PRUDENTIAL GUIDELINES FOR INSURERS AND REINSURERS IN NIGERIA

ISSUED BY

THE NATIONAL INSURANCE COMMISSION

EFFECTIVE JULY, 2015

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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 etc required from Insurance Institutions to facilitate reliable, sound and sustainable growth of insurance and reinsurance companies.

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 shall apply to all Insurance and Reinsurance institutions.

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"

h) Items in any of the previous Guidelines which are not specifically mentioned in this Guidelines stand repealed.

i) This Guidelines shall come into effect in July 2015

1. PROTECTION OF POLICYHOLDERS FUND

1.1 Background

By the provisions of the Insurance Act 2003, policyholders/ annuitants 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:

i) Investments held in compliance with Section 25, are not pledged as security for the borrowings by companies.

ii) Funds relating to annuity and policyholders' Funds are adequately protected in the event of insolvency of an insurance company.

iii) Investments are held in the name of the relevant Insurance Company.

iv) Investments representing insurance Funds are not co-mingled with shareholders' investments.

v) Asset-liability management strategies are strengthened.

1.2 Requirements for Protection of Policyholders' Funds

The following requirements shall apply:

i) An Insurer shall strictly comply with the requirement of Sections 19 and 25 of the Insurance Act at all times.

ii) An Insurer shall ensure that its accounting records show the amount 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.

iii) An Insurer's Investment policy shall clearly reflect the requirements of Section 25 of the Insurance Act and shall include measures to be taken to ensure:

   a) 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.

b) 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 **Ring-Fencing Actions:**

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

i) 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:

a) That the assets shall not be used as collateral for any borrowing of any entity, including the Company itself.

b) That the assets are maintained and shall be held as under the provision of Section 19(3) of the Insurance Act; and

c) That, in the event of the insolvency or bankruptcy of the Insurers, the assets shall only be applied for the purpose of settling the claims of policy holders under the control of the National Insurance Commission or its duly appointed agents.

ii) 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.

iii) 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.

iv) 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.

v) 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.

vi) Assets not in the name of the Insurance Company shall not be acceptable as cover for Policyholders' Funds.

vii) Unsecured investments or loans shall not be accepted as cover for Policyholders' Funds.

viii) Companies are required to report to the Commission any time that their investments cover for Policyholders' Funds fall below the statutory minimum. This notification shall include arrangement, being made to make up the deficiency.

ix) 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.

x) 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.

xi) 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.

1.4 Transition Arrangement

To give effect to the requirement of this Guideline, Insurers are required to:

i) Ensure that the required records are maintained and the notations of policyholders' interest in assets are registered with relevant custodians/registrars not later than 30 October, 2015;

ii) Submit updated versions of their investment policies reflecting the requirement of this Guideline not later than 30 October, 2015;

iii) Ensure that Custodians/Registrars shall be required to communicate the lodgement and notation of the policyholders' interest direct to the National Insurance Commission not later than 30th November, 2015.

2. ANNUAL RETURNS AND ACCOUNTS

2.1 An Insurer is required to submit to the Commission the duly audited financial statements and annual returns in the prescribed forms (See Annual and Quarterly Regulatory Template for Nigerian Insurance Industry) in respect of its operations as at the end of the preceding financial year.

2.2 The duly audited financial statements and annual returns shall be submitted in one (1) hard copy accompanied by a soft copy in an excel format.

2.3 The returns shall be filed on or before 30th June of the following year.

2.4 The following shall accompany audited Annual Returns and shall be in hard and soft copy except items a, b, c, d, h, i and j which shall be in hard copy only:

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 in the case of General; Business;

d) Certificate of solvency issued by the Actuary in the case of Life Business;

e) Two copies of the report on Liability Adequacy Test (LAT) issued by the Actuary for Life and General Insurance businesses;

f) Schedule of outstanding premium collection in the first ninety after the year end duly certified by the CEO and the External Auditor.

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) Evidence of payment of filing fees and penalties for late submission, if applicable.

j) Risk Management Declaration duly signed by 2 Directors

2.5 An Insurer shall be deemed to have failed to file its annual returns if the provisions of S.26 of the Insurance Act 2003 are not met 12 months after the end of the financial year

2.6 Cash flow statements shall be prepared and presented on Direct Method Basis.

2.7 **Accounting Period:**
For purposes of compliance with the above, accounting period shall run from 1st January to 31st December of each year.

2.8 **Filing Fees**:
Each company shall at the time of submission of annual returns and audited financial statements pay the following filing fees:

a)	Composite Insurers	₦1,000,000
b)	Life Insurer	₦500,000
c)	General Insurer	₦500,000
d)	Reinsurers	₦1,500,000

2.9 **Insurance Levy Returns:**

a) An Insurer shall, not later than 31st of March of each year, file with the Commission a duly completed assessment as applicable 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.

b) 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).

2.10 **Approval of Annual Returns:**

a) An Insurer shall obtain approval of its Annual Returns and Accounts from the Commission before consideration by the shareholders at its Annual General Meeting (AGM) and distribution of dividends to shareholders.

b) An Insurer shall not publish its financial statements in any national newspaper except as stipulated in Sections 26 (4) & 27 (6) of the Insurance Act 2003.

2.11 **Admissible Assets and liabilities**:

a) For purposes of calculating the solvency margin of an Insurer, the following assets shall be netted off the related liabilities:
   i) Deferred acquisition cost;
   ii) Prepaid reinsurance cost.

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

i) All investments/assets not in the name of the Insurer;

ii) Investment placed with fund managers and deposit with related entities and institutions not insured as a Deposit Money Bank by NDIC;

iii) Investments in excess of the limits prescribed in clause 3.1.4-3.1.4 of this Guideline;

iv) Investment in related companies except insurance business;

v) Goodwill;

vi) Deferred tax assets; and

vii) Investment in foreign Securities. Foreign investment shall be any investment in Securities outside Nigeria whether quoted or unquoted).

viii) Existing Investments in companies that have not reported profit or paid dividend in the preceding three years.

ix) Commercial loans including loans to related entities

x) Proportions of Land & Building and Investment Property admissible for Solvency Margin purposes shall not constitute more than 1/3 of the required Solvency Margin of the Company for Life and Non-Life business. In this regard, a transition period of three (3) years shall be allowed.

