



HEIRS GENERAL INSURANCE LIMITED

Financial Condition Report as at 31 December 2023

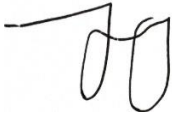
July 2024

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1. Appointed Actuary's Statement

I, Jay Kosgei, acting in my capacity as the Appointed Actuary, certify that, as at 31 December 2023, 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.



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

30 July 2024

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 2023. 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 with Jay Kosgei, FIA, as the appointed actuary.
- 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).

IFRS 17 Standard

- 2.5 Heirs General has successfully implemented the newly adopted financial reporting standard for Insurance Contracts, IFRS 17 ("the Standard") which was effective for periods starting in 2023.
- 2.6 The following are the key steps taken during the implementation of the Standard:

Actuarial and Accounting Processes

- 2.7 Heirs General's contracts and financial data available supports the use of the simplified measurement method, the Premium Allocation Approach ("PAA"), with contracts that span over one-year periods having passed the PAA eligibility test. Heirs General has also incorporated the allowance for discounting and risk adjustments within its calculation of the Liability for Incurred Claims ("LIC").
- 2.8 Heirs General has successfully presented its accounts in the IFRS 17 format by restating the 2022 balances, which have been used as comparatives in the 2023 accounts. The accounts comply with the required disclosures for the standard and present insurance and reinsurance contracts separately as expected.

People

- 2.9 Heirs General has an external actuarial team, Zamara, that handles its actuarial functions, including the preparation of IFRS 17 balances.
- 2.10 The Zamara team works closely with Heirs General's finance team for actuarial valuations and IFRS 17 reporting so as to satisfy the granularity of the reporting requirements. The actuarial and financial reporting functions will play a critical role in the transition to the IFRS 17 business-

as-usual model, with key reporting areas such as the strategy and budget plans, and solvency computations being the key items to be updated.

Products and Contract Aggregation

- 2.11 Heirs General's financial reporting calculations are based on the aggregation of insurance contracts based on the similarity of risks insured, year of inception and the degree of profitability.

Systems

- 2.12 Heirs General currently engages Zamara to run IFRS 17 balances and to prepare accounts and disclosures using the Iris IFRS 17 reporting tool.
- 2.13 The sections that follow provide a report on the financial condition of Heirs General in line with The National Insurance Commission (NAICOM) guidelines and the requirements of the IFRS 17 Standard where applicable.

Financial Performance

Statement of Profit or Loss

2.14 The table below summarises the Company's P&L as at 31 December 2022 and 31 December 2023.

Statement of Profit & Loss <i>Amounts in NGN '000</i>	2023	2022
Insurance revenue	12,233,007	6,805,222
Insurance service expenses	(6,545,355)	(3,538,318)
Insurance service result before reinsurance	5,687,652	3,266,904
Reinsurance expenses	(6,588,746)	(3,167,100)
Reinsurance recoveries	601,356	447,004
Net reinsurance expenses	(5,987,390)	(2,720,096)
Insurance service result	(299,738)	546,808
Investment income	1,213,101	962,596
Net gains on FVTPL investments	270,467	67,814
Net credit impairment losses	313	(2,280)
Net investment result	1,483,881	1,028,130
Net finance expenses from insurance contracts issued	(316,661)	(44,760)
Net finance income from reinsurance contracts held	133,781	24,645
Net insurance finance expenses	(182,880)	(20,115)
IFRS 17 Profit	1,001,263	1,554,823
Other expenses/income	1,506,153	(874,953)
Profit before tax	2,507,417	679,870
Income Tax Expense	(25,200)	(5,019)
Profit before tax	2,482,217	674,850

2.15 From the table above, the insurance service result before reinsurance increased in 2023 driven by the increase in the insurance revenue from NGN 6.8 billion in 2022 to NGN 12.2 billion in 2023.

2.16 IFRS 17 profit reduced due to the increase in insurance finance expenses from NGN 20.1 million in 2022 to NGN 182.9 million in 2023, owing largely to the 607% rise in the finance expenses from insurance contracts issued between 2022 and 2023, eclipsing the 443% growth in net finance income from reinsurance contracts.

