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HEIRS GENERAL INSURANCE LIMITED

Financial Condition Report as at 31 December 2024

May 2025

Table of Contents

1. Appointed Actuary's Statement 3
2. Executive Summary 4
   Introduction 4
   Financial Performance 5
   Recommendations 9
3. Information Requirements 12
   Data Used 12
   Reliance and Limitations 12
4. Business Overview 14
   Company Structure and Key Shareholders 14
   Products 15
5. Recent Experience and Profitability 16
   Business Plan 18
6. Insurance Liability Valuation 20
   Reserving Methodology 21
   Valuation Results 22
7. Reserve Utilization 23
8. Capital Management & Capital Adequacy 24
   Capital Adequacy Ratio (CAR) 24
9. Pricing and Premium Adequacy 25
   Premium Adequacy 25
10. Asset and Liability Management 27
   Assets 27
   Liabilities 28
   Investment Policy 29
11. Reinsurance Arrangements 31
12. Risk Management 32
   Risk Management Strategy 32
   Risk Management Framework 32
   Risk Appetite 35
   ERM Governance Structure 35
   Risk Management Process 36

1. Appointed Actuary's Statement

I, Jay Kosgei, acting in my capacity as the Appointed Actuary, certify that, as at 31 December 2024, this Financial Condition Report for Heirs General Insurance Limited has been prepared in accordance with the "Prudential Guidelines for Insurance Institutions in Nigeria" issued by the National Insurance Commission of Nigeria, as well as generally accepted actuarial principles.

The Company's Capital Adequacy Ratio is estimated at 539% on the minimum capital requirement of NGN 3 billion. I would, in the normal course of events, expect insurance liabilities arising in 2025 from the business on the Company's book at the review date to be met as at when due.

Jay Kosgei
Fellow of the Institute and Faculty of Actuaries
FRC No: FRC/2021/004/00000023786
Appointed Actuary: Heirs General Insurance Limited

05 May 2025

2. Executive Summary

Introduction

2.1 The preparation of this Financial Condition Report ("FCR") stems from the National Insurance Commission's ("the Commission") Prudential Guidelines, which states that an insurer shall on annual basis appoint an independent Actuary who shall conduct and submit a Financial Condition Report with details of inter alia; measures governing the business operations, corporate governance, risk management, solvency and financial performance of an insurer.

2.2 This FCR sets out the results of the analysis of the financial condition of Heirs General Insurance Limited ("Heirs General") as at 31 December 2024. This report includes an analysis of the financial progress since the previous financial year end.

2.3 Heirs General has contracted Zamara Consulting Actuaries Nigeria Limited ("Zamara") to provide actuarial services. In terms of this arrangement, Jay Kosgei, Fellow of the Institute and Faculty of Actuaries, is the appointed actuary and will sign off on the FCR.

2.4 This report is limited to the information of Heirs General Insurance Limited, not the consolidated Group information (i.e., this FCR only covers general insurance business underwritten in Nigeria, and excludes business underwritten by foreign offices belonging to the Group – unless stated otherwise).

2.5 Heirs General successfully implemented the financial reporting standard for insurance contracts, IFRS 17 ("the standard") which was effective for periods starting as from 01 January 2023.

2.6 This FCR is the second report under this standard. The trends contained in this report are based on the IFRS 17 results over the past two years.

2.7 Zamara carried out a valuation of Heirs General's insurance contract liabilities as at 31 December 2024 in line with the IFRS 17 standard. The sections that follow provide a report on the financial condition of Heirs General in line with the Commission's guidelines and the requirements of the IFRS 17 Standard where applicable.

Financial Performance

<u>IFRS 17 Statement of Profit or Loss</u>

2.8 The table below summarises the Company's profitability for the years ended 31 December 2024 and 31 December 2023.

IFRS 17 Statement of Profit & Loss Amounts in NGN '000	2024	2023	Movement %
Insurance revenue	14,324,901	12,059,642	19%
Insurance service expenses	(11,766,161)	(6,542,496)	80%
Insurance service result before reinsurance	**2,558,740**	**5,517,146**	**-54%**
Reinsurance expenses	(4,106,309)	(6,543,538)	-37%
Reinsurance recoveries	1,990,110	601,356	231%
Net reinsurance expenses	**(2,116,200)**	**(5,942,182)**	**136%**
Insurance service result	**442,540**	**(425,036)**	**204%**
Investment income	1,425,598	1,213,101	18%
Net gains on FVTPL investments	336,136	270,467	24%
Net credit impairment losses	(14,375)	3,500	-511%
Net foreign exchange gain / (losses)	3,981,416	3,016,935	32%
Net investment result	**5,728,775**	**4,504,003**	**27%**
Net finance expenses from insurance contracts issued	(519,268)	(316,661)	64%
Net finance income from reinsurance contracts held	422,228	151,804	178%
Net insurance finance expenses	**(97,040)**	**(164,858)**	**-41%**
IFRS 17 Profit	**6,074,275**	**3,914,109**	**55%**
Other Income	5,304	3,229	64%
Other Operating Expenses (Non attributable)	(1,179,400)	(1,517,198)	-22%
Profit before tax	**4,900,179**	**2,400,140**	**104%**
Income Tax Expense	(673,921)	(283,597)	
Profit after tax	**4,226,258**	**2,116,543**	**100%**

2.9 From the table above, the insurance service result before reinsurance decreased by 54% in 2024 driven by the increase in the insurance service expenses from NGN 6.5 billion in 2023 to NGN 11.8 billion in 2024.

2.10 IFRS 17 profit increased in part due to the increase in net finance income from reinsurance contracts held, an increase of 178%.

2.11 Overall, the Company recorded a much higher insurance service result in 2024 compared to 2023, with observable movement of 204%, from a negative amount of NGN 425.0 million to positive NGN 442.5 million. The increase was driven largely by the overall improvement in reinsurance service (NGN 2.4 billion reduction in expenses, and NGN 1.3 billion increase in recoveries). The impact from this improvement in reinsurance service also proved to be a major driver for the increase in IFRS 17 profit.

2.12 There was an overall growth on the net investment result, stemming primarily from the 18% increase in investment income and NGN 964.5 million rise in Net foreign exchange gain. These resulted in an improvement on the net investment result, of NGN 1.2 billion from NGN 4.5 billion in 2023 to NGN 5.7 billion in 2024.

2.13 Overall, the recorded profit before tax of NGN 4.9 billion in 2024 was attributable to an increase in reinsurance recoveries, and improvement in investment results compared with 2023, despite the overall growth in insurance service expenses.

