

RECAPITALIZATION ROADMAP: IMPLEMENTATION, EXPECTATION AND BENEFITS

BEING A PRESENTATION AT

THE SEMINAL FOR INSURANCE CORRESPONDENTS

VENUE: GRANT INN HOTEL, IJEBU-ODE , OGUN STATE

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PRESENTER: MR AGBOOLA T PIUS

DIRECTOR (POLICY & REGULATION)
NATIONAL INSURANCE COMMISSION, ABUJA

RECAPITALIZATION ROADMAP: IMPLEMENTATION, EXPECTATION AND BENEFITS

PRESENTATION OUTLINE:

- RECAPITALIZATION EFFORT – A RECAP
- FURTHER REMARKS ON THE BENEFITS /THE NEEDS FOR RECAPITALIZATION
- THE NEW MINIMUM PAID-UP SHARE CAPITAL
- FEATURES OF PAID UP SHARE CAPITAL
- SOURCE/COMPONENTS OF THE MINIMUM PAID UP SHARE CAPITAL
- PRACTICAL ILLUSTRATIONS
- RECAPITALIZATION PLAN
- IMPLEMENTATION STEPS/PHASES
- CONCLUSION- THE ROLE OF CORRESPONDENCE

RECAPITALIZATION EFFORT – A RECAP

- Last recapitalization was in 2005/2007
- Attempt was made in 2011/2012 to introduce a Risk Based Capital and Supervision using BASEL II MODEL. Sensitization was done and documents issued to the operator.
- While research was being made on the RBS/RBC, an idea of home grown RBC approach was born.
- Hence, TIERED BASED MINIMUM SOLVENCY CAPITAL(TBSMC) was introduced in the third quarter of 2018 by the Commission
- This was resisted by the operators, hence the circular on the TBMSC was cancelled and withdrawn
- A new Paid Up Share Capital was introduced in May, 2019.

FURTHER REMARKS ON THE BENEFITS/NEEDS FOR CAPITAL INCREASE.. 1/8

➤ 1. INCREASE IN RETENTION CAPACITY AND CONSERVATION OF FOREIGN EXCHANGE EARNINGS .

The insurance retention capacity is the maximum amount of risk retained by an insurer per policy/cover. Retention Capacity determinants/factors are:

- Capital Base
- Underwriting experience
- Solvency Margin
- Risk Size
- Portfolio Mix
- ETC

The capital base of an underwriter is of great important. A large proportion of the local risks are presently ceded outside because of low retention capacity. The table below shows selection of some risks in which Approval in Principles(AIP) have been granted recently. Hence, the increase in capital base would definitely increase retention capacity of the underwriters.

FURTHER REMARKS ON THE BENEFITS/NEEDS FOR CAPITAL INCREASE.. 2/8

S/ N	NAME OF INSURED	TYPE OF RISK	SUM INSURED	LOCAL PROPORTION %	FOREIGN PROPORTION %
1	NIGERIA NATIONAL PETROLEUM CORPORATION	CONSOLIDATED INSURANCE PACKAGE	\$99,585,532,592.00	78	22
2	CHEVRON NIGERIA LIMITED	ENERGY PACKAGE INSURANCE	\$14,310,506,642.00	75	25
3	MOBIL PRODUCING NIGERIA LIMITED	ENERGY PACKAGE/ PHYSICAL DAMAGE AND O.E.E	\$14,097,947,505.00	70	30
4	LAFARGE HOICIM	COMBINED PROPERTY DAMAGE/BUSINESS INTERRUPTION AND PUBLIC LIABILITY	₦564,882,644,410.00	68.73	31.27
5	DANGOTE FERTILIZER LIMITED	CONSTRUCTION/ERECTIO N ALL RISKS AND THIRD PARTY LIABILITY	\$1,127,861,167.05	60	40