2.17 Overall, the Company recorded a lower insurance service result driven by the increases in the reinsurance expenses.

2.18 There was an overall growth on the investment income, as evidenced in the movement of the Net Investment Result from NGN 1.0 billion in 2022 to NGN 1.4 billion in 2023.

2.19 Overall, the recorded profit before tax of NGN 2.5 billion in 2023 was attributable to reduction of other expenses/income compared with 2022, despite the overall growth in insurance finance expenses.

Balance Sheet

2.20 Based on the IFRS 17 accounts prepared by Heirs General for the 2023 financial year as well as the restatement of the 2022 accounts, below is a summary of the Company's balance sheet for the two years.

Asset/Liability Class (NGN '000)	31 December 2023	31 December 2022	% Movement
Fixed Interest	327,769	1,104,742	-70%
Financial Assets - FVTPL	11,232,385	7,374,165	52%
Cash and Cash Equivalents	1,466,208	744,224	97%
Invested Assets	13,026,363	9,223,131	41%
Reinsurance Assets	1,723,935	1,199,166	44%
Other balance sheet assets	3,329,091	3,882,844	-14%
Total Assets	18,079,389	14,305,141	26%
Insurance Liabilities	5,098,953	3,882,419	31%
Other Liabilities	695,926	620,428	12%
Total Liabilities	5,794,879	4,502,846	29%
Net Assets	12,284,510	9,802,294	25%

2.21 The total assets of Heirs General have grown by 26.4% in the period between 31 December 2022 and 31 December 2023.

2.22 Invested assets formed 72% of the total assets of Heirs General as at 31 December 2023 with investment in assets carried at fair value making up 86% of Heirs General's total invested assets.

2.23 We observed a 29% increase total liabilities from 2022 to 2023, mainly attributable to growth in business volumes during the year.

Solvency Position

- 2.24 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.
- 2.25 Pending the regulator's guidance on the revised capital adequacy guidelines following the transition to IFRS 17, we have reviewed Heirs General's solvency position based on the existing templates. The Company's solvency position over the last two years is summarized below:

Capital Item Amounts in N'000	2023	2022
Total Admissible Assets	17,392,270	15,103,813
Total Liabilities	5,346,789	6,040,071
Solvency Margin	12,045,481	9,063,741
Minimum Regulatory Capital	3,000,000	3,000,000
15% of Net Premium	827,019	410,677
Regulatory Capital	3,000,000	3,000,000
Statutory CAR Cover	402%	302%

- 2.26 The SCAR is observed to have increased between 2022 and 2023 following a 32% increase in the solvency margin. This increase was due to an observable increase in total admissible assets in 2023 and the 11% drop in liabilities compared to 2022.

Improvements Observed

- 2.27 **IFRS 17 Compliance** – Heirs General took initiative in good time to ensure smooth transitioning to the IFRS 17 reporting. In particular, the insurer has produced the 2023 financials in line with the IFRS 17 requirements.

Recommendations

Pricing and Premium Adequacy

- 2.28 Given the high loss ratio in the Bonds, General Accident and Oil & Gas portfolios, we recommend that the contracts under the portfolios are reviewed to identify the loss drivers for repricing or elimination.

Capital Adequacy Ratio (CAR)

- 2.29 Heirs General's CAR reduced from 178% in 2022 to 160% in 2023, mainly due to the losses recorded in 2023. We recommend that the company focuses on boosting retained earnings by growing profitable business.

IFRS 17 Business as Usual

2.30 As part of the change to IFRS17, we recommend the IFRS17 approach is embedded in the business-as-usual planning including business planning and performance setting and tracking.

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

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
<p>Insurer's Plans</p> <p>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.</p> <p>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.</p>		Heirs General is yet to review its business projections. With the adoption of the IFRS 17 Standard, the insurer should align the business projections with the IFRS 17 accounts.

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 and restated 2022 accounts in the IFRS 17 format;
 - Insurance Liability Valuation as at 31 December 2023 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 2024 - 2026 financial years; and
 - Risk Management Framework.
 - Treaty Cover Notes;
 - Heirs General's peak exposures; and
 - Risk Based Capital Calculations for the 2023 financial year.