Financial Position

2.14 The financial position of Heirs General on a statutory basis was as follows:

Asset/Liability Class (NGN '000)	31 December 2024	31 December 2023	% Movement
Fixed Interest	6,324,602	327,769	1830%
Financial Assets - FVTPL	8,438,278	11,232,385	-25%
Cash and Cash Equivalents	3,750,181	1,466,208	156%
Invested Assets	18,513,061	13,026,362	42%
Reinsurance Assets	3,729,761	1,768,855	111%
Other balance sheet assets	4,540,123	3,311,169	37%
Total Assets	26,782,945	18,106,387	48%
Insurance Liabilities	8,373,144	5,121,586	63%
Other Liabilities	2,153,066	694,847	210%
Total Liabilities	10,526,210	6,075,908	73%
Net Assets	16,256,735	12,030,479	35%

2.15 The total assets of Heirs General have grown by 48% in the period between 31 December 2023 and 31 December 2024.

2.16 Invested assets formed 69% of the total assets of Heirs General as at 31 December 2024 with investment in assets carried at fair value making up 46% of Heirs General's total invested assets.

2.17 We observed a 73% increase in total liabilities from 2023 to 2024, mainly attributable to growth in business volumes during the year.

Solvency Position

2.18 According to regulatory requirements, insurers need to ensure that their Solvency Margin exceeds the maximum of 15% of the net premium income and the minimum regulatory requirement of NGN 3 billion. The Solvency Margin is calculated as the excess of admissible assets over admissible liabilities.

2.19 The Company's Capital Adequacy Ratio ("CAR") on a statutory basis is shown below:

Capital Item Amounts in N'000	2024	2023
Total Admissible Assets	25,310,318	17,392,270
Total Liabilities	9,143,126	5,346,789
Solvency Margin	16,167,192	12,045,481
Minimum Regulatory Capital	3,000,000	3,000,000
15% of Net Premium	1,287,076	410,677
Regulatory Capital	3,000,000	3,000,000
Statutory CAR Cover	539%	402%

2.20 The SCAR is observed to have increased between 2023 and 2024 following a 34% increase in the solvency margin. This increase was due to an observable increase of NGN 7.9 billion in total admissible assets in 2024, which surpassed the NGN 3.8 billion increase in liabilities compared to 2023.

Material Risks Identified

2.21 The following summarizes the key risks faced by Heirs General, as well as their impact and implications, based on our review as the Appointed Actuary:

Insurance Risk

2.22 This is the risk that inadequate pricing or inappropriate underwriting, product design, pricing and claims settlements could expose the company to a financial loss or inability to meet its contractual obligations.

2.23 Heirs General's combined gross ratio improved in 2024, at 80.5% compared to 85.7% as at 2023. The gross incurred claims ratio remained relatively stable from 55.2% in 2023 to 55.8% in 2024.

Inflation Risk

2.24 With the increasing inflation rates in Nigeria, there is a risk of erosion in the value of policies which may affect the affordability of premiums and also lead to higher operational costs for insurers.

2.25 In addition, the depreciation of the Nigerian Naira against foreign currencies could increase the cost of expenses such as reinsurance premiums and foreign-denominated liabilities.

Investment Risks

2.26 Insurers are heavily reliant on the returns from investments in equities, bonds, and other financial instruments. Volatile stock markets and interest rates can adversely impact the returns on their investment portfolios.

Technological Risks

2.27 Cybersecurity Threats: With the increasing digitalization of the insurance industry globally, Heirs General faces the risk of cyberattacks, data breaches, and other security incidents. These could undermine customer trust and result in financial and reputational damage.

2.28 Data Privacy and Protection: As insurers collect more customer data, they face the risk of non-compliance with evolving data protection laws and regulations. Violations could lead to legal consequences and damage to reputation.

Environmental, Social, and Governance (ESG) Factors

2.29 Insurers may face pressure to incorporate Environmental, Social, and Governance (ESG) factors into their operations. There is an increasing focus on ensuring that their investments and business practices align with sustainability standards, which may lead to additional costs or challenges.

Credit Risk

2.30 High proportions of premium debtors relative to the GWP has a significant negative impact on the Company's liquidity which could affect the company's ability to meet its obligation to policyholders when they fall due if not corrected. This could also lead to reputation risk and regulatory risk.

Liquidity Risk

2.31 Whereas as a going concern, Heirs General is expected to receive premium income, as well as premiums from new business to offset these cashflows demands, the liquidity position should be monitored closely for the short term as a liquidity gap in this period is observed. A proper asset liability matching exercise should ensure that the assets and liabilities are matched both in respect of timing and amounts.

Compliance Risk

2.32 This is the risk that a change in the current legislation or global reporting requirement will affect a company, or industry. This is especially because companies must abide by regulations set by governing bodies that oversee their industry.

2.33 Heirs General should be wary of any adverse effects of future compliance requirements. This is especially with the impeding adoption of the global requirements as well the possible shift to the Risk Based regime for the Nigeria insurance industry. Such changes are bound to have implications on operational costs and sometimes could even introduce restrictions to a company's normal operations.

Recommendations

<u>Pricing and Premium Adequacy</u>

2.34 Given the high loss ratio in the Bonds and Engineering portfolios, we recommend that the contracts under the portfolios are reviewed to identify the loss drivers for repricing or elimination.

<u>Monitor the Claims Experience</u>

2.35 There was considerable increase in claims expenses during the year compared to last year. This is expected, in line with growth with business written during the year. We encourage the Company to pay attention to the quality of business written, to ensure that growth in business written is not wiped by worsened claims experience.

Status of Prior Year Recommendations

Recommendation	Status	Comment
Monitor the Claims Experience		While this recommendation was based on net loss ratios, we recommend that the company continues to monitor claims experience under IFRS 17
Reinsurance Arrangements We recommend that Heirs General undertake a reinsurance optimisation exercise to ensure that its retentions are at an appropriate level to cover its claims and expenses in the future as well as gain from the reinsurance arrangements in place.		This remains an area of concern. Based on the performance as at 31 December 2024, reinsurance expenses decreased from the position as at 31 December 2023. There were observable increases in the reinsurance recoveries over the last year, compared to 2023. Heirs General, should, however, undertake a reinsurance optimisation exercise to ensure its retention levels are at an appropriate level to cover claims and expenses as well as maximize the benefits from the reinsurance arrangements in place.
Capital Adequacy Ratio (CAR)		There was evident improvement in the Capital Adequacy Ratio (CAR), following increase in profitable business written. We encourage Heirs General to maintain the drive in writing profitable business to ensure the Company remains solvent enough to handle liabilities and comply with regulatory requirements.
Insurer's Plans The Company should consider the impact of retaining more business on its underwriting profits, risk profile and future business plans in view of historical claims ratios experienced by the Company. The Company considers the impact on its projections should there be a delay for the initiatives to translate into higher business volumes. This includes the use of sensitivity testing.		Heirs General has reviewed its business projections to be in line with the IFRS 17 standard. This would aid in proper strategy formulation as forward-looking projections are made in line with reporting requirements.