S/N	NAME OF INSURED	TYPE OF RISK	SUM INSURED	LOCAL PROPORTION %	FOREIGN PROPORTION %
6	SAHARA POWER (EGBIN POWER PLC)	COMBINED PROPERTY DAMAGE/ MACHINERY BREAKDOWN/ LIABILITY TERRORISM/POLITICAL VIOLENCE COVER POLICY	\$3,171,035,000.00	46.295	53.705
7	YINSON PRODUCTION AS	ENERGY PACKAGE (WAR & TERRORISM INCLUSIVE)	\$1,242,650,000.00	40.461	59.539
8	STARDEEP WATER PETROLEUM LIMITED	ENERGY PACKAGE	\$3,000,000,000.00	25	75
9	DANGOTE REFINERY	CONSTRUCTION/ ERECTION ALL RISK, THIRD PARTY LIABILITY, OWNERS PLANT & DELAY IN START-UP	\$6,770,861,312.00	23.431	71.569
10	11 PLC	AVIATION REFUELLING LIABILITY INSURANCE	\$1,000,000,000.00	10.03	89.97
11	CENTRE FOR ENERGY RESEARCH AND TRAINING (CERT) AFFILIATED TO AHMADU BELLO UNIVERSITY,	THIRD PARTY NUCLEAR LIABILITY INSURANCE	\$7,010,970.00	0.05	99.95

FURTHER REMARKS ON THE BENEFITS/NEEDS FOR CAPITAL INCREASE..... 4/8

B. TENDENCY TO IMPROVE CORPORATE GOVERNANCE OVER-SIGHT.

Where management and the board tend to have exclusive control over the company, they prefer raising capital through preference shares and debt capital (Loan). The owners/ holders of debt capital do not enjoy any voting rights.

Corporate Governance Oversights is one of the major regulatory concerns in Nigeria. The increase in capital would introduce major new big owners to the insurance industry and this may bring new ideas, innovations and improve oversights resulting to better corporate governance in the system.

Using our experience as an illustration, merger which dilutes organization control power, could produce a good output. The next slide shows some companies that merged in the last capitalization and when I compared it with those companies that did not merge but funded the recapitalization through loan, the difference is clear.

FURTHER REMARKS ON THE BENEFITS/NEEDS FOR CAPITAL INCREASE 5/8

B. TENDENCY TO IMPROVE CORPORATE GOVERNANCE OVER-SIGHT CON'D

S/NO	COMPANY	NO OF MERGER IN 2007
1	CUSTODIAN	4
2	VERITAS KAPITAL	4
3	LASACO	2
4	LINKAGE	2
5	NEM	3
6	REGENCY	3
7	STERLING	3
8	CONSOLIDATED HALLMARK	2
9	AFRICAN ALLIANCE	2
10	INVESTMENT & ALLIED	

FURTHER REMARKS ON THE BENEFITS/NEEDS FOR CAPITAL INCREASE 6/8

C. THE NEED FOR CAPITAL RESTRUCTURING.

Capital structure refers to the way a firm chooses to finance its assets and investments through some combination of equity, debt or other internal funds. This mixture determines the capital gearing of a company. The ratio between debt capital (fixed interest) and equity capital (variable dividend) is called capital gearing. It is high gearing when the proportion of debt capital is high than the equity share capital. In order to protect the interest of equity shareholders, the company uses proper mix of various types of securities in its capital structure.

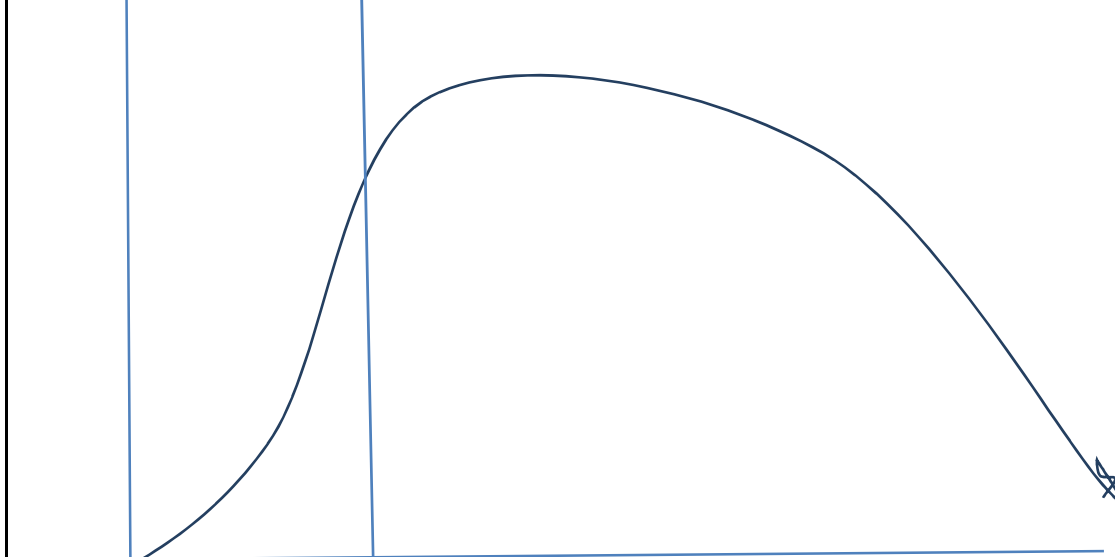
Thus, the capital base increase through increase in shares subscription would definitely dilute the capital structure of companies with high gearing ratio and this will facilitate further borrowing at a better terms(should there be any need for it). One of the reasons while companies prefer raising capital through debt instrument is the cost of raising fund through new shares subscription but good enough, the Commission is already working on palliative measures on the new capital directive.

