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Summary of the new regulation

Following the Insurers Committee Retreat which held between 15th and 16th February 2018 at Abeokuta, the Insurance players unanimously consented to the Introduction of "Tier Based Minimum Solvency Capital" (TBMSC) structure. The TBMSC is part of Risk-Based Supervision (RBS) programme of the Insurance industry that specifies capital requirement for each Tier levels, based on risk classification for each tier. The Structure introduces:

a) Shift of focus to solvency capital rather than shareholders' fund.
b) Three different tiers (Tier 1, Tier 2 and Tier 3) for different insurance business (Life Insurance, Non-Life Insurance and Composite Insurance).
c) Intervention levels and safety parameters.
d) Businesses allowable for different tiers.

Life Insurance business			
	Current (N'bn)	New (N'bn)	Change
Tier 1	2	6	200%
Tier 2	2	3	50%
Tier 3	2	2	0%
Non-Life Insurance Business			
	Current (N'bn)	New (N'bn)	Change
Tier 1	3	9	200%
Tier 2	3	4.5	50%
Tier 3	3	3	0%
Composite Insurance Business			
	Current (N'bn)	New (N'bn)	Change
Tier 1	5	15	200%
Tier 2	5	7.5	50%
Tier 3	5	5	0%

Source: NAICOM; Anchoria AM Research

Allowable Business for Life Insurance

	Tier 1	Tier 2	Tier 3
Individual Life	✓	✓	✓
Health Insurance	✓	✓	✓
Misc. Insurance	✓	✓	✓
Group Life Insurance	✓	✓	
Annuity	✓		

Allowable Business for Non-Life Insurance

	Tier 1	Tier 2	Tier 3
Fire, Motor and General Accident	✓	✓	✓
Engineering (Compulsory)	✓	✓	✓
Engineering (All Inclusive)	✓	✓	
Agric	✓	✓	✓
Misc. Insurance	✓	✓	✓
Marine Insurane	✓	✓	
Bond Credit Guarantee	✓	✓	
Suretyship	✓	✓	
Aviation	✓		
Oil & Gas	✓		

Source: NAICOM; Anchoria AM Research

NAICOM introduces a new guideline which will become effective on 1st January 2019 with a stipulated deadline of 14th September 2018 for Insurers to notify NAICOM on their choice of Tier level.

Shift of focus to solvency capital rather than shareholders' fund: The current minimum required capital for Life Insurance Business is **N2billion**, Non-Life Insurance Business is **N3billion** while Composite Insurance business is **N5billion** with the introduction of Tier Based Minimum Solvency Capital, there is a shift of focus from the shareholders' Fund to Solvency Capital as the basis for the minimum required capital.

Life, Non-Life and Composite Insurance businesses now have different tiers. However, the present review does not extend to Reinsurance Companies, the Minimum Base Capital remains **N10billion**.

For Life Insurance Business, the minimum solvency capital for Tier 1 - **N6billion**, Tier 2 – **N3billion** and Tier 3 – **N2billion**; for Non-Life Insurance Business, the minimum solvency capital for Tier 1 - **N9billion**, Tier 2 – **N4.5billion** and Tier 3 – **N3billion**; while for Composite Insurance Business, the minimum solvency capital for Tier 1 - **N15billion**, Tier 2 – **N7.5billion** and Tier 3 – **N5billion** (For companies that decide to play in similar Tier of Life and Non-life insurance business i.e. Combination of Tier 1 of Life Insurance and Tier 1 of Non-Life Insurance).

Allowable Business per Tier – a distinguishing factor: The New Tier-Based Minimum Solvency Capital stipulates different kinds of insurance businesses allowable for different Tier, this is to prohibit insurance companies from taking too much risk with their capital and ensure that the capital to support the nature, scale and complexity of the businesses conducted by insurance Companies is sufficient.

Insurance companies in the Life Insurance business and operate in Tier 3 can cover Individual Life Insurance, Health Insurance and Miscellaneous Insurance with a minimum solvency capital of **N2billion**, those in Tier 2 can cover all Tier 3 risks plus Group Life Insurance with a minimum solvency capital of **N3billion**, while those in Tier 1 can cover Tier 2 risks plus annuity with a minimum solvency capital of **N6billion**.

