NATIONAL INSURANCE COMMISSION
HEAD OFFICE: Plot 1239, Ladoke Akintola Boulevard, Garki II, Abuja. P.M.B. 457, Garki Abuja Nigeria
Email: info@naicom.gov.ng, contact@naicom.gov.ng Website: www.naicom.gov.ng :08172047735

Circular No: NAICOM/DIR/CIR/59/2025 **29th January 2025**

To: The Managing Directors/CEOs of all Life Insurance Companies

ADDITIONAL REGULATORY REQUIREMENTS FOR UNDERWRITING OF ANNUITY BUSINESS IN NIGERIA

In furtherance of the Commission's resolve to ensure a safe, sound and stable insurance sector, the Commission hereby issues the following additional requirements for insurers carrying on annuity business. These requirements, which are further to paragraphs 3.4.1 – 3.4.3, 7.3.1 – 7.3.3 and 8.1.1 – 8.1.3 of the Prudential Guidelines, are intended to enshrine best practice in the management of annuity portfolios by insurance companies.

2. An insurance company intending to carry on annuity business shall have at least one Qualified Actuary (as defined in appendix 1) who shall take statutory responsibility for the Assets-Liability Matching (ALM) analysis and implementation of its adoption by the investment team of the company.

3. An Insurer that does not have an in-house Qualified Actuary, shall make arrangement for a Qualified Actuary from an external actuarial firm to take on the ALM responsibility on its behalf for an interim period of no more than 2 years, subject to the Commission's approval for an extension for 2 or more years, thereafter.

4. The appointment of an in-house or external Qualified Actuary, who shall sign off all ALM reports as required by the provisions of paragraphs 3.4.3, 7.3.1 and 8.1.5(m) of the Prudential Guidelines, shall be subject to the prior approval of the Commission.

5. The ALM report required by the provisions of paragraphs 3.4.3 of the Prudential Guidelines, shall at a minimum, contain the following:

i. Analysis covering the following areas:
   a. The Relative sizes of the In-Scope Asset Portfolio and the Best Estimate Liabilities ("BEL").
   b. The Annualised Net Cash Flow (i.e. Matching Asset cash flows less BEL cash flows) analysis.
   c. The Duration of the Matching Asset and BEL cashflows, the Duration Gap and Relative Duration Gap where:

      Duration Gap =

$$\textit{Duration of Matching Assets} \times \frac{\textit{Mkt value of Matching Assets}}{\textit{Best Estimate Liabilities}} - \textit{Duration of BEL}$$

$$\text{Relative Duration Gap} = \frac{Duration\ Gap}{Duration\ of\ BEL} x\ 100\%$$

d. The results of a stress test of +/- 300 basis points to the NAS risk-free yield curve, and where necessary that of a stress test of +/- 600 basis points to the NAS risk-free yield curve.

ii. Clearly indicate the results obtained from the analysis above and any further action required in conformity with the schedule of required action specified in the matrix in appendix 2 of this Circular.

iii. Clear recommendations to the investment team for a rebalancing of the asset portfolio; and

iv. Comparison of the situation in the previous report and the current report, with comments on what has changed with reasons.

6. An insurance company shall immediately identify the band within which the result fits in the matrix and shall implement the required action with immediate effect. An insurance company that fails to implement the required actions constitute a violation and shall be liable to regulatory sanction including payment of penalties as may be determined by the Commission.

7. The ALM report shall be submitted to the Commission not later than fifteen (15) days after the end of every quarter in line with the reporting requirement stipulated in paragraph 3.4.3 of the Prudential Guidelines.

8. Without prejudice to paragraph 7 of this circular, where the annuity portfolio of an insurance company has more than 1,000 (one thousand) annuitants or the portfolio is valued at ₦5,000,000,000.00 (Five Billion Naira) or more, the Company shall submit to the Commission the prescribed ALM report monthly, not later than 15th of the succeeding month.

9. An insurance company shall ensure regular but not less than monthly meetings between the Actuarial and Investment functions of the company to discuss the following:

i. The implementation of the previous ALM report; If any recommendation from the report was not executed, state clearly why it was not implemented.

ii. The latest ALM report and agree on an implementation plan; and

iii. Submission of the minutes of the meeting to the Management.

10. An insurance company shall also ensure that the Asset/Liability Committee (ALCO) reviews the following regularly, at a minimum every quarter:

i. The current ALM position and comparison to the position at the time of the last meeting; and

ii. Any identified ALM breaches, actions being taken to remediate breaches as well as any measures being put in place to prevent a recurrence of said breaches.

11. The Board of Directors of the insurance company shall be responsible for ensuring strict compliance with this Circular. Accordingly, the Board of Directors are required to adopt, issue or

update policies for effective compliance with this Circular, not later than three months of issuance of the Circular.