Key:

Colour	Status	Meaning
Red		Needs immediate action.
Amber		Continues to be an area of focus.
Green		No longer a point of focus.
Grey		No longer relevant

3. Information Requirements

Data Used

3.1 The following data was received from Heirs General in order to prepare the FCR:

- Audited IFRS 17 financial statements for the year 2023 in the IFRS 17 format;
- Management accounts a at 31 December 2024 in the IFRS 17 format;
- Insurance Liability Valuation as at 31 December 2024 prepared by Zamara;
- Various documents relating to company governance structure and business plans for Heirs General, including Heirs General's:
  - Reinsurance Management Strategy;
  - Investment Policy Document;
  - Projected budgets for the 2025 - 2027 financial years; and
  - Risk Management Framework.
- Treaty Cover Notes;
- Heirs General's peak exposures; and
- Risk Based Capital Calculations for the 2024 financial year.

Reliance and Limitations

3.2 This FCR is based on the audited financial statements of Heirs General as at 31 December 2024 as well as information relating to the company that was provided to Zamara.

3.3 It was assumed that the data provided by Heirs General was correct. A full audit of the data provided by Heirs General was not conducted. However, reconciliations of data were conducted as part of the Insurance Liability Valuation as at 31 December 2024.

3.4 The insurance liability valuation results as at 31 December 2024 were calculated in line with the financial reporting standard for Insurance Contracts, IFRS 17 ("the Standard").

3.5 Zamara computed the undiscounted Best Estimate Liabilities which inform the cashflows required for IFRS 17 reporting. This included the assessment of policy and claims data, analysis of experience to inform changes in actuarial assumptions, assumption setting and review of the actuarial results.

3.6 Subsequently, Zamara produced the required IFRS 17 balances in line with the Heirs General's adopted methodologies and policy choices on key actuarial and accounting areas.

3.7 A summary of the insurance liability valuation results is included in section 6 of this report. Further, a separate valuation report was prepared as at the valuation date.

3.8 We understand that Solvency returns are audited by the External Auditor. As such, whereas we have not audited the returns, we have provided commentary on the CAR as at the valuation date in section 8.

4. Business Overview

Company Structure and Key Shareholders

4.1 Heirs General Insurance Limited, a subsidiary of Heirs Holdings, operates as a general insurance company based in Nigeria. It was incorporated on February 10, 2015, and received its operational license (registration number 094) from The National Insurance Commission (NAICOM) on November 25, 2020.

4.2 The National Insurance Commission has in place guidelines on corporate governance for insurers. These guidelines set out the minimum requirements for insurers operating in Nigeria.

4.3 The key requirements for insurance company boards are as follows:

a) Board Composition:

- Board should be made up of at least 7 and not more than 15 members;
- Not more than 40% of board members should be in executive roles, and a mandatory inclusion of non-executive directors to provide independent oversight;
- Minimum recommended Board Committees – Nomination and Governance, Remuneration, Audit, Risk Management, Finance, Investment and General Purpose.

b) Control Functions – The control functions (Actuarial, Risk Management and Audit) are required to have independent reporting access to the Board.

4.4 The shareholding structure of Heirs General is as shown below:

Shareholder	Number of Shares ('000)	Percentage Shareholding
Heirs Holdings Limited	5,000,000	50%
United Capital Plc	2,500,000	25%
Africa Prudential Plc	1,500,000	15%
AVON HMO Ltd	1,000,000	10%
Total	10,000,000	100%

4.5 There were no changes in the shareholding structure during the year from the position as at 2024.

4.6 As at 2024, Heirs General's Board comprised twelve (12) members, including the chairman, managing director, executive director and nine (9) non-executive directors. Two of the nine non-executive directors are independent and meet the criteria set by the guidelines on independent directors.

4.7 Various board committees are in place to oversee various activities within the company. The committees in place during the 2024 financial year were:

a) Audit, Governance and Compliance Committee;

b) Enterprise Risk Management Committee;

c) Finance, Investment and General Purpose Committee;

Products

4.8 Heirs General currently underwrites the following classes of general insurance business:

a) Bond

b) Engineering

c) General Accident

d) Fire

e) Motor

f) Marine

g) Oil and Gas

4.9 No new products were introduced in 2024.

5. Recent Experience and Profitability

5.1 This section highlights the performance of Heirs General over the recent years. We give the results based on the IFRS 17 Standard and provide commentary on the performance of the insurer.

IFRS 17 Statement of Profit & Loss Amounts in NGN '000	2024	2023	Movement %
Insurance revenue	14,324,901	12,059,642	19%
Insurance service expenses	(11,766,161)	(6,542,496)	80%
Insurance service result before reinsurance	**2,558,740**	**5,517,146**	**-54%**
Reinsurance expenses	(4,106,309)	(6,543,538)	-37%
Reinsurance recoveries	1,990,110	601,356	231%
Net reinsurance expenses	**(2,116,200)**	**(5,942,182)**	**136%**
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Investment income	1,425,598	1,213,101	18%
Net gains on FVTPL investments	336,136	270,467	24%
Net credit impairment losses	(14,375)	3,500	-511%
Net foreign exchange gain / (losses)	3,981,416	3,016,935	32%
Net investment result	**5,728,775**	**4,504,003**	**27%**
Net finance expenses from insurance contracts issued	(519,268)	(316,661)	64%
Net finance income from reinsurance contracts held	422,228	151,804	178%
Net insurance finance expenses	**(97,040)**	**(164,858)**	**-41%**
IFRS 17 Profit	**6,074,275**	**3,914,109**	**55%**
Other Income	5,304	3,229	64%
Other Operating Expenses (Non attributable)	(1,179,400)	(1,517,198)	-22%
Profit before tax	**4,900,179**	**2,400,140**	**104%**
Income Tax Expense	(673,921)	(283,597)	
Profit after tax	**4,226,258**	**2,116,543**	**100%**

Growth in Insurance Service Results

5.2 From the table above, the insurance service result before reinsurance decreased by 54% in 2024 driven by the increase in the insurance service expenses from NGN 6.5 billion in 2023 to NGN 11.8 billion in 2024.