Meanwhile, Insurance companies in the Non-life Insurance business and operate in Tier 3 can cover Fire, Motor and General Accident Insurance, Agriculture Insurance, Miscellaneous Insurance and Engineering Insurance (only classes covered by compulsory Insurance) with a minimum solvency capital of **N3billion**; those in Tier 2 can cover all Tier 3 risks plus Engineering (All inclusive), Marine and Bonds Credit Guarantee and Surety Insurances with a minimum solvency capital of **N4.5billion** while those in Tier 1 covers all Tier 2 risks plus Oil & Gas and Aviation insurances with a minimum solvency capital of **N9billion**.

Established intervention levels and Action plans required by the Insurance Companies and NAICOM: The new regulation introduces 4 control levels based on the solvency ratio of the Insurer and different actions required by the insurer and NAICOM at each level is established. The control levels include:

Control Level 1:
Parameter: Insurer with Solvency Margin above or equals to 130%
Indicators: is an indication of a company well run, all financial and non-financial indicators within acceptable range.
Insurer's Action Plan: No special action is required by the Insurer.
NAICOM's Action Plan: No special action is required.

Control Level 2:
Parameter: Insurer with Solvency Margin above 120% but below 130%
Indicators: is an indication of a company reasonably well run, most financial and non-financial indicators within acceptable range, but few outside range or deteriorating.
Insurer's Action Plan:
- Submit business strategies on how to sustain its solvency level;
- Prepare and submit a five-year cash flow projection to the commission.

Key words

Solvency Capital: Solvency capital means the amount by which the admissible assets of an insurance company are considered to exceed its admissible liabilities and other comparable commitments. The solvency margin functions as the company's buffer particularly against the risks related to investment activities.

According to the Insurance Act 2003, the following items in the balance sheet are considered inadmissible:

a) Offshore assets and liabilities
b) More than 20% of the total current accounts balance and bank placements are placed in any one bank.
c) Deferred Tax Assets and Goodwill

NAICOM's Action Plan:
- Regular filing of returns, intensive monitoring, until company returns to control level 1;
- Any other measures as the Commission may deem fit in the circumstance.

Control Level 3:
Parameter: Insurer with Solvency Margin above or equals 100% but below 120%
Indicators: is an indication that the company generally is in an acceptable status but a number of indicators outside range or have been deteriorating.
Insurer's Action Plan:
- In addition to action in control level 2, Insurers will inject additional capital to enhance its capital base;
- Limit redemption/repurchase of equity instruments (shares);
- Limit payment of dividends pending when the desired outcome is achieved;
- Not take new international expansion.

NAICOM's Action Plan:
- Commission questions management regarding the issues raised by the analysis;
- Any other measures as the commission may deem fit in the circumstance.

Control Level 4:
Parameter: Insurer with Solvency Margin below 100%;
Indicators: is an indication that significant number of the company's indicators are outside acceptable range or have shown significant deterioration.
Insurer's Action Plan:
- In addition to action in control level 3, restrict new investment and/or restructure existing investment;
- No payment of dividend;
- Take further steps that would prevent final winding up of the company;

NAICOM's Action Plan:
- Intervention to be considered;
- Taken over by a stronger company or eventual closure of the company if it fails;
- Any other measures as the commission may deem fit in the circumstance.

Corporate Actions (Right Issue, IPO, Public Offer) unavoidable for some Insurers: Based on the new solvency capital and introduction of control levels, corporate actions such as Merger & Acquisition (M&A); Right Issues; Initial Public Offer; Public Offer, become unavoidable for some insurance companies.

Composite Insurance Business: Based on our coverage, the following insurance companies operate within the composite insurance business: Leadway, AXA Mansard; AIICO; Cornerstone; Great Nigeria; LASACO and Niger Insurance.