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

2.12 **Annuity Funds:**

a) A retiree life annuity provider shall maintain separate books of account in respect of the retiree life annuity funds distinct from its other insurance or annuity operations.

b) The retiree life annuity funds and supporting assets and liabilities shall be disclosed separately by way of notes in the audited financial statement and all management accounts of the company.

2.13 **Age Analysis of Outstanding Claims**

a) An insurer shall disclose in their audited financial statements to the Commission, the sum outstanding as unsettled claims as at the end of the year according to age analysis as follows:

i) 0 – 90 days
ii) 91 – 180 days
iii) 181 – 270 days
iv) 271 – 365 days
v) 366 Days and above

b) Form G2 of this Guideline shall be the acceptable presentation format.

2.14 **Minimum Solvency Margin**

Margin of solvency shall be defined as total admissible assets less total liabilities, and this shall not be less than either 15% of net premium or the amount of minimum capital requirement whichever is higher.

2.15 **Trade Receivables (Age Analysis of Trade Receivables)**

a) To be included in the audited Annual Return is the details of Brokers' individual indebtedness as at year end of report.

b) The Form shall be the acceptable presentation format.

c) An Insurer shall disclose in their audited annual returns to the Commission, the sum outstanding as at year end according to age analysis as follows:

S/No.	Age of Debt
1	Within 30 Days
2	Above 30 Days

2.16 **Claims Reserving Methods and Documentation**

i) 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.

ii) 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.

iii) 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.

iv) 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.

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

vi) 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.

2.17 **Impairment**

Impairment of trade receivables shall be determined in accordance with the requirements in the applicable IFRS.

2.18 **Quarterly Returns**:

a) An Insurer shall, within thirty (30) days from the end of each quarter, file Management Account of its operations as at the end of the quarter in line with the regulatory reporting template.

b) The first Quarter Return shall reflect the position of the audited/unaudited Management Financial Statements of the preceding year, while subsequent Quarterly Returns shall reflect the position of the immediate preceding quarter

2.19 **Penalties**

a) Late filing of Quarterly Returns shall attract a fine of N5,000 per day for each day of default.

b) Failure to render Quarterly Returns may be a condition for cancellation of operating licence under Section 8 of the Insurance Act, 2003.

c) An Insurer shall be deemed to have failed to render Quarterly Returns if such Returns are not submitted to the Commission on or before the end of the next quarter.

d) Any restatement of Returns necessitating re-filing shall attract a fee equal to the original filing fee.

2.20 **Off-Shore Operations:**

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

b) Quarterly and Annual returns on the operations of such off-shores subsidiaries shall be filed with the Commission in line with paragraph 1.1.11 (a) above.

2.21 **Disclosure:**

a) **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

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

2.22 **Audit:**

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

b) All notifications of the appointment to the Commission shall be accompanied by an original copy of the Service Level Agreement (SLA) between the Insurer and the External Auditor which, at a minimum, shall contain the information in Form A1.

c) All Insurers are required to send a profile of their auditors to the Commission not later than two (2) months prior to the commencement of the audit. At a minimum, the profile shall contain:

i) The name of the auditor
ii) Designation
iii) Qualifications
iv) Years of experience
v) Years of experience in the audit of insurance companies and the names of the Insurer(s)
vi) Evidence of registration with Financial Reporting Council

d) The tenure of an appointed External Auditor shall be a maximum of 5 years.

e) 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.

f) The Internal Audit report of an Insurer shall be filed with the Commission every quarter.

3. INVESTMENTS

3.1 Introduction

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.

As part of the initiative to enhance the quality of the investments in Insurance Companies in Nigeria, the Commission undertook a review of the prudential Guidelines on investments. In this regard, the revised Prudential Guidelines on investments aim to address various aspects of Insurers' operations.

3.2 Investment Policy

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

b) 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.

c) At a minimum, the policy shall address the following:

  i) Policies, Procedures and Controls covering all aspects of the investing activities;

  ii) Quantified objectives regarding the composition of classes of investments, including maximum internal limits;

  iii) Periodic evaluation of the investment portfolios as to their risk and reward characteristics;

  iv) Competency requirements for the individuals making day-to-day investment decisions to assure that investments are managed in an ethical and capable manner;

v) 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;

vi) The relationship of classes of investments to the Insurer's liabilities;

vii) The Insurer's investment evaluation criteria and the manner of its implementation;

viii) The level of investment risk (based on quantitative measures) appropriate for the Insurer given the level of capitalization and expertise available to the Insurer.

d) 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 Investment Committee

i) An Insurer is required to **properly** constitute an Investment Committee. The decisions taken by the Investment Committee shall be recorded and be open to inspection by the Commission.

ii) 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 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 timedetermine.

3.4 **Asset Allocation:**

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 issued, type and maturity as follows:

3.4.1 **General Requirements**

a) No Insurer shall invest in derivatives without an approval from the Commission

b) Not more than 20% of the total current accounts balances and bank placements shall be placed in any one bank.

c) No fund shall be placed with an institution not insured as a Deposit Money Bank by NDIC.

d) No Insurer shall invest its fund in its parent company.

e) 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.

f) No Insurer shall invest in any company that either has not reported profits or paid dividend in the preceding three years.

g) No Insurer shall outsource its investment functions without an approval from the Commission.

h) Insurers may invest in Bankers Acceptance and Commercial Papers guaranteed by an issuing bank.

i) The following conditions shall apply to borrowings by an Insurer:

  i) Any borrowing of an amount up to 2.5% of shareholders funds shall be with the approval of the Commission.

  ii) An Insurer's total borrowings at any given time shall not exceed 5% of its shareholders fund.

  iii) Any borrowing with option to convert to equity of the company shall be with the approval of the Commission.