12. An Insurance Company whose strategic business plan for its annuity portfolio will not support the additional expense imposed by this Circular shall not later than 180 days from the effective date of this Circular, transfer its annuity portfolio to another suitable insurance company in line with extant insurance laws and regulations.

13. From the effective date of this Circular, an insurance company shall consolidate its Retiree Life Annuity (RLA) funds and assets with its chosen RLA Custodian adopting the procedures prescribed in paragraphs 16.2 – 16.11 of the Regulation on Retiree Life Annuity 2020.

14. In addition to all the above, the NAS Standards of Actuarial Practice (NSAP) on Annuities shall guide the pricing, valuation and ALM reports of annuity portfolios. An actuary that fails to satisfactorily explain any departure from NSAP in the pricing, valuation and ALM reports of any portfolio constitute a violation and be liable to regulatory sanction as may be determined by the Commission, taking cognizance of the quantum and benefits derived therefrom.

15. This Circular takes effect from 1st February 2025.

16. All correspondence to the Commission in respect of this Circular should be marked for the attention of the Actuarial Services.

A. I. Adamu
Director (Innovation & Regulation)
For: Commissioner for Insurance

Appendix 1

Definition of Some Common Terms:

For the purpose of this circular, the following terms shall have the meaning presented in this appendix or as may be prescribed from time to time by the Commission. Further guidance provided in the extant NSAP shall be relied upon.

i. **Annuity Fund** shall be assets in a ring-fenced portfolio in line with the provisions of paragraphs 7.1.1 and 7.1.2 of the prudential guidelines.

ii. **Best Estimate Liability (BEL) of the Annuity Fund** shall be determined as the present value of the benefit and expense cashflows. This shall exclude the Risk Adjustment (RA) and the Contractual Service Margin (CSM) portion of the fulfilment cashflows where valuation for the annuity fund has been done in line with IFRS 17 standards.

iii. **In-Scope Assets for the ALM Report s**hall be determined starting from the total assets in the Annuity Fund and deducting equal value of the RA and CSM to be consistent with the BEL discussed above.

iv. **Matching Assets** to be used to determine the assets cash flows from the Annuity Fund shall be fixed income assets (i.e. cash and cash equivalents, commercial paper, treasury bills, federal and state government bonds and corporate bonds) only.

v. **Qualified Actuary** shall be:

   a. A Fellow of the Nigeria Actuarial Society (NAS).

   b. For an in-house Qualified Actuary only, an Associate of NAS may take up this role provided the reports are peer reviewed by a Fellow of NAS at least twice a year. This provision will expire 5 years after the date of this circular except if explicitly renewed by the Commission. The NAS Fellow carrying out the peer review does not necessarily have to be a consultant and can be an employee of the same firm or a related entity.

   c. For the avoidance of doubt, an Associate of NAS cannot be hired as a consultant for this role.

Appendix 2

Matrix on Schedule of Required Action

Analysis	Result	Required Action by Insurer
i. Cashflow mismatch	Cumulative net cashflow is negative in any of the first 3 years of each cashflow projection.	Stop writing business until breach is cured.
ii. Relative Duration Gap	The Relative Duration Gap is outside the +/- 10% corridor.	Submit a plan to address the gap alongside the report.
	The Relative Duration Gap is outside the +/- 20% corridor and failed a stress test of +/- 600bps conducted thereafter.	Stop writing business until breach is cured.
iii. Annuity fund shortfall	In-Scope value of Assets is less than BEL.	If previously submitting the ALM report quarterly, the insurance company shall submit the report monthly to NAICOM till this is corrected.
iv. Parallel Shift Stress Test of +/- 300bps	The impact of the adverse stress exceeds the size of the regulatory capital required for the annuity business.	Stop writing business until breach is cured.

Table 1: Illustrations of ALM Report Summary

Ref Code	**<u>Annuity Fund</u>**	**Amount (₦)**	**Notes**
A	Annuity Asset MV	100.00	
B	Annuity Technical Provisions	100.00	
C	BEL	70.00	
D	Risk Adjustment	10.00	
E	CSM	20.00	
	<u>In-Scope</u>		
F	In-Scope Assets MV	70.00	= A - D - E
G	BEL	70.00	
H	Matching Assets MV	50.00	In-Scope assets less non-matching
	<u>Duration Test</u>		
I	Duration of Matching Assets	3.00	
J	Scaled Matching Assets Duration	2.14	= I × H/C
K	Duration of BEL	4.00	
L	Duration Gap	(1.90)	= J - K
M	Relative Duration Gap (%)	-48%	
	<u>Stress Test</u>		
H	Matching Assets MV	50.00	In-Scope assets less non-matching
G	BEL	70.00	
N	Net Asset (before stress)	(20.00)	
H	Matching Assets MV (after +300bps shift)	46.00	
G	BEL (after +300bps shift)	63.00	
O	Net Asset (after +300bps shift)	(17.00)	
H	Matching Assets MV (after -300bps shift)	55.00	In-Scope assets less non-matching
G	BEL (after -300bps shift)	80.00	
P	Net Asset (after -300bps shift)	(25.00)	
	Stress Impact	5.00	= N - Min (O, P)
	Shareholders Fund	10.00	