D. IMPROVEMENT IN THE LIQUIDITY POSITION OF THE INSURANCE UNDERWRITERS.

The liquidity position of some of the underwriters is very bad. This is because, heavy investment are made on fixed assets like building, land etc which are impacting on their ability to meet current obligations as they fall due. The capital increase will thus make the company liquid to meet their obligations.

• FURTHER REMARKS ON THE BENEFITS/NEEDS FOR CAPITAL INCREASE... 7/8

E. THE INSURANCE INDUSTRY LIFE CYCLE IS STILL AT EARLY GROWTH STAGE.



It is no more a new information that the insurance penetration in Nigeria is less than 1%. Considering the high population and developing industrial/commercial sector, the potential for insurance business is very high. The high potential of insurance business is also evidence from foreign investors like Prudential Africa, Axa Mansard, Allianz Group, Old Mutual etc taking position in the Country. Every system at the stage of early growth required high capital for exploration of the sector (i.e research, innovation and personnel development etc).

FURTHER REMARKS ON THE BENEFITS/NEEDS FOR CAPITAL INCREASE... 8/8

F. EMERGENCY OF HOLDING COMPANIES, CONGLOMERATES AND CONSOLIDATION BUSINESS.

The emergence of holding companies and Conglomerates required huge amount of capital for its operations. The funds available in insurance business (short, medium and long term funds) facilitates establishment of holding companies and conglomerates. The capital increase will provide funds for such business strategy in which some of the underwriters have been approaching the Commission for approval. There is no doubt, consolidation would be of greater benefit for the insurance sector.

MINIMUM PAID-UP SHARE CAPITAL POLICY FOR INSURANCE AND REINSURANCE COMPANIES IN NIGERIA.... 1/2

The circular on the minimum paid up capital was released on 20/5/2019. Below is the detail.

S/no.	Class of Business	Existing Minimum Paid-up Capital (₦'Bn)	Revised Minimum Paid-up Capital (₦'Bn)
1.	LIFE	2.0	8.0
2	GENERAL	3.0	10.0
3	COMPOSITE	5.0	18.0
4	REINSURANCE	10.0	20.0

MINIMUM PAID-UP SHARE CAPITAL POLICY FOR INSURANCE AND REINSURANCE COMPANIES IN NIGERIA.... 2/2

- a. The Circular applies to all insurance and reinsurance Companies other than Takaful operators and Micro-insurance companies.
- b. The new minimum paid-up share capital requirements shall take effect from the commencement date of this Circular for new applications while existing insurance and reinsurance companies shall be required to fully comply not later than June 30, 2020.
- c. The provision in respect of requirement of statutory deposit as stipulated in **Part III, Section 10** of the **Insurance Act 2003** shall apply on the effective date of commencement of this Circular.
- d. All Insurance and Reinsurance companies are required to ensure strict compliance with this Circular.
- e. The commencement date of this Circular shall be May 20, 2019.

FEATURES OF PAID-UP SHARE CAPITAL..... 1/1

The definition of minimum paid-up share capital shall be referred and construed as those stipulated in **Part III, Section 9 of the Insurance Act 2003**. It shall be absolute paid-up share capital, as distinct from solvency capital / capital fund/ capital base.