3.4.2 Insurance Fund:

a) Subject to the liquidity required for relevant obligations of the Insurers/ Reinsurers, the following limits should be observed with regards to investment-type decision on insurance funds:

i) Securities offered by any one company, not more than 20%

ii) Quoted equity (in total), not more than 50%

iii) Unquoted equity (in total), not more than 10%. Investment shall be in a company that has minimum corporate rating of "A" range by at least one recognised risk rating agency registered by SEC.

iv) Federal Government Securities (in total), not more than 100%

v) State Government Securities (in total), not more than 20%, which must be guaranteed by the Federal Government and approved by SEC

vi) Debt instrument or special funds issued by corporate entities (in total), not more than 10%

vii) Equipment leasing, not more than 5%

viii) Real estate
In the case of Life insurance funds, not more than 35%
In the case of Non-life insurance funds, not more than 25%

b) Insurance funds may be invested in debt instruments issued by the Federal Government of Nigeria or Central Bank of Nigeria, if such Securities are;

i) Approved by SEC and have the full guarantee of the issuer;

ii) Readily marketable i.e. listed/proposed for listing on a registered Securities Exchange;

iii) Issued in accordance with existing relevant legislation(s).

c) Insurance funds may be invested in debt instruments issued by any State Government, provided such Securities;

i) Have the full guarantee of the Federal Ministry of Finance.

ii) Are readily marketable i.e. listed/proposed for listing on a registered Securities Exchange.

iii) Are issued in accordance with existing relevant legislation(s).

d) Insurance funds may be invested in debt instruments issued by Corporate entities if:

i) They have clearly defined term/maturity features, periodic and terminal payout, as well as interim, terminal and contingency redemption features.

ii) They must have been lawfully issued.

iii) Investment shall be in a company that has minimum corporate rating of "BB+" range by at least one recognised risk rating agency registered by SEC

iv) They are quoted on a registered Security Exchange or listed on the 2nd tier of a registered Stock exchange.

e) An Insurer shall not invest insurance funds in the shares or any other Securities issued by the following:

i) Owned shares;

ii) A shareholder of the Insurer

iii) Subsidiaries or Associates, Joint ventures and affiliates of the company or its shareholders.

f) An Insurer shall not sell, transfer or exchange insurance funds assets to:

i) Itself

ii) Any shareholder, Director or affiliate of the Insurer

iii) Any employee of the Insurer

iv) Other related party (related party as defined by accounting standard)

g) Insurance funds shall not be pledged as collateral for any borrowing by an Insurer

h) Insurance funds shall not be invested off shore

3.4.3 Shareholders' Funds:

a) Investment of shareholders funds in unquoted equity, including investments in associates, subsidiaries, joint ventures and other related companies should be limited to 20% of such funds.

b) The limit in (a) above shall not apply to investments in insurance related businesses. However, investments in such Insurance related businesses shall be with the approval of the Commission

c) Investments of Shareholders' funds on insurance related business and any off-shore investment shall be subject to the Commission's approval.

3.5 Investment of proceeds of capital raisings:

An Insurer shall not invest more than 25% of the proceeds of public offers and private placements of shares in non-insurance related companies or ventures.

3.6 Investment Accounting and Reporting

a) **Valuation of Investments -** Valuation rules for both financial reporting and solvency assessments will be as prescribed by International Financial Reporting Standards (IFRS).

b) 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.

c) All investments representing insurance and annuity funds (where ring fenced) shall be specifically indicated in the records of the Custodians/Registrars.

d) All Investments relating to insurance and annuity funds shall be distinguished from those representing other funds in the financial statements.

4. REINSURANCE

4.1 Reinsurance Arrangements and Exposure Limits:

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 approved by the Board of Directors.

c) The Foreign Reinsurer(s) shall, at a minimum, have good reputation, governance history, satisfactory 3-years claims-handling practices and maintain an acceptable Financial Strength Rating (FSR) conducted by an internationally recognized rating agency

d) An insurer shall not unduly 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 Reinsurance Treaties/Arrangements (except Oil and Gas):

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

b) All Reinsurance Treaties and Life Treaty Cover-notes/addendum, 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:

   i) Signed slips of all reinsurance arrangements and not only Cover-notes issued/signed by the reinsurance brokers;

   ii) Evidence of premium remittance for the previous Four (4) Quarters, (i.e. 4th, 1st, 2nd and 3rd Quarters); and

   iii) Evidence of payment of Minimum and Deposit (M&D) Premium for the following year on the General business Treaties.

   iv) The Financial Strength Rating of the foreign Reinsurers.

4.3 **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

a) All Reinsurance Treaties/Arrangements, for the following year, shall be filed with the Commission on or before 15th December of the preceding Year. 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.

b) 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.

c) 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.

d) 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.

e) 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 **General Requirements for All Foreign Facultative Reinsurance Arrangements:**

a) 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.

b) 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.

c) 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.

d) 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.

e) 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

f) 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.

g) There shall be no Assignment of a Reinsurance Policy. The financial interest of a third party may, however, be noted in the policy by way of either a *"Loss Payee" or "Lien Clause"* or other conventional reinsurance clauses.

h) 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.

i) 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.

j) 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.

k) 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. This would be duly communicated to the applicant.

l) 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.

m) 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.

n) 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.

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

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 provisional 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 placement 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 Requirements for Request for No Objection

Subject to exhaustion of the capacity of the Nigerian Insurance Industry, a No Objection shall be requested in the following cases:

a) 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.

b) 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.

c) 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.

d) Requests for "No Objection" to place an accepted proportion of a risk offshore, shall be accompanied by:

i) Evidence of declinature from the Reinsurance Facility Providers stating the reasons for the declinature or reasons for recourse to facultative reinsurers.

ii) Evidence of declinature from other Local Insurers not currently participating in the risk.

4.7 Requirements for Letter of Attestation (LOA):

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.

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) Such other requirements as may be prescribed by the Commission from time to time.

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

All requests for Certificate for Offshore Reinsurance must be accompanied by the following:

a) Final Policy or Endorsement Issued by the Local Insurer not excluding 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, which must amongst others state the Reinsurers' Order Hereon and each Reinsurers' signed proportion;

c) Evidence of full Premium Collection;

d) Evidence of Premium Remittance to Local Insurers;

e) Evidence of Premium Remittance to Foreign Reinsurers;

f) Evidence of Payment of 1% ISS Levy; an

g) Any other relevant information.

5. AVIATION INSURANCE

5.1 Background

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.

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 General Requirements

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

a) 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 risk rating/pricing.