Leadway Assurance can operate within the Tier 1 space as a result of its high Solvency capital and a post implementation solvency margin of 282%. However, despite a high shareholders' fund of N16.6billion for AXA Mansard which is above the proposed regulatory requirement for Tier 1 Minimum Solvency Capital, the firm can only play within Tier 3 space due to a low Solvency capital of N6.2billion as at 31st December 2017.

Meanwhile Cornerstone Insurance and Great Nigerian Insurance Plc will have to inject additional capital to enhance its capital base regardless of the Tier they decide to operate. Their Solvency margin as at 31st December 2017 is 104% and 111% respectively.

AIICO, Lasaco Assurance and Niger Insurance Company fall within the control level of 1, hence no special action is required. However, in order not to lose big transactions in the Oil & Gas, Aviation and Annuity space the company may decide to shore up their capital in order to play in the Tier 1.

Non-Life Insurance Business: Regardless of the Tier the following Non-life insurance businesses would have to shore up their capital based due to low solvency margin: Royal Exchange (103%); Equity Assurance Plc (108%); and Guinea Insurance Plc (116%).

Based our anticipation, NEM Insurance Co.; Wapic Insurance; Custodian Investment Plc; and Zenith General Insurance will play within the Tier 1 space. NEM has to shore up its capital to operate in Tier 1 due to a low solvency margin of 101%. Top insurance firms like Law Union & Rock Insurance; Prestige Assurance Company; Linkage Assurance; Sovereign Trust Insurance; Veritas Kapital Assurance; Mutual Benefit Assurance and Regency Alliance Insurance Company might need to play within the Tier 2 space hence losing big transactions in Oil & Gas and Aviation business.

Life Insurance Business: ARM Life; United Metropolitan Life Insurance and Mutual Benefit Assurance Plc may have to play within the Tier 2 space. ARM Life has a post implementation solvency margin of 108%, hence would have to shore up its capital base.

With a lot of insurers having low solvency capital or ratio, we anticipate several corporate actions within the insurance space. Corporate Actions ranging from Mergers & Acquisitions (M&A); Rights Issues; Initial Public Offer; Public Offers; Introductions to the Exchange.

Composite Insurers

S/No	Company	Anticipated Tier	Post Implementation Solvency Margin	Control Level
1	Leadway Assurance	1	282%	1
2	AIICO Insurance Plc	2	130%	1
3	Lasaco Assurance Plc	2	104%	3
4	Niger Insurance Company Plc	2	103%	3
5	AXA Mansard Insurance Plc	3	126%	2
6	Cornerstone Insurance Plc	3	104%	3
7	Great Nigerian Insurance Plc	3	111%	3

Source: Company Filing; Anchoria AM Research

Non-Life Insurers

S/No	Company	Anticipated Tier	Post Implementation Solvency Margin	Control Level
1	N.E.M Insurance Company (Nig) Plc	1	101%	3
2	Wapic Insurance Plc	1	128%	2
3	Custodian Investment Plc	1	185%	1
4	Zenith General Insurance	1	261%	1
5	Linkage Assurance Plc	2	189%	1
6	Sovereign Trust Insurance Plc	2	118%	3
7	Consolidated Hallmark Insurance Plc	2	107%	3
8	Law Union & Rock Insurance Plc	2	123%	2
9	Prestige Assurance Company Plc	2	167%	1
10	Veritas Kapital Assurance Plc	2	105%	3
11	Mutual Benefits Assurance Plc	2	118%	3
12	Regency Alliance Insurance Company Plc	3	148%	1
13	Royal Exchange	3	103%	3
14	Universal Insurance Company Plc	3	148%	1
15	Equity Assurance Plc	3	108%	3
16	Guinea Insurance Plc	3	116%	3

Source: Company Filing; Anchoria AM Research

Life Insurance

S/No	Company	Anticipated Tier	Post Implementation Solvency Margin	Control Level
1	ARM Life	2	108%	3
2	Mutual Benefit Assurance Plc	2	177%	1
3	United Metropolitan Life Insurance	2	134%	1

