FOREWORD

The intractable problem of risks and uncertainties has been the greatest challenge to humanity on this planet from time immemorial. This problem has remained unresolved despite the great advances that we have witnessed in the areas of science and technology over the years. From the social and economic viewpoint, insurance was the most ingenious creation of the human mind in response to this risk problem. For well over 2,000 years, the insurance concept has been universally recognized as a vital factor in the protection of the national economy since no modern economy can function efficiently without the support of a viable and disciplined insurance industry.

In recognition of this situation, most modern governments attach great importance to the quality and efficiency of their insurance industries. This explains why it has become imperative for each country to have an efficient insurance regulatory system to supervise the activities of the insurance industry. This concept of an insurance regulatory system was first embraced by Nigeria, on a modest scale in 1961 under the provisions of the Insurance Act of that year. With the expansion and increased sophistication of insurance business in Nigeria, a regulatory agency under the name of the National Insurance Commission (NAICOM), was created to perform this service as well as other services embodied in the enabling Act.

The present leadership of NAICOM has embarked on some positive steps in order to promote the quality and efficiency of the insurance industry, for the benefit of insurance consumers and the national economy. The most recent of these positive innovations from NAICOM is the introduction of a Code of Business Ethics and Principles on Corporate Governance for the Insurance Industry which I have read with great interest. Undoubtedly, if its principles are enforced, we will certainly have a first class insurance industry that would be as good as any of the best in the insurance world. As a handbook on Corporate Governance, the Code makes a strong case for good corporate governance and contains vital principles.
and practices designed for its promotion. It sets out and recommends various structures and control systems, designed to ensure efficiency and accountability by both the Board and Management of insurance companies, as well as measures that will eliminate fraudulent and self-serving practices among members of staff, the management and boards of insurance institutions, in line with modern trends.

This is an excellent document which should be carefully studied by every insurance institution genuinely committed to the building of a solid insurance industry for the 21st Century. I commend NAICOM for this worthwhile initiative.

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CODE OF GOOD CORPORATE GOVERNANCE FOR THE
INSURANCE INDUSTRY IN NIGERIA

1.0 Preamble

The foundation for good corporate governance is sound business strategy along with competent and responsible management team. The Insurance Industry in Nigeria has faced unique challenges in this regard which may be attributed to inherent institutional factors precipitated by lack of clear operational guidance.

The insurance sector is known to be a major driver of the economy of nations through its activities. It is the expectation of the National Insurance Commission that the hidden potential of the sector will be unleashed for maximum impact that will induce economic growth in Nigeria. A major recipe for this is the inception of a sound code of Good Corporate governance for the industry.

Following the conclusion of the first phase of reform in the insurance sector, the need to institute a robust and sustainable corporate governance structure became imperative. The National Insurance Commission in consonance with the code of governance initiated and published by the Securities & Exchange Commission (SEC) in 2003 considered the adoption of an effective corporate governance code as a priority.

2.0 Introduction

Corporate Governance refers to the manner in which companies are directed and controlled. It encompasses the means by which the Board and Senior Management are held accountable and responsible for their actions and includes corporate discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. Corporate governance increases competitiveness and makes criminal activities more difficult. The presence of an effective corporate governance system helps to provide a degree of confidence that is necessary for the proper functioning of a market economy and economic growth. Its adoption is thus inevitable in the Nigerian insurance industry.
considering the critical role of the sector to financial market stability, investment and economic growth.

Good Corporate Governance therefore includes those structures, practices and procedures put in place by the Board of Directors as well as persons duly appointed by the owners to direct and manage the business of the company. It must ensure transparency, accountability and enhanced shareholders value. The companies shall operate within the framework of appropriate rules and regulations, under which it was incorporated as well as rules and regulations released by relevant regulatory authorities from time to time.

Good corporate governance in the insurance sector therefore requires set of comprehensive internal control procedures and policies established by the Board of Directors and implemented by skilled personnel, led by effective management.

3.0 The Need for Good Corporate Governance in the Insurance Industry

The Nigerian Insurance Industry shall operate on a good corporate governance framework which promotes transparent and efficient markets, and clearly articulates the division of responsibilities among different stakeholders in the industry. This is imperative considering the following issues:

i. Compliance with rules, laws, regulations and principles guiding insurance business.
ii. Differences between Board and Management giving rise to board squabbles
iii. Ineffective Board oversight functions
iv. Fraudulent and self-serving practices among members of the Board, management and staff
v. Overbearing influence of Chairmen or MD/CEO, especially in family controlled business
vi. Weak internal controls
vii. Passive shareholders
viii. Power of controlling shareholders over minority shareholders
ix. Ineffective management information system  
  
x. Increasing level of societal awareness about the Sector  

xi. Conflict of interest.

4.0 **Principles that Promote Good Corporate Governance**

Principles of good corporate governance are an increasingly important factor for business development and economic growth of the nation. Basic principles of good corporate governance shall include the following:

i. A Proactive, responsible, responsive, accountable and committed Board/Management  

ii. Definite management succession plan  

iii. Culture of compliance with rules and regulations  

iv. Good knowledge about business and insurance matters with requisite experience  

v. Disclosure and transparency  

vi. Effective exercise of shareholders’ rights.