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

c) 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 Underwriting/Due Diligence

a) 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).

b) 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).

c) 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.

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

e) At a minimum, the profile shall contain:
   i) Full names of the designated Authorized Person(s)
   ii) Designation and Location
   iii) Qualifications (professional/educational)
   iv) Years of experience
   v) Years of experience in Aviation Insurance or related field
   vi) Evidence of CIIN professional qualification
   vii) Specimen Signature of the Authorized Persons.
   viii) Contact details (mobile numbers and email addresses)

f) 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 Reinsurance/Exposure Limits

a) 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).

b) 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.

c) The Net Retention/Deductible of an Insurer under any treaty, on per risk basis, shall not constitute more than 5% of its Shareholders' Fund.

d) 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.

e) 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.

f) 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.

g) 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:
   i) Hull and Spares
   ii) Liability
   iii) War, Hijacking and Allied Perils
   iv) Excess War
   v) Etc
   vi) It shall also clearly indicate any excluded aviation insurance risk/policy and/or insured.

h) 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.

i) 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 Submission of Aviation Insurance Returns

a) An Insurer/Coinsurer shall submit to the Commission, *on occurrence basis*, 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 that may be issued by the Commission from time to time* shall be sent to *aviation@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/resurer submission

b) The hard copy of the above returns shall be aggregated in a single form using the above Form and submitted to the Commission not later than 14 days from the end of every Quarter. The returns must be signed by the Authorized Person and Chief Compliance Officer or the Managing Director/CEO. Where the insurer is the lead insurer, the returns shall be accompanied by the following

i) Copies of all Certificates of Insurance and endorsements issued to the Insured.

ii) Evidence of receipt of premium from the insured/Credit Note from the Broker.

iii) Schedule of Premium Remittance to Coinsurers by the Lead Insurer/Broker

iv) Evidence of premium remittance to other coinsurers by the Lead Insurer.

v) Evidence of premium remittance to Reinsurers (If any) by the Lead Insurer.

c) 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 while the hard copy of the endorsement shall be forwarded to the Commission along with the Insurer's submission in respect of the aggregated quarterly returns on Aviation Insurance.

d) Where an Insurer does not transact an aviation business in the quarter, the Insurer shall file a "Nil Return".

e) 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 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.

5.6 Compliance

a) 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.

b) 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.

c) 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.

d) Reference to an Insurer in this guideline also refers to a Reinsurer.

6. RISK MANAGEMENT FRAMEWORK FOR INSURERS AND REINSURERS IN NIGERIA

6.1 Introduction

a) 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.

b) 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.

c) 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.

d) 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.

e) 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.

f) 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.

g) This guideline may be revised from time to time by the Commission.

6.2 General Requirements

a) All insurers and reinsurers shall establish and maintain a Risk Management Framework. The Risk Management Framework must, at a minimum, include the following:

i) Documented Risk Management Strategy

ii) Documented Risk Management Policies, Procedures and Controls

iii) A written Business Plan that is approved by the Board

iv) Chief Risk Officer

v) Enterprise Risk Management Committee

vi) Up-to-date Risk Register

vii) A Review Process

viii) A well defined Risk Governance and Responsibilities

ix) A system for Independent Review

b) 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:

i) Market risk/Investment risk
ii) Credit risk
iii) Operational risk
iv) Liquidity risk
v) Reinsurance risk
vi) Underwriting risk
vii) Provisioning risk/Reserving risk
viii) Claims management risk
ix) Group risk
x) Reputational risk
xi) Legal/Litigation risk
xii) Such other risks to which the company may be exposed

vii) The Risk Management Department/Unit shall on regular basis re-assess the methodologies, models and assumptions used to measure and limit risk.

g) All insurers and reinsurers shall, at a minimum, adopt the 'three lines of defence' model of risk governance with clearly defined roles and responsibilities..

h) 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.

I) 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.

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

6.3.1 Elements of a Risk Management Strategy

a) The risk management strategy is a high level document which contains:

i) The company's strategy for managing risk;

ii) The extent and circumstances under which the company is prepared to accept risk; and

iii) The key elements of the risk management framework, which gives effect to the strategy for managing risk.

b) A company's risk management strategy must therefore, at a minimum:

i) Detail the company's approach to the matters listed in a - c above;
ii) Identify the policies and procedures for dealing with the following matters:

a) The process for identifying and assessing material risks;

b) The process for establishing and implementing mitigation and control mechanisms for material risks;

c) The process for monitoring and reporting of risk issues (including communication and escalation mechanisms);

d) The process for monitoring and reporting and ensuring continual compliance with the requirements of this guideline;

e) The company's approach to management of capital; and

f) The company's approach to disaster recovery/business continuity management;

iii) Describe the relationship within the risk management framework between the Board, Board committees and senior management;

iv) 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

v) 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

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.

a) 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.

b) **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:

i) Avoidance or not participating in events that give rise to risk.

ii) Forbidding certain "risky business" e.g., company not authorized to invest in certain risky investment instruments.

iii) 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.

iv) Sharing portions of the risk (co-insurance or pool).

v) Acceptance and coping with the risk.

c) **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.

a) **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.

b) **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.

c) **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.

d) **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.

e) **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:

i) systems for the selection of reinsurance brokers and other reinsurance advisers;

ii) systems for selecting and monitoring reinsurance programmes;

iii) clearly defined managerial responsibilities and controls;

iv) presence of a well resourced reinsurance department that prepares clear methodologies for determining all aspects of a reinsurance programme.

v) Senior management should review an insurer's reinsurance management systems on a regular basis.

f) **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.

g) **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.

h) **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:

i) 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;

ii) suitable systems should be in place for claims handling procedures, timeliness of processing and dealing with backlogs;

iii) 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;

iv) 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;

v) appropriate systems and procedures should be in place to ensure that claim files without activity are reviewed on a regular basis;

vi) 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;

vii) 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

viii) 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.

i) **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 taken into account when setting or revising corporate strategy.

j) **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.

k) **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.