5.3 Overall, the Company recorded a much higher insurance service result compared to 2023, with observable movement of 204%, from a negative amount of NGN 425.0 million to positive NGN 442.5 million driven largely by the overall improvement in reinsurance service (NGN 2.4 billion reduction in expenses, and NGN 1.3 billion increase in recoveries). The impact from this improvement in reinsurance service also proved to be a major driver for the increase in IFRS 17 profit.

Growth in Net Investment Results

5.4 The increase observed on Net foreign exchange gain from NGN 3.0 billion in 2023 to NGN 4.0 billion in 2024 is the main driver of the growth in the net investment result in 2024.

5.5 Overall, there was an increased Profit before tax position of 104% from 2023, and an increase in the Profit after tax, following reduction in tax expense for the financial year.

Business Plan

5.6 Heirs General's projected business performance over the next three years is shown in the table below. The projection is prepared in the IFRS 17 format

Financial Performance Statement	31-Dec-24	31-Dec-24	31-Dec-25	31-Dec-26	31-Dec-27
(Amounts in NGN '000')	Actual	Budget	Budget	Budget	Budget
Insurance Revenue	14,324,901	32,725,000	43,920,000	50,508,000	58,084,200
Insurance service expenses	(11,766,161)	(21,598,500)	(30,744,000)	(35,355,600)	(40,658,940)
Insurance service result from insurance contracts issued	**2,558,740**	**11,126,500**	**13,176,000**	**15,152,400**	**17,425,260**
Allocation of reinsurance premiums	(4,106,309)	(12,268,000)	(13,176,000)	(15,152,400)	(17,425,260)
Amounts recoverable from reinsurers for incurred claims	1,990,110	6,808,740	7,246,800	8,333,820	9,583,893
Net expenses from reinsurance contracts held	**(2,116,200)**	**(5,459,260)**	**(5,929,200)**	**(6,818,580)**	**(7,841,367)**
Insurance service result	442,540	5,667,240	7,246,800	8,333,820	9,583,893
Net Investment income	5,728,775	1,500,000	3,600,000	4,500,000	5,625,000
Net insurance finance income/expenses	(97,040)	(317,680)	(533,560)	(243,594)	111,367
Net Insurance and Investment Result	6,074,275	6,849,560	10,313,240	12,590,226	15,320,260
Other Income	5,304	1,500,000	2,300,000	2,415,000	2,535,750
Other operating expenses (Non attributable)	(1,179,400)	(2,152,560)	(2,613,240)	(3,005,226)	(3,456,010)
Profit/(Loss) before tax	4,900,179	6,197,000	10,000,000	12,000,000	14,400,000

5.7 From the table above, the Company projects a growth in the insurance revenue over the next year by about NGN 29.6 billion, from an actual position of NGN 14.3 billion in 2024 to a projected position of NGN 43.9 billion and to get to NGN 58.0 billion by 2027. Further, the net insurance and investment result is projected to grow by more than 70%, from an actual amount of NGN 6.1 billion in 2024 to NGN 10.3 billion over the next one year, and reaching NGN 15.3 billion by 2027.

5.8 While the targeted growth of the business volumes is achievable, we recommend that the Company take initiative to focus on profitable business while keeping acquisition and management expenses low.

5.9 There are risks associated with the projections made by Heirs General in the budget plans. Some of these risks and associated mitigating actions are outlined below:

Risks	Mitigating Actions
Changing economic assumptions	Review of economic assumptions and produce supplementary budgets.
Budgeting errors (human error)	Periodic review of budgeting process, data entry and report templates.
Unforeseen or unplanned input price changes	Continuous monitoring of planned expenditures and appropriate adjustments to initial budgets.
Long budgeting process and delayed approval of budget	Streamlining of budgeting process and spending approval.
Risk costs and employee fraud (difficult to predict)	Increase due diligence (such as establishment of Procurement Committee) and financial monitoring

6. Insurance Liability Valuation

6.1 In line with the requirements of the IFRS 17 Standard ("the Standard"), the valuation of insurance liabilities covers liabilities for remaining coverage (LRC) and liabilities for incurred claims (LIC) at gross and reinsurance levels using prescribed methodologies and assumptions.

6.2 Following the adoption of the premium allocation approach (PAA) for the measurement of the insurance contracts issued and reinsurance contracts held by Heirs General, the following components are estimated as part of the LRC and LIC.

a) Liability for remaining coverage: Unearned Premium Reserve (UPR)

b) Liability for incurred claims (expired service): Fulfilment Cashflows

<u>Liability for Remaining Coverage (LRC)</u>

6.3 The liability for remaining coverage is estimated as the Unearned Premium Reserve (UPR) less the Deferred Acquisition Cost (DAC) asset, both calculated using the 365ths method in which the risk profile is assumed to be spread evenly over the year.

6.4 The LRC reserve is adjusted for the Deferred Acquisition Cost (DAC) asset which represents the portion of prepaid acquisition costs (commissions) yet to be recognised.

<u>Liability for Incurred Claims (LIC)</u>

6.5 The fulfilment cashflows in respect of incurred claims comprise, in line with the standard requirements, the Best Estimate Liabilities (BEL) and the Risk Adjustment (RA).

6.6 The undiscounted best estimate liability for incurred claims is comprised of the Outstanding Claims Reserves, the Incurred But Not Reported (IBNR) claims reserves and the Unallocated Loss Adjustment Expenses.

6.7 Due to data limitations, the available claims data as at the valuation date was not adequate for carrying out actuarial projections i.e. using such methods as Chain Ladder or Bornhuetter Ferguson. Therefore, the loss ratio approach was adopted based on the observed experiences since the last valuation date and industry statistics.

6.8 Cashflows relating to incurred claims are discounted to reflect the time value of money with respect to the expected time of settlement derived from the payment pattern for each class of business.

6.9 Heirs General has adopted the Bottom-up approach in discounting its LIC. This is in line with the guidance from the Commission.

6.10 For the purpose of this valuation assessment, 6% was selected as the Risk Adjustment factor. This selection was made due to lack of available data required to generate triangles under the Mack Method, VaR approach, the generally adopted method for PAA products.

6.11 The valuation approach and methodologies adopted for the measurement of the insurance and reinsurance contracts are in line with the IFRS 17 Standard and key actuarial decisions adopted by the insurer.

