

1) The Three (3) Level Tier-Based Minimum Solvency Capital (TBMSC)

The 3-Tier Capital Levels and Risk Profiles:

	LIFE	NON - LIFE
TIER 3	Individual Life, Health Insurance, Miscellaneous Insurances	Fire, Motor, General Accident, Engineering (only classes covered by compulsory insurance), Agriculture and Miscellaneous Insurances
TIER 2	All Tier 3 risks and **Group Life Assurance (GLA)**	All Tier 3 risks, **Engineering (All inclusive), Marine, Bonds Credit Guarantee and Suretyship** Insurances
TIER 1	All Tier 2 risks and **Annuity**	All Tier 2 risks and **Oil & Gas** (oil related projects, exploration & production), **and Aviation** Insurances

3. The New Tier-Based Minimum Solvency Capital 3/4

2) Risk Classification for Each Tier Capital Level

LIFE COMPANIES			
Ranking	Risk Classification	Tier-Based Minimum Solvency Capital (₦Bn)	% Increase over Existing Capital
Tier 3	Individual Life, Health Insurance, Miscellaneous Insurances	2	Nil
Tier 2	All Tier 3 risks and Group Life Assurance	3	50
Tier 1	All Tier 2 risks and Annuity	6	200
NON- LIFE COMPANIES			
Tier 3	Fire, Motor, Engineering (only classes covered by compulsory insurance), General Accident, Agriculture and Miscellaneous Insurances	3	Nil
Tier 2	All Tier 3 risks, Engineering (All inclusive), Marine, and Bonds Credit Guarantee and Suretyship Insurances	4.5	50
Tier 1	All Tier 2 risks, Oil & Gas (oil related projects, exploration & production) and Aviation insurances	9	200

3. The New Tier-Based Minimum Solvency Capital 4/4

2) Risk Classification for Each Tier Capital Level

COMPOSITE COMPANIES			
Ranking	Risk Classification	Tier-Based Minimum Solvency Capital (₦Bn)	% Increase over Existing Capital Level
Tier 3	Life – All Tier 3 risks Non- Life – All Tier 3 risks	5	Nil
Tier 2	Life – All Tier 2 risks Non- Life – All Tier 2 risks	7.5	50
Tier 1	Life – All Tier 1 risks Non- Life – All Tier 1 risks	15	200

4. Basis of Assessment

- The basis of assessment of the TBMSC shall be ***consistent*** with the provisions of:

a) The provisions of Section 24 of the Insurance Act 2003;
b) The Prudential Guidelines for Insurers and Reinsurers in Nigeria 2015; and
c) Other Regulations, Guidelines and Circulars, issued or shall be issued by NAICOM.

- The basis of assessment shall apply to both Life, Non-Life and Composite Companies

- Companies shall be assessed in the first instance on their approved Financial Statements (FS) for 2017

- All Companies shall be assessed and graded to the equivalent Tier that its capital can accommodate
- Subsequently, request for change of Tier-Level shall be subject to the filing of an application, and approval by NAICOM, on satisfactory fulfilment of set conditions.

5. Intervention Levels and Actions 1/4

1) Intervention Levels & Safety Parameters

- It is hereby established, basis for intervention and safety levels, corrective measures and safety parameters as below:

Intervention Levels	Safety levels	Safety Parameters
1	$x \geq 130\%$	The Parameters indicate the excess over the Minimum Solvency Capital Requirement of each of the Tier
2	$120\% \leq x < 130\%$	
3	$100\% \leq x < 120\%$	
4	$x < 100\%$	Less than base safety level at TBMSC.

5. Intervention Levels and Actions 2/4

2) Intervention Action

Control Levels	Top-up requirements	Indicators	Insurer's (Action Plan)	Regulatory (Action Plan)
1	$x \geq 130\%$	Company well run, all financial and non-financial indicators within acceptable range.	No action required, regular filings continue	No action required, regular review of returns continue
2	$120\% \leq x < 130\%$	Company reasonably well run, most financial and non-financial indicators within acceptable range, but few outside range or deteriorating	• Submit business strategies on how to sustain its solvency level. • Prepare and submit a five-year cash flow projection to the Commission. • Organize a meeting between its Executive Management and the Commission. • Appoint actuaries to evaluate any improvement made by the Company and also identify areas that still need to be worked on.	Regular filings of returns, intensive monitoring, until company returns to control level 1. Any other measures as the Commission may deem fit in the circumstance.

5. Intervention Levels and Actions 3/4

2) Intervention Action (cont'd):

Control Levels	Top-up requirements	Indicators	• Insurer's (Action Plan)	Regulatory (Action Plan)
3	100% ≤ x < 120%	Company generally in acceptable status, but a number of indicators outside range, or have been deteriorating	• In addition to action plan in control level 2, Insurers to inject additional capital to enhance its capital base. • Limit redemption/repurchase of equity instruments (shares). • Limit payment of dividends pending when the desired outcome is achieved. • Limit its Management's expenses. • Not take new international expansion. • Restrict/restructure new investments. • Organize periodic meetings between its Board of Directors and the Commission. • Comply with special inspection activities to monitor compliance.	Commission questions management regarding the issues raised by analysis. More intensive monitoring continues until company returns to control level 1. Any other measures as the Commission may deem fit in the circumstance.

5. Intervention Levels and Actions 4/4

2) Intervention Action (cont'd):

Control Levels	Top-up requirements	Indicators	• Insurer's (Action Plan)	Regulatory (Action Plan)
4	x < 100%	Significant number of indicators outside acceptable range, or have shown significant deterioration	• Submit periodically, the Board Contingency Recovery and Resolution Plan. • Restrict new investment and/or restructure existing investment. • Limit management expenses. • Injection of capital to enhance TBMSC. • Not transact any further insurance business until injection of additional capital. • Not pay any form of dividend. • Remove from office any of its managers or officers who might have contributed to the problem of the company. • Shall call upon the Commission for assistance to control part or whole affairs of the insurer. • Take further steps that would prevent final winding up and/or liquidation of the company.	• Intervention to be considered. • including requirements for additional capital, • restricting new business • Taken over by a stronger company or eventually closing the company if all else fails. • Any other measures as the Commission may deem fit in the circumstance.

6. Implementation Timeline

Implementation Timeline		
S/No.	Implementation Action	Tier-Based
1	Awareness session with Board members and key Management staff of Insurance Companies	6th – 10th August, 2018
2	Release of transition guideline	3rd August, 2018
3	Issuance of notification letters (Tier assessment Advice to all Operators) on assessed Capital level	13th – 17th August, 2018
4	Submission of Board's decision by Operators (on choice of Tier-Level) to NAICOM	Not later than 14th September, 2018
5	**Effective take-off date**	**1st January, 2019**

7. Conclusion

- The recapitalization scheme is aimed at developing and applying appropriate tools that consider the nature, scale and complexity of insurers, as well as non-core activities of insurance groups, to limit significant systemic risk and thereby achieve soundness of insurance companies and contribute to the achievement of stability of the financial system.

- The TBMSC is the best route to take and will:-

a) Allow insurer's to focus on their areas of strength;
b) Improve settlement of claims
c) Enhance local retention
d) Encourage market discipline, prudence and appropriate pricing;
e) Encourage innovation and deepen market penetration;
f) Encourage voluntary mergers, and build investors' confidence; and
g) Build a stronger and more vibrant insurance industry

- The ongoing efforts of the Commission to reposition the insurance industry in Nigeria for the benefit of all stakeholders therefore requires the support and cooperation of all parties to the implementation of the TBMSC regime.