RISK MANAGEMENT: APPENDIX 1

Risk Ownership 1st Line of Defence BOARD, SENIOR MANAGEMENT FRONT-LINE MANAGEMENT AND STAFF	Responsible for identifying and assessing the risks faced in the business in line with the set risk apettite and ensuring that appropraite controls are established and maintained
Risk Control 2nd Line of Defence RISK MANAGEMENT DEPARTMENT	• Responsible for designing risk framework methodologies and tools which supports the busness in analysing and managing risks and providing early warning of adverse trends. Responsbile for consulting and advising the Board, Management and staff on identification, control and mitigation of risk.
Risk Assurance 3rd Line of Defence AUDIT	• Responsible for providing independent and objective assurance on the effectiveness and adequacy of risk mangement control and governance process.

b) 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 jurisdictions 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.

c) The need for harmonization of IFRS options in the Nigerian Insurance industry was agreed as part of the resolutions reach at one of the learning events arranged for Insurance Company Chief Finance Officers and the IFRS Consultants by the National Insurance Commission to address this issue. This document which has been issued in furtherance of the position agreed with the industry on the harmonization of practices, has been previously exposed to the industry. It has considered the input and suggestion made by parties in the financial reporting supply chain that shared their opinions of some of the issues contained in the exposure draft version.

d) It is important to note that this document does not contradict the filters issued by the Financial Reporting Council of Nigeria and will not impair, in any way, the confidence of External Auditors in affirming that the financial statements of Nigerian insurance companies are compliant with IFRS.

7.3 Benefits of Harmonisation

In addition to minimizing the inconvenience and cost of lack of homogeneity, the Nigerian Insurance Industry will derive the following further benefits from the adoption of harmonized financial reporting practices

a) The harmonized format presented in this document will drive regulatory reporting requirements. It will facilitate the alignment of data and reporting specifications for Information technology solutions applied by Insurers.

b) It will also facilitate the attainment of the highly desirable goal of developing a uniform system of accounts and standard chart of statistical codes for the Nigerian Insurance Industry.

7.4 Applicability of the Framework

The provisions of this framework are applicable to all insurers licensed under the Insurance Act 2003 in the preparation of own and consolidated financial statements. The use of the term insurers include reinsurers licensed under the act.

7 IFRS HARMONIZATION CARVE-OUTS & REGULATORY REQUIREMENT FOR NIGERIAN INSURANCE INDUSTRY

7.1 Introduction

a) The adoption of International Financial Reporting Standards (IFRS) offers 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) is taking both a developmental and regulatory approach to its role in the implementation of IFRS in the industry.

b) 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, analyses options permitted by IFRS and documents proposed harmonized choices for the industry. It also specifies related regulatory requirements and filters that the Commission will apply in the discharge of its supervisory functions in the wake of IFRS.

c) It is important to point out that the responsibility for the form and content of financial reports rests with the Board of Directors of each company. Harmonization of accounting choices only seeks to enhance the quality of information presented to users by facilitating the comparability of the financial reports issued by different Insurance Companies. It will also minimize the difference between public and regulatory reporting requirements thereby optimizing the cost of compliance.

7.2 Background Information

a) IFRS provide a framework for general purpose financial reporting which seeks to meet the information needs of existing and potential investors, lenders and other creditors in making decisions about providing resources to the reporting entity. While acknowledging the interest of other users (including regulators) it encourages them to complement IFRS-based financial statements with other sources of information to meet their unique needs. In the light of this, it is universal practice for regulators they devise methodologies for deriving their unique information needs where the bases of recognition and measurement applied to items in general purpose financial statements do not sufficiently address their prudential concerns.

b) 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 jurisdictions 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.

c) The need for harmonization of IFRS options in the Nigerian Insurance industry was agreed as part of the resolutions reach at one of the learning events arranged for Insurance Company Chief Finance Officers and the IFRS Consultants by the National Insurance Commission to address this issue. This document which has been issued in furtherance of the position agreed with the industry on the harmonization of practices, has been previously exposed to the industry. It has considered the input and suggestion made by parties in the financial reporting supply chain that shared their opinions of some of the issues contained in the exposure draft version.

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7.4 Applicability of the Framework

The provisions of this framework are applicable to all insurers licensed under the Insurance Act 2003 in the preparation of own and consolidated financial statements. The use of the term insurers include reinsurers licensed under the act.

7.5 Harmonization Carve-Outs and Regulatory Requirements

a) 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.

b) The regulatory requirements communicate the position that the Commission will adopt in the use of data derived from IFRS-based financial statements in the calculation of prudentially significant metrics and additional disclosures that are considered relevant. It also specifies reports that Insurers will be required to provide on their implementation of IFRS.

c) The structure of their presentation is as follows

   i) Apart from the section on mandatory exceptions and optional exemptions (IFRS1), all others are in the order of IFRS starting with IAS 1.

   ii) For each issue or options considered, the permitted accounting treatments are first identified before

   iii) The harmonization carve-outs given and the regulatory/prudontial requirements, where relevant.

7.6 Mandatory exceptions and optional exemptions

7.6.1 Filters Issued by Financial Reporting Council (FRC) of Nigeria.

7.6.1.1 Issues/Options

a) In order to facilitate the transition to IFRS, IFRS 1 provides for a number of optional exemptions.

b) FRC Filters: The Financial Reporting Council of Nigeria has the following filters on Mandatory exceptions and optional exemptions.

   i) **Mandatory Exceptions** - De-recognition of Financial Assets and Liabilities: The first time adopter is required to consolidate the financial statements of all the SPEs so identified on the date of transition and the consolidation procedure shall be followed as provided in IAS 27. However, if the SPE itself has subsequently transferred the assets and achieved the derecognition of the item concerned under the previous GAAP, then the items remain derecognized on transition to IFRS.

ii) **Optional Exemptions:**

a) **Business Combinations (Option 1)**: The options given to first time adopters are not to restate business combination that occurred before the transition date.

b) **Fair Value or Revaluation as Deemed Cost (Option 2)**: the permitted options are

(i) To measure an asset at Fair Value at the date of transition and elect to use as deemed cost, or

(ii) Treat a previous GAAP Revaluation of an asset as deemed cost at date of transition.

c) **On Lease: (Option 12)**: First time adopters may use the transitional provisions in IFRIC 4: **Determining Whether an Arrangement contains a Lease** and by extension, based on the existing facts and circumstances determine whether IAS 17: Lease, applies

For the purpose of applying this option, only items of Property, Plant and equipment (PPE) are to be considered.

d) **Borrowing Costs (Option 15):** The effective date for the application of the transitional provisions of paragraphs 27 and 28 of **IAS 23 (Borrowing Costs)** as revised in 2007, shall be the date of transition to IFRS (ie no retrospective application is allowed).