Reliance and Limitations

- 3.2 This FCR is based on the audited financial statements of Heirs General as at 31 December 2023 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 2023.
- 3.4 The insurance liability valuation results as at 31 December 2023 were calculated in line with the newly adopted 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 2022.
- 4.6 As at 2023, 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 2023 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) Aviation
- b) Bond
- c) Engineering
- d) General Accident
- e) Fire
- f) Motor
- g) Marine
- h) Oil and Gas

4.9 No new products were introduced in 2023.

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.

Statement of Profit & Loss <i>Amounts in NGN '000</i>	2023	2022
Insurance revenue	12,233,007	6,805,222
Insurance service expenses	(6,545,355)	(3,538,318)
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Profit before tax	2,507,417	679,870
Income Tax Expense	(25,200)	(5,019)
Profit before tax	2,482,217	674,850

Growth in Insurance Service Results

5.2 From the table above, the insurance service result deteriorated in 2023 driven by the increase in the reinsurance expenses from NGN 2.7 billion in 2022 to NGN 5.9 billion in 2023, offsetting the increase in insurance revenue of NGN 5.4 billion.

5.3 Overall, the Company recorded a lower insurance service result driven by the increases in the insurance expenses.

Growth in Net Investment Results

5.4 The increased investment income from NGN 962.6 million in 2022 to NGN 1.2 billion in 2023 is the main driver of the growth in the net investment result in 2023.

- 5.5 Overall, there was an increased Profit before tax position from 2022, following growth in Other Incomes during the year.

Business Plan

- 5.6 Heirs General's projected business performance over the next year is show in the table below. The projection is prepared in the IFRS 4 format.

Financial Performance Statement	31-Dec-23	31-Dec-23	31-Dec-24	31-Dec-25	31-Dec-26
(Amounts in NGN '000')	Actual	Budget	Budget	Budget	Budget
Gross Written Premium	11,963,281	20,000,000	40,000,000	60,000,000	80,000,000
Gross Premium Income	9,022,657	14,000,000	32,724,576	49,086,864	60,000,000
Net Reinsurance Expense	(6,588,746)	(5,040,000)	(11,907,852)	(17,861,778)	(22,505,840)
Net Claims Incurred	(3,797,023)	(2,500,000)	(5,898,500)	(9,400,000)	(12,394,160)
Underwriting Expenses	(2,757,019)	(2,660,000)	(7,513,631)	(12,325,086)	(13,600,000)
Underwriting Profit	835,853	3,800,000	7,404,593	9,500,000	11,500,000
Management expenses	(1,784,431)	(2,600,000)	(4,904,592)	(5,500,000)	(7,000,000)
Underwriting profit/(loss)	6,894,572	25,000,000	49,904,594	73,500,000	95,999,999
Investment income	652,492	1,200,000	1,500,000	2,000,000	3,000,000
Profit/(Loss) before tax	7,547,065	26,200,000	51,404,594	75,500,000	98,999,999

- 5.7 From the table above, the Company projects a growth of the written premiums by more than NGN 8 billion in 2024 and to get to NGN 60 billion by 2026. Further, the investment income is projected to grow by more than NGN 548 million in 2024 and to get to NGN 2 billion by 2026.
- 5.8 While the targeted growth of the written premiums is achievable, we recommend that the company take initiative to focus on profitable business while keeping acquisition and management expenses low. There is also a need to update the projections to take into account the requirements of the IFRS 17 Standard.
- 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

Liability for Remaining Coverage (LRC)

- 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.

Liability for Incurred Claims (LIC)

- 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. In addition, the company has adopted an illiquidity premium of 1% across all portfolios.
- 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 2023	31 December 2022
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 2022 and 2023.

Insurance Contract Liabilities

Amounts in NGN '000	Insurance Contract Liabilities	
	2023	2022
Discounted BEL	2,370,135	1,084,061
Risk Adjustment	141,362	64,872
Total LIC/AIC	2,511,498	1,148,933
UPR	2,947,029	2,926,041
DAC	(458,604)	(553,415)
Loss Component	-	-
Payables	121,663	212,987
Total LRC/ARC	2,610,088	2,585,612
Total Reserves	5,121,586	3,734,545

Reinsurance Contract Liabilities

Amounts in NGN '000	Reinsurance Contract Assets	
	2023	2022
Discounted BEL	1,105,055	523,968
Risk Adjustment	65,763	31,438
Total LIC/AIC	1,170,818	555,406
UPR	1,068,234	1,893,714
DAC	(237,499)	(174,860)
Loss Component	-	-
Payables	(250,620)	(1,111,327)
Total LRC/ARC	580,115	607,527
Total Reserves	1,750,933	1,162,933