For the avoidance of doubt, and for an instrument to be treated as paid-up share capital, the following criteria among others must be satisfied:

1. It must represent the most subordinate claim in liquidation of the insurer/ reinsurer;
2. The investor is entitled to a claim, only on the residual assets that is proportional with its share of issued capital, after all senior claims have been paid in liquidation (i.e has an unlimited and variable claim, not fixed or capped claim);
3. The principal is perpetual and never repaid outside of liquidation;
4. Distributions are paid out of distributable profit or retained earnings;
5. There are no circumstances under which the distributions are obligatory;
6. It must not be a loan on the Company or margin facility whatsoever.

SOURCES / COMPONENTS OF MINIMUM PAID UP SHARE CAPITAL 1/6

1.0 COMPONENTS OF PAID-UP SHARE CAPITAL AS PER NAICOM CIRCULAR OF 23/7/2019

The minimum paid up share capital shall be through any or a combination of the following:

- a. Existing paid up share capital;
- b. Cash payment for new shares issued;
- c. Retained Earnings – Capitalization of undistributed profits;
- d. Payment in kind (other than by way of cash) for new shares issued such as properties, T-Bills, shares, Bonds which must be converted to cash not later than three (3) months to the deadline for recapitalization; and
- e. Share premium.

Item 1.1(a-e) above can be achieved through Merger and Acquisition.

2.0 Escrow Account with CBN

Cash payment for new shares issued shall be deposited in an escrow account with the CBN. Deposited funds shall be released not later than 30 days after the confirmation and issuance of a new license.

3.0 Shareholders' Fund

The Shareholders' fund as at the last date of recapitalization for existing Insurance/Reinsurance Companies shall not be less than the required Minimum Paid-up Share Capital.

4.0 Statutory Deposit

Payment of Statutory Deposit shall be in accordance with the Insurance Act 2003 and shall be made not later than 30days to the deadline for the recapitalization.

5.0 Mergers & Acquisitions

All mergers & acquisitions shall be concluded not later than 60days to the deadline for the recapitalization.

SOURCES / COMPONENTS OF MINIMUM PAID UP SHARE CAPITAL... 2/6

ILLUSTRATIONS/ PRACTICAL EXAMPLES:

- Category 1. Company Ok In Paid Up Capital And Ok In Shareholders' Fund
- Category 2a. Company Ok In Shareholders' Fund But Not Ok In Paid Up Capital
- Category 3. Company Ok In Paid Up Capital But Not Ok In Shareholders' Fund
- Category 4. Company Not Ok In Paid Up Capital And Not Ok In Shareholder Fund.

PRACTICAL ILLUSTRATION OF PAID-UP SHARE CAPITAL.....3/6

Category 1. Ok in Paid-Up Capital & in Shareholder's Fund

Equity attribute to owners	
Share capital	6,691,369.00
Share premium	6,194,983.00
Contingency reserves	2,053,249.00
Other reserves	5,650.00
Retained earnings	(689,633.00)
TOTAL EQUITY	14,255,618.00
TOTAL LIABILITY AND EQUITY	22,884,063.00

NOTE: this company has investment in subsidiary and associate of over N10B

FOR THIS COMPANY, THE PAID UP CAPITAL AS PER THE CIRCULAR WOULD BE:

Share Capital	N6,691,369
Share Premium	<u>N6, 194,983</u>
Total.....	<u>N12,886,352</u>
<u>RETAIN EARNING.....</u>	<u>(N689,633)</u>

PRACTICAL ILLUSTRATION OF PAID-UP SHARE CAPITAL..... 4/6

Category 2. Ok in Shareholders Fund not Ok in Paid-up Capital

EQUITY	
Issued and paid up share capital	10,000,000.00
Share premium	588,575.00
Retained earnings	18,361,621.00
Other reserves	16,320,681.00
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	45,270,877.00
Non controlling interest	-
TOTAL EQUITY	45,270,877.00
TOTAL EQUITY AND LIABILITIES	312,768,033.00

POSITION OF THIS COMPOSITE COMPANY AS PER THE CIRCULAR ON PAID UP CAPITAL

Share Capital N10B
 Share Premium N588M
 Retained Earnings N18B
TOTAL N28.588B

Though this company is ok in SHF, the PAID UP CAPITAL is not ok. The company will have to issue new shares and can capitalized the realizable part of the retained earning for the purpose of meeting the requirement.