7.6.1.2 **Harmonization carve-outs**: In addition to the items covered under the regulatory filter issued by Financial Reporting Council, the following exemptions shall be elected:

a) **Insurance contract** - Application of transitional provision in IFRS 4 which restricts changes in accounting policies for Insurance contract.

b) **Employee Benefits** - Recognition of all cumulative actuarial gains and losses at the date of transition

c) **Cumulative Translation Differences** – These, for all foreign operations, are deemed to be zero at the date of transition to IFRS.

d) **Assets and liabilities of subsidiaries, associates and joint ventures** - If a subsidiary becomes a first time adopter later than its parents, the subsidiary shall, in its financial statements, measure its assets and liabilities as the carrying amount based on the subsidiary's date of transition to IFRS.

e) **Compound financial instrument** - If the liability component of a compound financial instrument is no longer outstanding at the date of transition, the entity needs not separate the instruments into liability and equity components.

f) **Investments in subsidiaries, jointly-controlled entities and associates** - An entity shall measure its investments in subsidiary, jointly controlled entity or associates using Nigerian GAAP carrying amount at the date of transitions to IFRS as deemed cost.

7.7 Presentation of Financial Statements (IAS 1)

7.7.1 Structure and Content of Accounting policies

7.7.2 Harmonization carve-out:

a) Accounting policies should be relevant to each company's business and management model, operations and circumstances.

b) 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.

c) 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.

d) The tendency to copy and use accounting policies from template where they are not relevant should be avoided.

7.8 Title of the financial statements ((IAS 1)

7.8.1 **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.

7.9 Frequency of reporting

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

7.9.2 **Prudential requirements:** Although Companies are required to render quarterly returns to the Commission; they may be required to produce monthly management accounts.

7.10 Line Items in Statement of Financial Position.

7.10.1 **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.

7.10.2 **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.

7.11 Addition of Line items In Statement of Financial Position

7.11.1 **Prudential requirements:** None

7.12 Description Of Line Item In Statement Of Financial Position

7.12.1 **Harmonization Carve-out**: Description of line items in the statement of financial position shall, as far as possible, use generic titles and technical terms in the sub-classifications which shall be given 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.

7.12.2 **Prudential requirements:** None

7.13 Classification of Current/non-current items:

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

7.13.2 **Prudential requirements:** None

7.14 Disclosure of sub-classification of line items:

7.14.1 **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.

7.14.2 **Prudential requirements:** None

7.15 Disclosures of elements of equity:

7.15.1 **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.

7.15.2 **Prudential requirements:** None

7.16 Financial statements of Composite Insurers:

7.16.1 **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 balance sheets 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.

7.16.2 **Prudential requirements:** None

7.17 Presentation of all Items of Income and expense recognized in a period (IAS 1)

7.17.1 **Harmonization Carve-outs:** Only a single statement of profit or loss and other comprehensive income shall be prepared.

7.17.2 **Prudential requirements:** None

7.18 Expense Classification: (IAS 1)

7.18.1 **Harmonization Carve-outs:** Expenses should be classified either by nature or by function. Where the classification is by function, the nature of expenses and basis of their allocation should be disclosed in the notes to the accounts.

7.18.2 **Prudential requirements:**

7.19 Income tax relating to each component of other comprehensive income(IAS 1):

7.19.1 **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.

7.19.2 **Prudential requirements:** None

7.20 Analysis Of Other Comprehensive Income(IAS 1):

7.20.1 **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.

7.20.2 **Prudential requirements:** None

7.21 Disclosure on dividends(IAS 1):

7.21.1 **Harmonization Carve-outs:** The amount of dividends recognized as distributions to owners during the period, and the related amount of dividends per share shall be disclosed in the statement of changes in equity.

7.21.2 **Prudential requirements:** None

7.22 Presentation of the performance of life business.

7.22.1 **Harmonization Carve-outs**

a) **Life business Accounting**: Life business shall be accounted for on annual basis with the changes in fund as determined and advised by a qualified Actuary being presented as a line item (as adjustment of Gross Premium written), before the determination of gross premium income. The increase/decrease in fund shall be made up of the following elements:

i) The unearned premium

ii) The increase/decrease in fund attributable to long term and with-profit contract.

b) **Investment contract:** Accounting policies and classification of investment contract should reflect relevant product profile (including their features).

c) **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) Claims expense
   vi) Claims expense recovery from reinsurance
   vii) Underwriting expenses
   viii) Investment income attributable to insurance fund
   ix) Underwriting profit/loss
   x) Investment income attributable to shareholders' funds
   xi) Net realized gains and losses
   xii) Fair value gains and losses
   xiii) Administration expenses
   xiv) Other operating and administrative expenses
   xv) Finance costs
   xvi) Share of associate profit
   xvii) Income tax expense

d) **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

7.22.2 **Prudential requirements :** None

7.23 Presentation of Notes

7.23.1 **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.

7.23.2 **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.

7.23.3 **Prudential Filter**: None

7.24 Management Commentary

7.24.1 **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.

7.24.2 **Prudential requirements**: All quarterly and annual statutory returns should be accompanied by relevant management commentary.

7.25 Statement of Cash Flows (IAS 7)

7.25.1 **Presentation of Cash Flows(**IAS 7)

7.25.2 **Harmonization Carve-outs**

a) Cash flow from operating activities shall be reported in line with IFRS (either direct or indirect method). However, where statement of cash flow is prepared using the indirect method, the company shall be required to reconcile the net cash flow from operating activities to the direct method.

b) The following shall be classified as cash flows from operating activities:

i) interest received and paid

ii) Dividends received

iii) Dividends paid shall be classified as part of financing activities.