Source: Company Filing; Anchoria AM Research

Composite Insurance								
S/No	Company	Anticipated Tier	Current Shareholders' Fund (N'000)	New Minimum Solvency Capital (N'000)	Current Solvency Capital	Post Implementation Solvency Margin	Control Level	Implication
1	Leadway Assurance	1	55,303,501	15,000,000	42,302,834	282%	1	No Action required
2	AIICO Insurance Plc	2	10,322,233	7,500,000	9,743,118	130%	1	Shore up their capital in order to play in Tier 1
3	Lasaco Assurance Plc	2	8,156,326	7,500,000	7,815,684	104%	3	Shore up their capital to play in Tier 2 or 1
4	Niger Insurance Company Plc	2	7,399,098	7,500,000	7,713,451	103%	3	Shore up their capital to play in Tier 2 or 1
5	AXA Mansard Insurance Plc	3	16,555,564	5,000,000	6,316,476	126%	2	Shore up their capital in order to play in Tier 1 or 2
6	Cornerstone Insurance Plc	3	6,196,001	5,000,000	5,192,359	104%	3	Shore up their capital regardless of the Tier
7	Great Nigerian Insurance Plc	3	5,845,680	5,000,000	5,574,535	111%	3	Shore up their capital regardless of the Tier

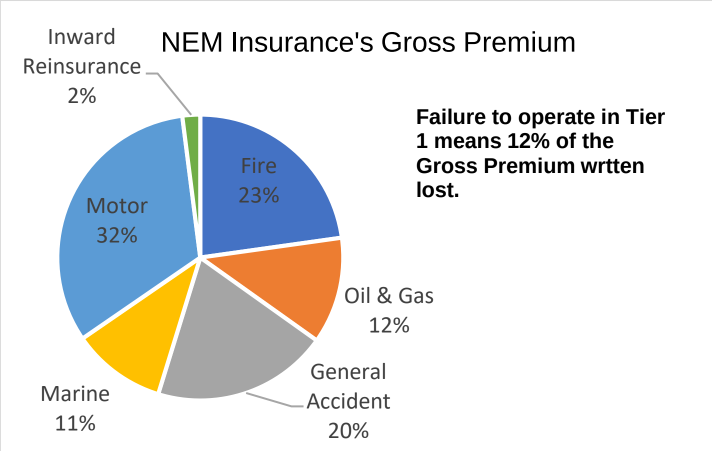
Non-Life Insurance Companies								
S/No	Company	Anticipated Tier	Shareholders' Fund (N'000)	Minimum Solvency Capital (N'000)	Current Solvency Capital	Post Implementation Solvency Margin	Control Level	Implication
1	N.E.M Insurance Company (Nig) Plc	1	9,756,280	9,000,000	9,065,486	101%	3	Capital raise to continue in Tier 1
2	Wapic Insurance Plc	1	15,360,540	9,000,000	11,543,390	128%	2	No capital raise required
3	Custodian Investment Plc	1	16,674,062	9,000,000	16,674,062	185%	1	No capital raise required
4	Zenith General Insurance	1	23,476,191	9,000,000	23,476,191	261%	1	No capital raise required
5	Linkage Assurance Plc	2	19,952,832	4,500,000	8,503,167	189%	1	Capital raise to play in Tier 1 or balance restructuring
6	Sovereign Trust Insurance Plc	2	5,471,904	4,500,000	5,290,850	118%	3	Capital raise to play in Tier 1or 2 and balance restructuring
7	Consolidated Hallmark Insurance Plc	2	4,601,752	4,500,000	4,808,299	107%	3	Capital raise to play in Tier 1or 2 and balance restructuring
8	Law Union & Rock Insurance Plc	2	6,465,226	4,500,000	5,532,765	123%	2	Capital raise to play in Tier 1 or balance restructuring
9	Prestige Assurance Company Plc	2	7,508,121	4,500,000	7,533,046	167%	1	Capital raise to play in Tier 1 or balance restructuring
10	Veritas Kapital Assurance Plc	2	7,893,082	4,500,000	4,721,816	105%	3	Shore up their capital to play in Tier 1 and continue in Tier 2
11	Mutual Benefits Assurance Plc	2	5,466,843	4,500,000	5,316,553	118%	3	Shore up their capital to play in Tier 1 and continue in Tier 2
12	Regency Alliance Insurance Company Plc	3	4,944,231	3,000,000	4,450,314	148%	1	Capital raise to play in Tier 1or 2 and balance restructuring
13	Royal Exchange	3	5,751,949	3,000,000	3,103,606	103%	3	Shore up their capital regardless of the Tier
14	Universal Insurance Company Plc	3	9,497,151	3,000,000	4,447,684	148%	1	Restructuring of balance and Shore up their Capital to play in Tier 2 or 1
15	Equity Assurance Plc	3	3,818,489	3,000,000	3,234,949	108%	3	Shore up their capital regardless of the Tier
16	Guinea Insurance Plc	3	3,406,135	3,000,000	3,468,592	116%	3	Shore up their capital regardless of the Tier