Reserving Methodology

6.12 In summary, the insurance liabilities were calculated using the following methodologies and assumptions:

Insurance Liabilities	Methodology and Assumptions	
	31 December 2024	31 December 2023
Liabilities for Incurred Claims		
Incurred But Not Reported ("IBNR")	Loss Ratio Method	Loss Ratio Method
Outstanding Claims Reserve ("OCR")	Sum of case estimates	Sum of case estimates
Discount Rate	NAS Yield Curve	NAS Yield Curve
Risk Adjustment	Industry benchmark of 6%	Industry benchmark of 6%
Liabilities for Remaining Coverage		
Unearned Premium Reserve ("UPR") and Deferred Acquisition Cost ("DAC")	365ths Method	365ths Method
Unexpired Risk Reserve ("URR")	Consideration of combined ratio by class of business	Consideration of combined ratio by class of business

Valuation Results

6.13 The tables below compare the total reserves under IFRS 17 for insurance and reinsurance contracts between 2023 and 2024.

Insurance Contract Liabilities

Amounts in NGN '000	Insurance Contract Liabilities	
Reserve	2024	2023
Discounted BEL	3,440,672	2,370,135
Risk Adjustment	206,440	141,362
Total LIC	3,647,112	2,511,498
UPR	5,815,380	2,947,029
DAC	(1,089,347)	(458,604)
Receivables	-	-
Loss Component	-	-
Payables	-	121,663
Total LRC	4,726,033	2,610,088
Total Reserves	8,373,145	5,121,586

Reinsurance Contract Liabilities

Amounts in NGN '000	Reinsurance Contract Assets	
Reserve	2024	2023
Discounted BEL	(2,741,775)	1,105,055
Risk Adjustment	(164,507)	65,763
Total LIC	(2,906,282)	1,170,818
UPR	(1,034,685)	1,068,234
DAC	211,206	(237,499)
Receivables	-	-
Loss Component	-	-
Payables	-	(250,620)
Total LRC	(823,479)	580,115
Total Reserves	(3,729,761)	1,750,933

6.14 There is an overall increase in the total reserves for insurance and reinsurance contracts between 2023 and 2024, mainly due to an increase in the liability for incurred claims as a result of higher outstanding claims reserves.

7. Reserve Utilization

7.1 We assessed the utilization of the IBNR claim reserve recommended at the end of 2023 as at the current Valuation Date. The analysis is presented in the table below:

Class of Business	Reserves Adequacy (NGN '000)						
	2023 and Prior Losses				As at 31 December 2024		
	2023 Gross IBNR	IBNR Claims Paid	IBNR OS Claims	Emerging IBNER	Reserve Utilised	Unutilised Reserve	% Utilisation
Bonds	84,808	859	-	(37,301)	(36,442)	121,250	-42.97%
General Accident	137,538	42,571	291	28,522	71,383	66,155	51.90%
Motor	196,556	48,507	6,852	(14,865)	40,494	156,062	20.60%
Marine	35,509	5,767	2,000	10,058	17,825	17,684	50.20%
Fire	126,707	49,286	89,908	14,408	153,601	(26,894)	121.23%
Engineering	75,407	53,780	32,200	(71,107)	14,873	60,534	19.72%
Aviation	85,090	185,655	81,229	113,395	380,279	(295,189)	446.91%
Oil and Gas	190,076	1,255	5,749	6,336	13,340	176,736	7.02%
Total	931,690	387,678	218,229	49,446	655,353	276,337	70.34%

7.2 The utilization analysis was performed on the undiscounted best estimate liability recommended as at 31 December 2024, excluding the effect of discounting and risk adjustment.

7.3 As at the current Valuation Date, the 2023 reserve was adequate with the Company having utilized NGN 655.4 million of the NGN 931.7 million recommended reserve, representing a utilization ratio of 70% at an aggregate level.

7.4 High utilization of the recommended reserves was recorded in the Fire and Aviation portfolios.

7.5 We recommend continuous monitoring of the outstanding claims to take note of any trends such as reopening of closed case estimates.

8. Capital Management & Capital Adequacy

8.1 Heirs General has computed its Capital Adequacy Ratio ('CAR') as at 31 December 2024 in line with the requirements of the NAICOM Guidelines.

Capital Adequacy Ratio (CAR)

8.2 In determining the Company's CAR, the Insurance (Capital Adequacy) Guidelines requires a general insurance company carrying on business in Nigeria to maintain the minimum capital requirement that is the higher of:

a) Three billion Naira (the minimum capital requirement for companies carrying on general insurance business)

b) 15% of the net earned premiums of the preceding financial year.

8.3 Accordingly, the estimate of the Company's CAR as at 31 December 2024 is as follows:

Capital Item Amounts in N'000	2024	2023
Total Admissible Assets	25,310,318	17,392,270
Total Liabilities	9,143,126	5,346,789
Solvency Margin	16,167,192	12,045,481
Minimum Regulatory Capital	3,000,000	3,000,000
15% of Net Premium	1,287,076	410,677
Regulatory Capital	3,000,000	3,000,000
Statutory CAR Cover	539%	402%

8.4 As at 31 December 2024, Heirs General is required to hold minimum capital of NGN 3 billion i.e., the higher of NGN 3 billion and approximately NGN 1.3 billion representing 15% of the net earned premium income during the preceding financial year.

8.5 There is an improvement from 402% in 2023 to 539% in 2024 in the SCAR. This follows an increase in admissible assets, which surpassed the increase in admissible liabilities.

8.6 The company meets the minimum capital requirement and holds a surplus equivalent to a Capital Adequacy Ratio of 539%.

9. Pricing and Premium Adequacy

Premium Adequacy

9.1 The table below shows underwriting performance before reinsurance and after reinsurance in 2023 and 2024.

Amounts in NGN '000	2024	2023
Insurance Service		
Insurance Service Revenue	14,324,901	12,059,642
Insurance Service Expense	(11,766,161)	(6,542,496)
Insurance Service Result Before Reinsurance (A)	2,558,740	5,517,146
Reinsurance		
Reinsurance Costs	(4,106,309)	(6,543,538)
Reinsurance Recoveries	1,990,110	601,356
Reinsurance Service Result (B)	(2,116,200)	(5,942,182)
Insurance Service Result (C) = (A) + (B)	442,540	(425,036)

9.2 We have further reviewed the premium adequacy on a gross basis using the undiscounted IFRS 17 balances. The table below indicates the values of key gross financial ratios for Heirs General for the financial year ended 31 December 2024. The corresponding statistics from the previous year have been included for comparative purposes.