Only portion of the retained earnings that qualified as distributable profit can be capitalised

NOTE: THIS COMPANY HAS INVESTMENT IN PROPERTY OF ABOUT N16B AND INVESTMENT IN SUBSIDIARY OF OVER N2B

PRACTICAL ILLUSTRATION OF PAID-UP SHARE CAPITAL..... 5/6

Category 3. Ok in Paid-up Capital not Ok in Shareholders Fund

EQUITY	
Share capital	10,292,500.00
Share premium	14,365,133.00
Contingency reserves	891,345.00
Retained earnings	(28,940,681.00)
Translation reserve	-
Fair value reserves	425,693.00
Equity attributable to owners of the company	-
Non-controlling interest	-
Total equity	(2,966,010)
Total equities and liabilities	38,727,978.00

The position of this life insurance company as per the circular on minimum paid up capital is below:

Share capital N10B

Share Premium N14B

TotalN24B

However, from the above table, this company has negative SHF of N3B

The required capital to meet the minimum requirement isN11B

NOTE: THIS COMPANY HAS INVESTMENT IN PROPERTY WORTH N8.6B AND IN SUBSIDIARY/ASSOCIATE OF N2B

PRACTICAL ILLUSTRATION OF PAID-UP SHARE CAPITAL..... 6/6
Category 4. Not Ok in Shareholders Fund not Ok in Paid-up Capital

EQUITY	
Share capital	3,900,000.00
Contingency reserves	162,685.00
Other reserves- fair value reserves	(189,637)
Retained earnings	(367,478)
TOTAL EQUITY	3,505,570.00
TOTAL EQUITY AND LIABILITIES	7,324,462.00

The

ow:

Existing Share Capital N3.9B

Retained Earnings N367M

Total N3.533

Amount of capital required is in the region of N4.467

This company has to issued new shares, look for investors or existing investors to subscribe for it and paid. If part of the financial assets can be sold and capitalized, it would reduce the extra capital to source for.

NOTE: THE COMPANY HAS FINANCIAL ASSET WORTH N3.7B

OPERATORS' RECAPITALIZATION PLAN 1/1

- This Circular was also released on 23/7/2019 and is in furtherance to our Circular referenced NAICOM/DPR/CIR/25/2019 dated May 20, 2019 on minimum paid up capital.

1.0 Submission of Recapitalization Plan

- 1.1 Insurers and Reinsurers shall submit their recapitalization plan to the Commission on or before 20th August, 2019. The plan should include among others:
 - a. Capital status of the Company based on the above referenced Circular as at the last Audited Financial Statements
 - b. Board Resolution on how to comply with the Directives.
 - c. Detailed Action Plan on how the funds for the recapitalization are to be sourced with timelines and deliverables.
 - d. Companies intending to seek funds from the Capital Markets are required to submit their plan of action on a file-and-use basis.
 - e. Companies that intend to merge or acquire another should submit their proposal after which they must comply with Sections 30 and 31 of the Insurance Act 2003.
- 1.2 The Commission shall review and provide responses on the submitted Recapitalization Plans on or before 17th September 2019. The review may require meeting with the Board and Management of each of the Insurance Company on its recapitalization plan.
- 1.3 The Commission is engaging with other regulatory bodies for possible palliatives in addition to those being considered by the Commission.

RECAPITALIZATION IMPLEMENTATION PHASES/STEPS... 1/1

CONCLUSION – THE ROLE OF THE INSURANCE CORRESPONDENCE EXECUTIVES.... 1/2

- I HOPE WITH THE ABOVE PRESENTATION, ILLUSTRATIONS AND ANALYSIS, THE INSURANCE CORRESPONDENCE EXECUTIVES WOULD NOT ONLY BE ABLE TO WRITE BETTER ON THE RECAPITALIZATION PROGRAM BUT BE ABLE TO:
 - ADVISE THEIR FRIENDS/READERS AND PRINCIPALS(WHERE APPLICABLE) PROPERLY
 - CARRY OUT CONSULTANCY ASSIGNMENT
 - BE THE MOUTPIECE OF THE COMMISSION ON THE RECAPITALIZATION PROGRAM

CONCLUSION CON'D... 2/2

THANK YOU AND REMAIN
OUR GOOD AMBASSADORS

AGBOOLA T PIUS

DIRECTOR(POLICY & REGULATION)

NAICOM, ABUJA