Life Insurance Companies								
S/No	Company	Anticipated Tier	Shareholders' Fund (N'000)	Minimum Solvency Capital (N'000)	Current Solvency Capital	Post Implementation Solvency Margin	Control Level	Implication
1	ARM Life	2	3,233,939	3,000,000	3,233,939	108%	3	Shore up their capital to play in Tier 1 and continue in Tier 2
2	Mutual Benefit Assurance Plc	2	8,100,734	3,000,000	5,316,553	177%	1	Restructuring of balance and Shore up their Capital to play in Tier 1
3	United Metropolitan Life Insurance	2	4,084,883	3,000,000	4,014,763	134%	1	Restructuring of balance and Shore up their Capital to play in Tier 1

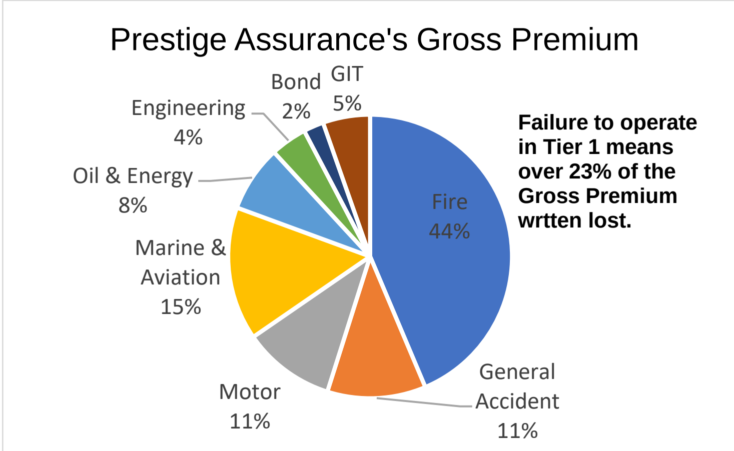
Source: Company Filing; Anchoria AM Research

N.B: Due to limited information, Shareholders' Fund is the same as the Solvency Capital for ARM Life and Custodian Investment Plc
All figures and analysis are based on 2017 audited financial statement of different companies

Profitability test for selected Insurer



Source: Company Filling; Anchoria AM Research



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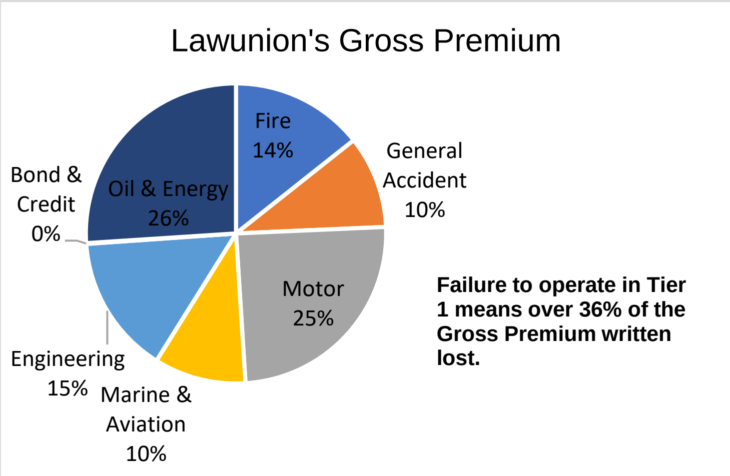