6.14 There is an overall increase in the total reserves for insurance and reinsurance contracts between 2022 and 2023, 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 2022 as at the current Valuation Date. The analyses are presented in the table below:

Class of Business	Reserves Adequacy						
	2023 and Prior Losses				As at 31 December 2023		
	Gross IBNR NGN '000	IBNR Claims Paid	IBNR OS Claims	Emerging IBNER NGN'000	Reserve Utilised NGN '000	Unutilised Reserve NGN '000	% Utilisation
Bonds	73,361	-	35,500	(33,000)	2,500	70,861	3.41%
General Accident	99,048	142,552	24,218	(96,614)	70,156	28,892	70.83%
Motor	80,447	136,192	47,595	(181,688)	2,099	78,348	2.61%
Marine	22,392	8,525	4,000	(11,408)	1,117	21,275	4.99%
Fire	84,837	40,577	41,132	(69,445)	12,263	72,574	14.45%
Engineering	31,741	304	80,807	(60,700)	20,411	11,330	64.30%
Aviation	30,643	10,345	50,758	(68,125)	(7,023)	37,666	-22.92%
Oil and Gas	169,978	-	7,521	(15,000)	(7,479)	177,457	-4.40%
Total	592,448	338,495	291,530	(535,980)	94,044	498,404	15.87%

7.2 The utilization analysis was performed on the undiscounted best estimate liability recommended as at 31 December 2022, excluding the effect of discounting and risk adjustment.

7.3 As at the current Valuation Date, the 2022 reserve was adequate with the Company having utilized NGN 94 million of the NGN 592 million recommended reserve, representing a utilization ratio of 15% at an aggregate level.

7.4 High utilization of the recommended reserves was recorded in the General Accident and Engineering 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 2023 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 2023 is as follows:

Capital Item Amounts in N'000	2023	2022
Total Admissible Assets	17,392,270	15,103,813
Total Liabilities	5,346,789	6,040,071
Solvency Margin	12,045,481	9,063,741
Minimum Regulatory Capital	3,000,000	3,000,000
15% of Net Premium	827,019	410,677
Regulatory Capital	3,000,000	3,000,000
Statutory CAR Cover	402%	302%

8.4 As at 31 December 2023, Heirs General is required to hold minimum capital of NGN 3 billion i.e., the higher of NGN 3 billion and approximately NGN 827 million representing 15% of the net earned premium income during the preceding financial year.

8.5 There is an improvement from 302% in 2022 to 402% in 2023 in the SCAR. This follows increase in admissible assets and reduction in liabilities.

8.6 The company meets the minimum capital requirement and holds a surplus equivalent to a Capital Adequacy Ratio of 402%.

9. Pricing and Premium Adequacy

Premium Adequacy

9.1 The table below shows underwriting performance before reinsurance and after reinsurance in 2022 and 2023.

Amounts in NGN '000	2023	2022
Insurance Service		
Insurance Service Revenue	12,233,007	6,805,222
Insurance Service Expense	(6,545,355)	(3,538,318)
Insurance Service Result Before Reinsurance (A)	5,687,652	3,266,904
Reinsurance		
Reinsurance Costs	(6,588,746)	(3,167,100)
Reinsurance Recoveries	601,356	447,004
Reinsurance Service Result (B)	(5,987,390)	(2,720,096)
Insurance Service Result (C) = (A) + (B)	(299,738)	546,808

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 2023. The corresponding statistics from the previous year have been included for comparative purposes.

Key Financial Ratios	31-Dec-23	31-Dec-22
Gross loss ratio	55.2%	48.5%
Underwriting expense ratio	30.5%	29.3%
Gross combined ratio	85.7%	77.7%

9.3 The above statistics indicate that the overall mix of exposure for Heirs General resulted in a gross combined ratio of 85.7% as at 2023. The combined ratio worsened from 77.7% in 2022 due to increases in the gross loss ratio as a proportion of earned premiums.

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 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*

9.7 The table below shows the values of key financial ratios for Heirs General for the financial year ended 31 December 2022.