Key Financial Ratios	31-Dec-24	31-Dec-23
Gross loss ratio	55.8%	55.2%
Underwriting expense ratio	24.7%	30.5%
Gross combined ratio	**80.5%**	**85.7%**

9.3 The above statistics indicate that the overall mix of exposure for Heirs General resulted in a gross combined ratio of 80.5% as at 2024. The combined ratio improved from 85.7% in 2023 due to increases in the business volumes which absorbed the corresponding growth in claims.

9.4 The overall combined ratio cannot, however, be relied upon to give useful information on the appropriateness of premium rates for individual classes of business. Significant changes in the future mix of business underwritten by Heirs General can have a material impact on the overall combined ratio and profitability of Heirs General.

9.5 We have therefore assessed the appropriateness of the premiums charged per class of business using the gross combined ratios. The incurred claims ratio considers undiscounted best estimate balances.

9.6 The table below shows the values of key financial ratios for Heirs General for the financial year ended 31 December 2024.

Portfolio	Key Ratios 31 Dec 2024		
	Gross Loss Ratio	Expense Ratio	Combined Ratio
Bonds	47%	17%	105%
Engineering	36%	39%	107%
Fire	30%	22%	83%
General Accident	32%	19%	79%
Motor	18%	8%	45%
Marine	15%	16%	69%
Oil and Gas	34%	9%	64%

**Expenses ratio includes commissions and management expenses*

9.7 The table below shows the values of key financial ratios for Heirs General for the financial year ended 31 December 2023.

Portfolio	Key Ratios 31 Dec 2023		
	Gross Loss Ratio	Expense Ratio	Combined Ratio
Aviation	18%	32%	50%
Bonds	113%	39%	152%
Engineering	96%	42%	138%
Fire	31%	30%	61%
General Accident	149%	35%	184%
Motor	82%	21%	103%
Marine	55%	33%	89%
Oil and Gas	108%	26%	134%

**Expenses ratio includes commissions and management expenses*

9.8 From the analysis of the key ratios, the portfolios with combined ratios approaching or more than 100% may indicate of improper pricing.

9.9 We recommend that the Company continues to pursue profitable business while keeping expenses low.

10. Asset and Liability Management

10.1 The financial statements as at 31 December 2024 were prepared in accordance with the IFRS 17 requirements. This includes a change in the presentation of the financial statements in addition to the level of disclosures required compared to the previous years' financial statements.

10.2 We provide below a summary of the balance sheet including the IFRS 17 results based on the IFRS 17 accounts produced by Heirs General as at 31 December 2024 and 31 December 2023.

Asset/Liability Class (NGN '000)	31 December 2024	31 December 2023	% Movement
Fixed Interest	6,324,602	327,769	1830%
Financial Assets - FVTPL	8,438,278	11,232,385	-25%
Cash and Cash Equivalents	3,750,181	1,466,208	156%
Invested Assets	18,513,061	13,026,362	42%
Reinsurance Assets	3,729,761	1,768,855	111%
Other balance sheet assets	4,540,123	3,311,169	37%
Total Assets	26,782,945	18,106,387	48%
Insurance Liabilities	8,373,144	5,121,586	63%
Other Liabilities	2,153,066	694,847	210%
Total Liabilities	10,526,210	6,075,908	73%
Net Assets	16,256,735	12,030,479	35%

Assets

Valuation of Assets

10.3 The assets adopted for our review total NGN 26.8 billion as at 31 December 2024. The total assets of Heirs General rose by 48% from NGN 18.1 billion as at 31 December 2023.

Asset Admissibility

10.4 The following assets held by Heirs General are inadmissible for the purposes of demonstrating regulatory solvency:

- Trade receivables
- Right of use assets
- Other receivables and prepayments

10.5 However, with the adoption of the IFRS 17 Standard, the approach used in the determination of the CAR is expected to be aligned to the IFRS 17 balances and should include amongst other items, considerations on the risk adjustment computed for the best estimate liabilities and the aggregation of the insurance and reinsurance amounts in the balance sheet.

Liabilities

<u>Currency of liabilities</u>

10.6 Heirs General underwrites the following classes of business: Aviation, Bonds, Engineering, Fire, General Accident, Motor, Marine and Oil & Gas.

10.7 Heirs General operates in Nigeria and therefore, premiums and claims are mostly received and paid in Nigerian Naira (NGN).

<u>Nature and term of liabilities</u>

10.8 The currency, nature and term of the liabilities impact the assets that Heirs General should be investing in so as to reduce the risk of a mismatch between assets and liabilities.

- Oil and Gas, Marine and Engineering class claims are generally long-tailed and may take more than 3 years to settle.
- Marine and Engineering class claims may increase with inflation, specifically court awards and price inflation.
- General Accident, Motor and Bonds claims are generally reported and settled soon after occurrence and thus are considered short-tailed.
- Motor claims are generally not affected by inflation from occurrence to settlement.

Investment Policy

10.9 Heirs General has an Investment Policy in place. The Policy based on the Insurance Act and Prudential Guidelines, in accordance with the Company's risk appetite, outlines its approach to managing its investment portfolio, ensuring safety, diversification, liquidity, adequate returns, and regulatory compliance while delegating specific responsibilities to various roles within the company.

10.10 The Policy is subject to annual reviews and ad-hoc reviews when the need arises, to ensure that the policy remains relevant and effective in addressing the evolving market conditions, regulatory changes, and the company's strategic objectives.

Investment Objectives

10.11 The Company's investment objectives as stipulated in the Investment Policy as provided are:

a) **Safety**: The foremost objective is the preservation of capital within the overall portfolio, ensuring the protection of policyholders' funds.

b) **Diversification**: Investments are diversified by asset class and security type to minimize overall portfolio risk.

c) **Liquidity**: The investment portfolio remains sufficiently liquid to meet future claims liabilities, ensuring the ability to sell securities on short notice near their purchase price.

d) **Return on Investment**: The portfolio aims to achieve a minimum return that is consistent with the investment income budget and exceeds the annual liability of the fund, while considering investment risk constraints and the cash flow characteristics of the portfolio.

e) **Compliance**: Adherence to the Insurance Act 2003 and other regulatory guidelines is maintained.

f) **Reciprocity**: Ensuring that institutions and investments are reciprocally beneficial.

Investment Strategy

10.12 Heirs General employs a dynamic asset allocation strategy, adjusting the asset mix in response to market conditions to meet return expectations. This strategy includes strategic and constant-weighting asset allocation, integrated asset allocation, and global investments for enhanced return and diversification.

