THE PRUDENTIAL GUIDELINES FOR INSURANCE INSTITUTIONS 2022

The Prudential Guidelines for Insurance Institutions (the "2022 Guidelines") came into effect on 1st October 2022 as an update to the Prudential Guidelines for Insurers and Reinsurers in Nigeria (the "Old Guidelines"). The 2022 Guidelines were issued pursuant to the powers of the National Insurance Commission (the "Commission") under the National Insurance Commission Act 1997 and the Insurance Act 2003.

The key highlights of the 2022 Guidelines are:

- Takaful insurers and Micro Insurers now have to pay filing fees upon submission of annual returns.

- the filing fees for the submission of annual returns and audited financial statements have been increased by 100% for composite insurers, life insurers and general insurers, and by approximately 33% for reinsurers.

- the Board of Directors of insurance companies have to review, at least on an annual basis, the adequacy of the company's overall investment policy in light of the company's activities and its overall risk tolerance, long-term risk-return requirements and solvency position.

- The prior approval of the Commission must be obtained before an insurer can pay dividends. While this had been the practice, the 2022 Guidelines now formally recognise it as a requirement.

- Insurers must submit to the Commission within 14 days of the end of each quarter, a return on all outstanding balances from other insurers and reinsurers during the preceding quarter.

- With respect to the filing of the quarterly financial reports, the penalty for late filing has now been left to the discretion of the Commission, a shift from the ₦5,000 (five thousand Naira) penalty under the Old Guidelines.

- The tenure of the external auditor under the 2022 Guidelines is now four years. The external auditor may be reappointed for another non-renewable term of four years only.

- Insurance institutions are allowed a limit of 10% shareholder's funds for the purposes of investing in collective investment funds, exchange-traded funds and real estate investment trusts provided that these funds and trusts have been registered with the Securities and Exchange Commission.

- Insurers are to establish appropriate claims reserving policies and procedures framework. The 2022 Guidelines require insurers to set up an effective procedure for monitoring and managing their assets and liability positions to ensure that their investment activities and asset positions are adequate to settle their liabilities when they become due.

- Insurers are to establish an investment department or unit and an investment management committee.

- To ensure that the adverse conditions of the market do not impact insurers, insurers are to develop a stress testing framework to identify vulnerabilities and assess their impact.

- The 2022 Guidelines also provide for the conditions that Exchange Traded Funds (ETF) and Real Estate Investment Trusts (REITs) must meet to be recognised for the operation of an ETF; the sponsor or fund manager must be registered with the SEC; the ETF must also be listed and tradeable on a securities exchange registered by the SEC, amongst other things. With respect to REITs, the face value of the issue must not be less than ₦1 billion; the prospectus must state that the securities shall subsequently be listed or have a memorandum listing on a registered and recognised securities exchange within a stipulated time.

The 2022 Guidelines were released with several objectives in mind, including the protection of funds related to annuity and policyholders in the event of an insurance company's insolvency, ensuring that investments representing insurance funds are not commingled with shareholder's investments, and strengthening asset-liability management strategies, among others. Moreover, the 2022 Guidelines expand their requirements to Takaful insurers and Micro Insurers, both of which were not previously covered under the old Guidelines. Although the 2022 Guidelines are still nascent, we expect that their impact will become evident in the coming months and years.

This update is for general information purposes only and does not constitute legal advice and does not purport to be fully comprehensive. If you have any questions or require any assistance or clarification on how the subject of this guidance note applies to your business, please contact us at GECA@uubo.org. This update has been provided by the General Corporate Advisory team at Udo Udoma & Belo-Osagie.