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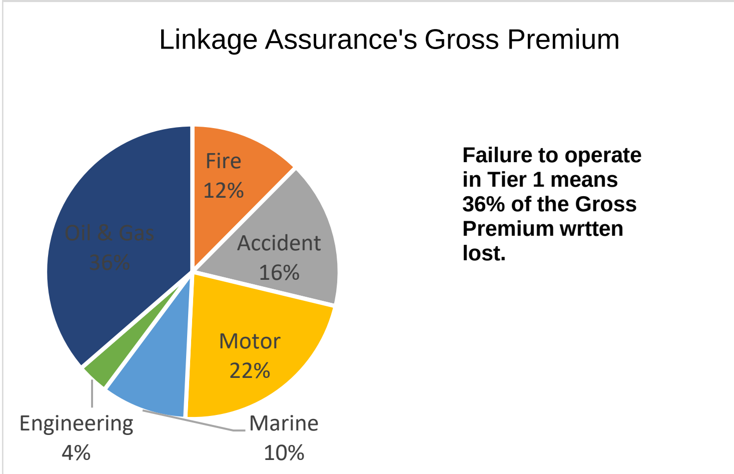

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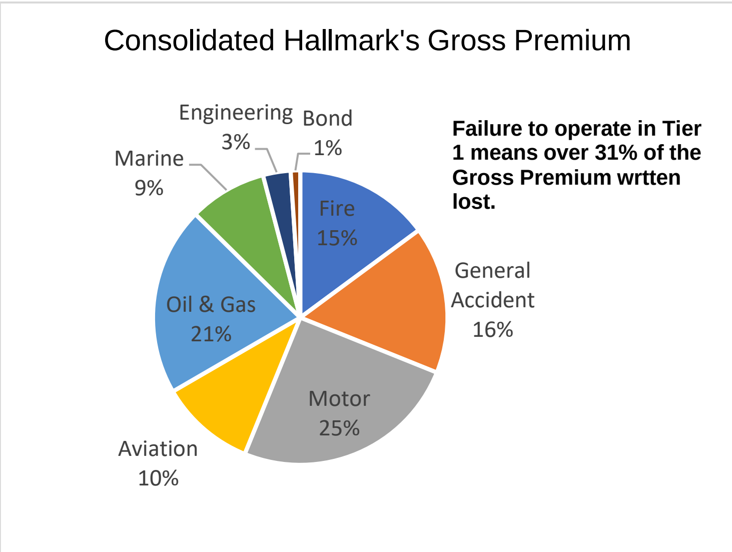

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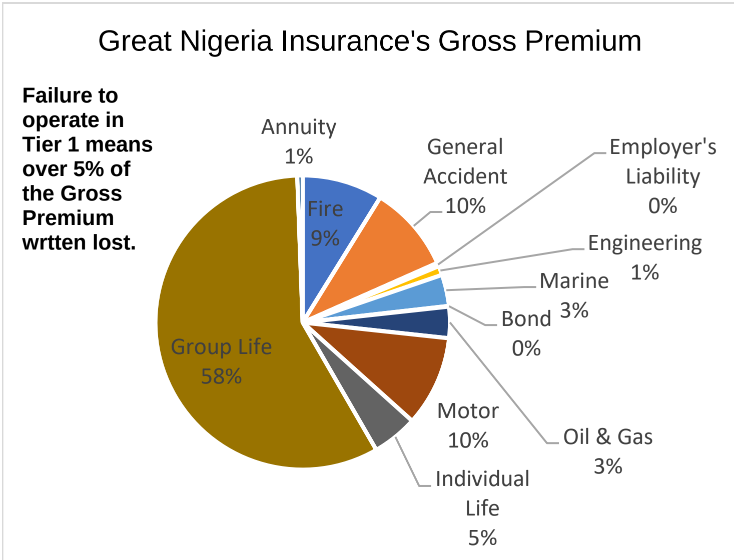

Source: Company Filling; Anchoria AM Research

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