10.13 The company also invests in equities for long-term capital appreciation, high-quality fixed-income securities for low volatility, inflation-protected securities, and a variety of asset classes such as commodities, emerging market debt, and real estate investment trusts (REITs), while also maintaining flexibility through an opportunity fund and ensuring market representation for each asset class.

Duties and Responsibilities

10.14 The duties and responsibilities of the parties involved in the investment decision making process are also highlighted in the Policy. Responsible parties include the Board of Directors, Board Finance and Investment Committee, Executive Management Investment Committee (EMIC) and Investment Manager.

10.15 The **Board of Directors,** led by the Chairman of the Board, oversees the management and evaluation of investment performance of the company. The board will from time-to-time review and approve the investment policy and monitor compliance with the policy.

10.16 The **Board Finance and Investment Committee** acts on behalf of the Board of Directors in providing oversight, reviewing investment and portfolio management recommendations from executive management, and referring them for board approval. The Committee meets quarterly as part of their duties.

10.17 Further, there exists an **Executive Management Investment Committee (EMIC)** that oversees the day-to-day investment activities, including sourcing for investments, implementing business investment strategies, monitor investment performance, reviewing and advising on suitability of investments, and ensuring compliance with regulatory guidelines. The committee includes:

- Chief Executive Officer (CEO)
- Executive Director - Technical
- Chief Finance Officer (CFO)
- Internal Auditor
- Chief Compliance and Risk Officer
- Investment Manager

10.18 The **Investment Manager** reports to the CFO and is responsible for daily management of investments, preparing investment performance reports, advising on investment options, and ensuring compliance with NAICOM guidelines.

11. Reinsurance Arrangements

11.1 The following table compares the loss ratio impact of Heirs General's reinsurance program by class of business in 2024:

Amounts in NGN '000	2024	2023
Insurance Service		
Insurance Service Revenue	14,324,901	12,059,642
Insurance Service Expense	(11,766,161)	(6,542,496)
Insurance Service Result Before Reinsurance (A)	2,558,740	5,517,146
Reinsurance		
Reinsurance Costs	(4,106,309)	(6,543,538)
Reinsurance Recoveries	1,990,110	601,356
Reinsurance Service Result (B)	(2,116,200)	(5,942,182)
Insurance Service Result (C) = (A) + (B)	442,540	(425,036)
Ratios		
Reinsurance Cost/Insurance Service Revenue	29%	54%
Reinsurance Recoveries/Insurance Service Expense	17%	9%

11.2 Based on the 2024 results, the proportion of reinsurance cost incurred to the insurance service revenue decreased to 29% from 54% in 2023, while the recoveries increased to 17% from 9% in 2023.

11.3 We recommend Heirs General undertakes a comprehensive analysis of the reinsurance contracts in force to assess their cost versus benefit in line with the Company's risk appetite.

12. Risk Management

Risk Management Strategy

12.1 This section provides a detailed description of the Company's risk management framework, including the risk management process. This section should be read with reference to the Company's Enterprise Risk Management ("ERM") Framework.

12.2 The Commission has developed minimum standards for risk management frameworks within insurance companies to provide stakeholders with assurance that the risks they are exposed to are adequately managed. As part of the risk management guidelines all insurers are required to:

a) Documented Risk Management Strategy
b) Documented Risk Management Policies, Procedures and Controls
c) A written Business Plan that is approved by the Board
d) A Chief Risk Officer
e) An Enterprise Risk Management Committee
f) Up-to-date Risk Registers
g) A Review Process
h) A well-defined Risk Governance and Responsibilities
i) Defined Risk Appetite
j) A system for Independent Review
k) Address all material risk (at a minimum covering market risk, credit risk, operational risk, liquidity risk, reinsurance risk, underwriting risk, reserving risk, claims management risk, group risk, reputational risk and legal risk.

12.3 The guidelines require that the risk management framework address all material risks including, credit risk, operational risk, liquidity risk, reinsurance risk, underwriting risk, reserving risk, claims management risk, reputational risk, group risk and legal risk.

Risk Management Framework

12.4 The major focus of the Company's ERM Framework is to ensure that the Company complies with the NAICOM prudential guidelines in achieving its strategic and operational objectives, as well as ensuring that material risks are focused on while pursuing opportunities to enhance value for the Company.

12.5 The Company's ERM framework aims to enable the Company to:

a) Establish the required culture of everyone being involved in Risk management.

b) Empower employees to make informed decisions.

c) Enhance performance and organizational resilience.

d) Assist in making risk-informed decisions while defining goals, choosing and managing the best course of action and evaluating outcomes.

e) Encourage well-planned and well-managed risk-taking that ensures proactive rather than reactive risk management methodology

f) Assist in the transformation of organizational culture to improve risk management techniques.

g) Provide stakeholders with certainty on the objectives and strategies on how it will be realized, critical risks will be addressed and outcomes communicated.

<u>Risk Management Principles</u>

The risk management approach of Heirs General is based on the following principles:

a) Risk Management Governance and Culture
The risk management governance and culture are based on:

- The risk management tone set by the Board and its Governing Committees
- Value-based approach to risk that embeds risk management and decision making into every aspect of the decision-making process.
- Employees commitment to core values and principles by proactively managing risk

b) Strategy and Objective Setting
The Company integrates enterprise risk management, strategy, and objective-setting in the strategic planning process. Heirs General shall establish and align her risk appetite with strategy and organizational objectives, ensuring there is a basis for identifying, assessing, and responding to risk

c) Performance
Heirs General shall define performance measures that will help us achieve strategic objectives. Operational plans are to be created and implemented based on these measures. Risks are uncertain events — be they opportunities or threats — that impact on performance. The process of forecasting the potential for risks, assessing their impact, and putting in place measures to manage that impact is essential to operations of Heirs General.

d) Review and Revision
To ensure continuous improvement, periodic reviews of risk management processes will be carried out to identify opportunities for improvement and increased risk management maturity.

e) Information, Communication and Reporting
Good communication is essential to effective risk management. It involves the constant sharing of information sourced from both inside and outside the Company.

A timely, considered, and targeted approach to informing key stakeholders helps to foster a stronger risk management culture and informed risk responses

<u>Risk Governance</u>

12.6 The Company has an extensive ERM framework that applies to the entire organization. The ERM Framework for includes the following documents:

- The Enterprise Risk Management Framework (ERMF): The ERMF outlines how we will manage risk and is intended to assist employee to better understand the principles of risk management and use consistent guidelines and processes for implementing risk management. It includes our risk methodology, procedures, and processes and all the supporting resources. The ERMF shall be approved by the Board or Board risk management Committee on delegation.