7.25.3 **Prudential requirements:** None

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

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

7.26.2 **Prudential requirements**: Proportion of Land & Building and Investment property admissible for solvency margin purposes shall not constitute more than 1/3 of the required solvency margin of the company for life and non-life businesses.

7.27 Depreciation Property, Plant And Equipment:

7.27.1 **Issues and Options**

7.27.2 **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

7.27.3 **Prudential requirements:** None

7.28 Property, plant and equipment without Perfected title documents:

7.28.1 **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.

7.28.2 **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.

7.29 Investment Properties (IAS 40) - Measurement after recognition

7.29.1 **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.

7.29.2 **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.

7.29.3 **Prudential requirements**: Proportion of Land & Building and Investment property admissible for solvency margin purposes shall not constitute more than 1/3 of the required solvency margin of the company for life and non-life businesses.

7.30 Basis of Determination of Fair Value

7.30.1 **Harmonization Carve-outs:** The fair value of Investment property shall be determined by an independent Valuer registered with the Financial Reporting Council of Nigeria.

7.30.2 **Prudential requirements**: None

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

7.31.1 **Harmonization Carve-outs :**The presentation currency for insurance institution shall be the NAIRA

7.31.2 **Prudential requirements:** None

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

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

7.32.2 **Prudential requirements:** None

7.33 Measurement after recognition:

7.33.1 **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.

7.33.2 **Prudential requirements:** None

7.34 Interests in Joint Venture (IAS 31) - Basis of consolidation

7.34.1 **Harmonization Carve-out:** Insurers and Reinsurers with interest in a jointly controlled entity shall be recognized in the consolidated accounts using the equity method. (IAS 31.38)

7.34.2 **Prudential requirements:** None

7.35 Separate financial statements of the venture

7.35.1 **Harmonization Carve-out:** Insurers and Reinsurers with interest in a jointly controlled entity shall account for same in their separate financial statements at cost and test for impairment

7.35.2 **Prudential requirements:** None

7.36 Financial Instruments: Recognition and Measurement (IAS 39) - Insurance Premium Receivable:

7.36.1 **Harmonization carve-outs:**

a) **Valid Premium Receivable**: Only premiums confirmed as having been received on the insurers 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. In addition, a comment should be included to the effect that such premium receivables are not accepted by the regulator for solvency margin purposes. 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 1AS 39. It is important to note, however, that consideration of impairment does not arise in the cases of non-existent premium receivable.

7.36.2 **Prudential requirements**

a) Only premium that has been received and confirmed as been held on insurers 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 insurers own assets. Relevant balances will not be considered as admissible assets for the determination of assets covering policyholders' funds.

c) Insurers will be required to provide the following details in their regulatory returns:

i) Premium receivable from brokers:

ii) Premium receivable from agents:

iii) Premium receivable from policyholders:

iv) Premium receivable from leading insurance companies

v) Premium receivable from insurance companies on account of own policies and insurance inwards.

7.37 Unquoted investment:

7.37.1 **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 and agreement not later than 28 February of the subsequent year.

7.37.2 **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.

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

7.38.1 **Harmonization Carve-outs:** Dividends classified as expense (eg, preference share dividend) shall be presented in the statement of comprehensive income as a separate item (IAS 32.40)

7.38.2 **Prudential requirements:** None

7.39 Disclosure of Treasury shares

7.39.1 **Harmonization Carve-outs:** The amount of treasury shares held should be disclosed in the notes, in accordance with IAS 1 Presentation of Financial Statements (IAS 32.34)

7.39.2 **Prudential requirements:** None

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

7.41.1 **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.

7.42.2 **Prudential requirement**: None

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

7.41.1 **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.

7.41.2 **Prudential requirement**: None

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

7.42.1 **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.

7.42.2 **Prudential requirements:** None

7.43 Current market interest rates:

7.43.1 **Harmonization Carve-outs:** Until the Standard on insurance contract is finalized and effective, no insurer shall change its accounting policies so as to re-measure designated insurance liabilities to reflect current market interest rates and recognize changes in those liabilities in profit or loss.

7.43.2 **Prudential requirements:** None

7.44 Continuation of existing practices:

7.44.1 **Harmonization Carve-outs:** The following practices will not be adopted by Insurers:

a) Measuring insurance liabilities on an undiscounted basis.

b) Measuring contractual rights to future investment management fees at an amount exceeding their fair value, based on comparisons to market related fees.

c) Using non-uniform accounting policies for insurance contracts of subsidiaries.

d) Measuring its insurance contracts with excessive prudence.

e) Incorporating future investment margins in the measurement of insurance contracts

f) Shadow accounting (Except for long term life insurance business)

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

7.45.1 **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.

7.45.2 **Prudential requirements:** None

7.46 Discretionary Participatory Features (DPF) in Insurance Contracts

7.46.1 **Harmonization Options**

a) 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.

7.46.2 **Prudential requirements:** None

7.47 Information on Sensitivity to Insurance Risk:

7.47.1 **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

7.47.2 **Prudential Requirement:** None

7.48 Information on Claims Development

7.48.1 **Harmonization carve out:** Only information relating to claims development that occurred within five (5) years before first application of the IFRSs will be disclosed

7.48.2 **Prudential Requirements:** None

7.49 Liability Adequacy Test

7.49.1 **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 recognized 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.

7.49.2 **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

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

7.51.1 **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.

7.52.2 **Prudential requirement**: None

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

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

7.51.2 **Prudential requirement**: Hypothecated assets shall be disclosed in the notes to the financial statement, with reference to the section of the law limiting the use of the assets.

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

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

7.52.2 **Prudential requirement:** None

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

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

7.53.2 **Prudential requirement**: None

7.54 Loans or receivables designated as at fair value through profit or loss (IFRS 7):

7.54.1 **Harmonization Carve-out:** Option a(i) shall be adopted.

7.54.2 **Prudential requirement**: None

7.55 Sensitivity analysis (IFRS 7)

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

7.55.2 **Prudential requirements:** None

7.56 Capital management

7.56.1 **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 make reference 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.