Portfolio	Key Ratios 31 Dec 2022		
	Gross Loss Ratio	Expense Ratio	Combined Ratio
Aviation	16%	30%	46%
Bonds	105%	46%	151%
Engineering	44%	40%	84%
Fire	52%	34%	86%
General Accident	67%	29%	96%
Motor	129%	22%	151%
Marine	42%	39%	81%
Oil and Gas	42%	23%	65%

**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 2023 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 2023 and the restated IFRS 17 2022 financials:

Asset/Liability Class (NGN '000)	31 December 2023	31 December 2022
Fixed Interest	327,769	1,104,742
Financial Assets - FVTPL	11,232,385	7,374,165
Equities		
Cash and Cash Equivalents	1,466,208	744,224
Invested Assets	13,026,363	9,223,131
Reinsurance Assets	1,723,935	1,199,166
Other balance sheet assets	3,329,091	3,882,844
Total Assets	18,079,389	14,305,141
Insurance Liabilities	5,098,953	3,882,419
Other Liabilities	695,926	620,428
Total Liabilities	5,794,879	4,502,846
Net Assets	12,284,510	9,802,294

Assets

Valuation of Assets

- 10.3 The assets adopted for our review total NGN 18.1 billion as at 31 December 2023. The total assets of Heirs General shrank by 26.4% from NGN 14.3 billion as at 31 December 2022.

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

Currency of liabilities

- 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).

Nature and term of liabilities

- 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.
- Aviation, Marine and Engineering class claims are generally long-tailed and may take more than 3 years to settle.
 - Aviation, 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 2023:

Amounts in NGN '000	2023	2022
Insurance Service		
Insurance Service Revenue	12,233,007	6,805,222
Insurance Service Expense	(6,545,355)	(3,538,318)
Insurance Service Result Before Reinsurance (A)	5,687,652	3,266,904
Reinsurance		
Reinsurance Costs	(6,588,746)	(3,167,100)
Reinsurance Recoveries	601,356	447,004
Reinsurance Service Result (B)	(5,987,390)	(2,720,096)
Insurance Service Result (C) = (A) + (B)	(299,738)	546,808
Ratios		
Reinsurance Cost/Insurance Service Revenue	54%	47%
Reinsurance Recoveries/Insurance Service Expense	9%	13%

11.2 Based on the 2023 results, the proportion of reinsurance cost incurred to the insurance service revenue increased to 54% from 47% in 2022 while the recoveries decreased to 9% from 13% in 2022.

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 would be addressed and outcomes communicated.

Risk Management Principles

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

Risk Governance

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 defense governance model on risk management. This is depicted below

Defense Line	Responsibilities	Owners
First Line of Defense	Responsible for day-to-day risk and control management and decision making	Management and Staff
Second Line of Defense (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 Defense	Responsible for providing independent assurance on the effectiveness of internal control system	Internal Audit

Risk Management Process

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

- 12.9 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:
- 12.10 There 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.
- 12.11 The company's gross combined ratio improved as observed in the movement from 85.7% in 2022 to 77.7% in 2023 mainly occasioned by worsened gross incurred claims ratio from 12.7% in 2022 to 19.8% in 2023 which is unfavourable.
- 12.12 On a net basis, the combined ratio also worsened from 154.5% in 2022 to 269.1% in 2023.
- 12.13 With the adoption of the IFRS 17 Standard, we recommend that Heirs General assesses the performance of the insurance service result at a class wise basis and analyses the gross performance separately from the reinsurance service result.

Credit Risk

- 12.14 High proportions of premium debtors relative to the gross written premium (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.

Reinsurance Risk

- 12.15 Reinsurance arrangements are relied upon to mitigate the insurance exposure amongst other benefits. Heirs General has experienced a negative reinsurance impact over the last two years whereby the net loss ratio is higher than the gross loss ratio. This is indicative of a mismatch in the cost incurred versus the benefit derived from the reinsurance arrangements.

Liquidity Risk

- 12.16 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

- 12.17 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.
- 12.18 Heirs General should be wary of any adverse effects of future compliance requirements. This is especially with the impending adoption of the global requirements as well as the possible shift to the Risk Based regime for the Nigerian insurance industry. Such changes are bound to have implications on operational costs and sometimes could even introduce restrictions to a company's normal operations.