- The Risk Appetite Statement (RAS): The RAS is a supporting document and provides the details of the appetite that the Company is willing to pursue, retain, accept, or tolerate in pursuit of its strategic and operational objectives. The RAS is approved by the Board.

- The Risk Registers: These are tools and repositories for recording and documenting identified risks and how those risks will be actioned, treated, and managed.

- Department Risk Registers: Each department will manage operational and other risks in day-to-day activities within their department or processes. The risk champions within each department will maintain the department's risk register. The register will include operational risks, fraud risks, health, and safety risks, strategic, financial, legal, compliance, and regulatory risks amongst others impacting the department. The Company's Risk Management function will provide guidance and support in this regard. The Department Risk Registers are to be updated as the need arises but at a minimum annually by each department, reviewed by the Chief Risk Officer, and approved by the Executive Management of the Company. Senior Management will review the treatment plans for risks identified in their respective areas (with a focus on medium, high and extreme risks). Any extreme risks within a department will be escalated by Senior Management to the executive management and copied to the CRO.

- The Company Risk Register: The Manager of Risk and Business Continuity will consolidate the risks included in the Departmental Risk Registers in the Company Risk Register. The high and extreme risks from the Department Risk Registers, as well as any strategic, emerging, trending, unique or other relevant risks, provide the basis for the information to be included in the Company Risk Register. The Company Risk Register will be updated as the need arises but at minimum annually and will be reviewed by the Chief Risk Officer and approved by the executive management. Once approved, the Company Risk Register shall be communicated to the Finance, Risk Management Committee, and relevant Board committees.

- The Company Risk Report: Heirs General's Risk Report will be collated and prepared quarterly by the Risk Manager and reviewed by the Chief Risk Officer. The report shall be shared with the Risk Management Committee for review and the Board Risk Committee.

Risk Appetite

12.7 Heirs Insurance risk appetite is the highest level of residual risk it is willing to accept to meet its business goals. Heirs Insurance has created a framework for expressing risk appetite across the enterprise. The board establishes the business risk appetite parameters by providing a strategic risk governance structure, based on financial analysis, and forecasting for each business unit under normal and stressed conditions; and a commitment to support regular reviews and monitoring of risk performance through quarterly board reports. To ensure that risk appetite is aligned with the corporate strategy and the intended risk-reward balance, the Board delegated risk appetite setting to its ERM committee through Management ERM Committee. HIL's risk appetite statements are defined by 10 broad headings. These are:

- Strategy Risk
- Capital Management Risk
- Business Continuity Risk
- Information Technology
- Market/ Investment, Credit & Liquidity Risk
- Insurance Risk
- Operational Risk
- Reputational Risk
- Regulatory/Legal & Compliance Risk
- Human Capital/Environmental & Social Risks

ERM Governance Structure

12.8 Heirs Insurance Limited has adopted 3 lines of defence governance model on risk management. This is depicted below:

Defence Line	Responsibilities	Owners
First Line of Defence	Responsible for day-to-day risk and control management and decision making	Management and Staff
Second Line of Defence (independent from business operations)	Responsible for developing, facilitating, and monitoring an effective risk and control framework	Risk Management, Compliance, Internal Control, Finance (incl. Internal Financial Control)
Third Line of Defence	Responsible for providing independent assurance on the effectiveness of internal control system	Internal Audit

Risk Management Process

12.9 Heirs General adopts standardized steps to managing risks as outlined below:

- Establish the context
- Identify the risks
- Analyse the risks
- Evaluate the risks
- Treat the risks.

Material Risks Identified

12.10 The following summarizes the key risks faced by Heirs General, as well as their impact and implications, based on our review as the Appointed Actuary:

Insurance Risk

12.11 This is the risk that inadequate pricing or inappropriate underwriting, product design, pricing and claims settlements could expose the company to a financial loss or inability to meet its contractual obligations.

12.12 Heirs General's combined gross ratio improved in 2024, at 80.5% compared to 85.7% as at 2023. The gross incurred claims ratio remained relatively stable from 55.2% in 2023 to 55.8% in 2024.

Inflation Risk

12.13 With the increasing inflation rates in Nigeria, there is a risk of erosion in the value of policies which may affect the affordability of premiums and also lead to higher operational costs for insurers.

12.14 In addition, the depreciation of the Nigerian Naira against foreign currencies could increase the cost of expenses such as reinsurance premiums and foreign-denominated liabilities.

Investment Risks

12.15 Insurers are heavily reliant on the returns from investments in equities, bonds, and other financial instruments. Volatile stock markets and interest rates can adversely impact the returns on their investment portfolios.

Technological Risks

12.16 Cybersecurity Threats: With the increasing digitalization of the insurance industry globally, Heirs General faces the risk of cyberattacks, data breaches, and other security incidents. These could undermine customer trust and result in financial and reputational damage.

12.17 Data Privacy and Protection: As insurers collect more customer data, they face the risk of non-compliance with evolving data protection laws and regulations. Violations could lead to legal consequences and damage to reputation.

Environmental, Social, and Governance (ESG) Factors

12.18 Insurers may face pressure to incorporate Environmental, Social, and Governance (ESG) factors into their operations. There is an increasing focus on ensuring that their investments and business practices align with sustainability standards, which may lead to additional costs or challenges.

Credit Risk

12.19 High proportions of premium debtors relative to the GWP has a significant negative impact on the Company's liquidity which could affect the company's ability to meet its obligation to policyholders when they fall due if not corrected. This could also lead to reputation risk and regulatory risk.

Liquidity Risk

12.20 Whereas as a going concern, Heirs General is expected to receive premium income, as well as premiums from new business to offset these cashflows demands, the liquidity position should be monitored closely for the short term as a liquidity gap in this period is observed. A proper asset liability matching exercise should ensure that the assets and liabilities are matched both in respect of timing and amounts.

Compliance Risk

12.21 This is the risk that a change in the current legislation or global reporting requirement will affect a company, or industry. This is especially because companies must abide by regulations set by governing bodies that oversee their industry.

12.22 Heirs General should be wary of any adverse effects of future compliance requirements. This is especially with the impeding adoption of the global requirements as well the possible shift to the Risk Based regime for the Nigeria insurance industry. Such changes are bound to have implications on operational costs and sometimes could even introduce restrictions to a company's normal operations.

Better with Zamara

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