7.56.2 **Prudential Requirements:** None

7.57 General Regulatory Requirement

a) 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 Guideline issued by the Commission that have financial reporting implication e.g hypothecation.

b) **Human Capital Readiness:** Experience shows that IFRS competence is significant in ensuring reliability of the financial reporting system. In the absence of this, the risk of material errors and misstatement is high and may lead to additional cost. Consequently, in order to ensure each company has necessary skills, every insurance company is required to have not less than two qualified accountants who are IFRS-certified by a recognized certificate issuing authority. In addition to this, evidence of having equipped Board, Management and staff with the level of IFRS awareness and competence required for the effective discharge of their role in financial reporting is required.

c) **External Actuary**: In addition to the role that actuaries have historically played in financial reporting in Nigeria, they now have added responsibilities of facilitating the valuation of insurance liabilities. All Insurers are required to send a profile of the external actuary to the Commission not later than two (2) months prior to the commencement of the valuation. In addition to other information that such document will typically contain, it should contain evidence of registration with the Financial Reporting Council of Nigeria.

7.58 Other Issues

7.58.1 **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.

7.58.2 **NAICOM IFRS Help Desk -** The Commission has set up a help desk to deal with issues that insurance institutions may have on the implementation of IFRS. We encourage them to access this facility in order to prevent any delays in the finalization of their financial statements within deadlines prescribed by law. Companies wishing to access this facility should contact the Director, Supervision.

8 DIVESTMENT

8.1 Insurance Companies

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

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

c) 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.

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

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

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

g) 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.

8.2 Insurance Brokers

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

b) All investors must guarantee that all collected premium must be remitted to the underwriters.

8.3 Investment Through Holding Company (HOLDCO):

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 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.

8.4 Foreign Investors

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

8.5 No Objection

a) 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.

b) Request for a "No Objection" shall be contained in a Memorandum of Information, addressing the following;

c) Description of preferred divestment route

d) A business continuity plan

e) Proposed management structure post-divestment

f) Identity of potential investors (proxies or trusts are not acceptable)

g) 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

8.6 Procedure and Timelines

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

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

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

9 OUTSOURCING

9.1 Introduction

a) 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.

b) 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.

c) 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.

d) Except otherwise stated, in these Guidelines, reference to Insurer also include Reinsurer.

9.2 General Requirements

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

9.2.1 Broad classification of activities of Insurers

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

a) **Core Activities**

All activities relating to the following shall be deemed as core activities:-

I) Underwriting,

ii) Enterprise Risk Management

iii) Investment and related functions

iv) Accounting functions

v) Claims Management

vi) Complaint Management

vii) Compliance with AML/CFT Requirements

An Insurer shall not outsource any of the core activities listed above

b) **Non Core Activities**

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

i) Sale of insurance policies by agents or insurance brokers, and ancillary services relating to those sales

ii) Reinsurance cession

iii) Independent advisory and consultancy services

iv) Loss adjusting service

v) Independent audit review

vi) Medical examination by assigned medical and health clinics and centres

vii) Market information services

viii) Purchase of goods and commodities

ix) Repair and maintenance of fixed assets

x) Maintenance and support of licensed software

xi) Specialized recruitment and procurement of specialized training

xii) Employment of contract or temporary personnel

xiii) Common network infrastructure (e.g. VISA, MasterCard)

xiv) Banking services

xv) Printing services

xvi) Transportation services

xvii) Mail and courier services

xviii) Cleaning services

xix) Utilities and telephone

xx) Any other services as the Commission may from time to time prescribe

9.2.2 An insurer shall, prior to the 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.

9.2.3 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, and comply with, the outsourcing policy.

9.2.4 The Board of Directors of an insurer shall review the performance of all third party service providers every year with respect to compliance with provisions of extant laws and regulations.

9.2.5 In case of termination of contract between insurer and third party service provider, the compensation or penalty or any payment in lieu of foreclosure shall be reasonable and shall not be excessive.

9.2.6 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. For example, the ability to control the risks where more than one service provider collaborates to deliver an end-to-end outsourcing solution; and

i) Data protection, security and other risks management capacities of the service providers.

9.2.7 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 third party 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 third party 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 third party service provider does not have any conflict of interest. The third party 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 third party 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.

I) No employee of the insurer shall be directly or indirectly involved in (i) creation **of** or (ii) **any** outsourced activity of the outsourced entity.

j) 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.

k) 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.

l) Provisions relating to dispute resolution, liability and indemnity, insurance etc.

9.2.8 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.

vi) Ensuring due diligence by service provider of its employees.

9.2.9 Reporting Requirements:

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. The report shall be filed using **Form OF1.**

9.2.10 Remedies for Grievances related to Outsourced Services

a) 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.

b) 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.

c) These guidelines shall not be construed to be authorizing any activity which otherwise is prohibited by extant laws and regulations.

d) 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.

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
July 2015

c) 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:

   i) There must be defined risk appetite which should state the amount of risk the company is willing to accept.

   ii) The company must be clear about who is in charge of risk oversight, assign authority and responsibility and set out an appropriate organizational structure.

   iii) The company must set standards for Integrity, Ethical Values and a Risk Culture.

   iv) The company must secure commitment to competence, knowledge and skill of staff in relation to the management of risk.

d) The Board of Directors shall have responsibility for:

   i) 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.

   ii) Defining the company's risk appetite in line with the company's financial resources, business strategies, management expertise and overall willingness to take risk.

   iii) Reviewing and approving the Risk Management policies and procedures.

   iv) 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).

   v) Ensuring that the Risk Management Framework is regularly audited by appropriately trained and competent personnel that are operationally independent of the risk management activities.

e) 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:

i) Ensuring an appropriate organisational structure, with appropriate level of independence between staff responsible for risk management and those responsible for insurance operation.

ii) Ensuring an appropriate level of skilled resources for managing risk, with clearly assigned responsibilities.

iii) 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.

iv) Translating the risk appetite expressed by the Board into a system of risk limitation strategies and controls.

f) All insurers and reinsurers shall establish a Risk Management Department/Unit.

i) The Risk Management Department/Unit shall be responsible for measuring, monitoring and controlling risk, consistent with the established policies and procedures.

ii) The Risk Management Department/Unit shall be headed by a Chief Risk Officer.

iii) The Chief Risk Officer shall be responsible for establishing the risk culture throughout the company.

iv) 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.

v) 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.

vi) 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.