Table 2: Schedule of Annualised Net Cashflows

Year	Asset CFs (N'm)	Liability CFs (N'm)	Net CFs)N'm)	Cumulative Net CFs (rolled up at 5%)	Cumulative Net CFs (rolled up at 5%)	Discounted Cumulative Net CFs (% of BEL)
1	12.6	12.4	0.2	0.2	0.2	0.3%
2	12.3	12.3	0.0	0.2	0.1	0.2%
3	11.5	12.3	-0.8	-0.5	-0.3	-0.4%
4	12.0	12.1	-0.1	-0.7	-0.3	-0.4%
5	10.6	11.9	-1.3	-2.0	-0.6	-0.9%
6	12.6	11.4	1.2	-0.9	-0.2	-0.3%
7	13.5	10.9	2.7	1.7	0.3	0.5%
8	8.2	10.3	-2.1	-0.4	-0.1	-0.1%
9	12.3	9.8	2.4	2.0	0.3	0.4%
10	7.7	9.5	-1.8	0.3	0.0	0.0%
11	7.4	9.2	-1.8	-1.5	-0.1	-0.2%
12	7.4	8.8	-1.4	-2.9	-0.2	-0.3%
13	7.4	8.5	-1.0	-4.1	-0.2	-0.3%
14	23.9	8.1	15.8	11.5	0.5	0.7%
15	5.9	7.7	-1.7	10.3	0.3	0.5%
16	18.4	7.3	11.0	21.9	0.5	0.8%
17	3.1	6.9	-3.8	19.1	0.4	0.5%
18	3.1	6.6	-3.5	16.5	0.3	0.4%
19	3.1	6.4	-3.3	14.1	0.2	0.3%
20	3.1	6.0	-2.9	12.0	0.1	0.2%
21	3.1	5.6	-2.5	10.1	0.1	0.1%
22	3.1	5.2	-2.1	8.6	0.1	0.1%
23	3.1	4.8	-1.7	7.3	0.0	0.1%
24	3.1	4.4	-1.3	6.4	0.0	0.0%
25	17.9	4.0	13.9	20.6	0.1	0.1%
26	1.6	3.7	-2.1	19.5	0.0	0.1%
27	1.6	3.3	-1.7	18.8	0.0	0.1%
28	12.2	3.0	9.2	28.9	0.0	0.1%
29	0.0	2.7	-2.7	27.7	0.0	0.0%
30	0.0	2.4	-2.4	26.6	0.0	0.0%
31	0.0	2.2	-2.2	25.8	0.0	0.0%
32	0.0	1.9	-1.9	25.1	0.0	0.0%
33	0.0	1.7	-1.7	24.6	0.0	0.0%
34	0.0	1.6	-1.6	24.3	0.0	0.0%
35	0.0	1.4	-1.4	24.1	0.0	0.0%
36	0.0	1.0	-1.0	24.3	0.0	0.0%
37	0.0	0.5	-0.5	25.0	0.0	0.0%
38	0.0	0.4	-0.4	25.8	0.0	0.0%
39	0.0	0.3	-0.3	26.8	0.0	0.0%
40	0.0	0.3	-0.3	27.9	0.0	0.0%
41	0.0	0.2	-0.2	29.1	0.0	0.0%
42	0.0	0.1	-0.1	30.4	0.0	0.0%
43	0.0	0.1	-0.1	31.8	0.0	0.0%
44	0.0	0.1	-0.1	33.3	0.0	0.0%
45	0.0	0.1	-0.1	34.9	0.0	0.0%
46	0.0	0.0	0.0	36.6	0.0	0.0%
47	0.0	0.0	0.0	38.5	0.0	0.0%
48	0.0	0.0	0.0	40.4	0.0	0.0%
49	0.0	0.0	0.0	42.4	0.0	0.0%
50	0.0	0.0	0.0	44.5	0.0	0.0%

Note:

i. The asset cashflows in the schedule above do not relate to the annuity fund in appendix 3.

ii. A minimum bank savings rate of 5% has been taken to accumulate the Assets and Liability Cash Flows.

iii. The discounting done in columns 5 and 6 should be at the NAS Risk Free Rate.

iv. The Net Cashflow schedule above shows a negative cumulative cashflow (highlighted in red) of -0.5 at the end of year 3. To address this breach, some rebalancing will need to take place through selling of longer dated assets for cash or merely switching longer dated assets to those with maturity of less than 3 years.