5.0 **Board of Directors**

The corporate governance framework shall be anchored on an effective and accountable Board of Directors who are appointed to ensure the strategic guidance and effective management of the company.

5.01 **Meaning**

i. The collective terms for Directors as the main functional organ of any business is the Board of Directors  

ii. Insurance institutions must be governed by an effective Board that is collectively responsible for its operations

5.02 **Board Structure**

There shall be a chairman who will have the responsibility of ensuring that the Board directs the company effectively and that it retains the confidence of the
shareholders and management. The following shall apply to ensure balance of power and authority:

i. The Board shall not be dominated by any one person

ii. No one person shall occupy the position of chairman and Chief Executive Officer at the same time to avoid concentration of power on one person

iii. No two members of the same extended family shall occupy the position of the Chairman and Managing Director/Chief Executive of Insurance Company at the same time.

iv. Responsibilities at the top Management of a company shall be well defined.

v. All insurance institutions shall operate independently and be responsible and accountable for the activities of the company irrespective of any relationship with other companies or group.

vi. The Chairman shall be a non-Executive director of the company and shall not draw remunerations beyond the normal entitlements for Board appointment.

5.03 **Quality of Board Members**

Good Corporate Governance hinges upon the competence and integrity of Directors and the Boards. Therefore, in selecting a director, the following factors shall be considered:

i. Relevance of the candidate’s experience and knowledge in the insurance industry.

ii. Record of diligence, integrity, willingness and ability to be independent and objective as well as to serve actively as a director.

iii. Limited insider relationships and links with competitors.

iv. Knowledge of relevant special issues related to insurance business as well as environmental factors.
v. Relevant training of the Board Members on issues pertaining to their oversight functions shall be put in place and implemented.

vi. A track record of success in business with familiarity and experience in performing the role of a board Member

vii. Directors whose track records show lack of competence in discharging their duties of directorship shall not be re-elected.

viii. The Commission shall arrange relevant training on insurance principles and practice, Director’s responsibilities and liabilities, and update on insurance market at periodic intervals to which attendance by members of the Board shall be mandatory.

5.04 **Composition of the Board of Directors**

i. Without prejudice to the provisions of CAMA, no insurance company shall have less than seven (7) members and not more than fifteen (15) members on its Board.

ii. The Board shall consist of Executive and non-executive Directors out of which not more than 40% of the members shall be in the executive capacity.

iii. Membership of the Board shall include at least one Independent Director, who does not represent any particular shareholding interest nor hold any business interest.

iv. The independent Director is critical in the evaluation of the performance of the board and management; mediate where interests of management, the company and its shareholders may diverge such as executive remuneration, succession planning, changes of corporate control, take-over defences, large acquisitions and audit function.
v. The Independent director shall be appointed by the Board to be ratified at the company’s Annual General Meeting (AGM) for a period to be determined at the AGM.

vi. All nominated members of the Board shall complete and file with the Commission, Personal History Statement (PHS) Form not later than four (4) weeks after nomination.

vii. Non-Executive Directors shall not be re-nominated and appointed for more than 3 terms of 3 years each.

viii. Appointment of Non-executive Directors shall be decided by the entire Board through a defined selection process.

ix. Each Non-executive Director shall demonstrate that he/she has sufficient time to devote to the business of the company.

x. The Chief Executive Officer of the company shall be the person approved by the Commission and shall be a member of the Board throughout his/her tenure.

xi. Any individual taking major action in the running of the company must either be a member of the Board, the management or paid consultant.

xii. Copy of any global management consulting agreement with any consultant outside Nigeria shall be filed with the Commission.

5.05 **Duties of the Board**

The Board shall conduct the business in line with high ethical and sound insurance best practices.

i. Board members shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.

ii. Where board decisions may affect different shareholder groups differently, the board shall treat all shareholders fairly.
iii. The board shall be able to exercise objective independent judgement on corporate affairs.

iv. When the board establishes committees, their mandate, composition and working procedure shall be well defined and disclosed by the board.

v. It shall be the duty of the Board to formulate corporate policies, monitor internal risks (balance sheet, off-balance sheet, contagion and related party risks, etc) and avoid double gearing, debt down-streaming and imposed internal transactions in the case of group structure.

vi. The Board must ensure it is not subject to undue influence from senior management or other parties and that it has access to all relevant information about the companies at all times.

5.06 Responsibilities of Boards of Insurance Companies

These shall include:

i. Review corporate strategy, major plans of actions, risk policy, business plans, setting performance objectives, monitoring implementation and corporate performance and overseeing major capital expenditures and acquisitions.

ii. Select, compensate, monitor and when necessary, replace key executives and oversee succession planning.

iii. Monitor the effectiveness of the governance practices under which it operates and make changes as may be necessary.

iv. Ensure the integrity of the companies’ accounting and financing reporting systems, including the independent audit and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control and compliance with the law.

v. Monitor and manage potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
vi. Supervise and monitor the execution of policies and providing direction for the management.

vii. Monitor potential risks within the company including recognizing and encouraging honest whistle blowing.

viii. Oversee the process of disclosure and communication in the company.

ix. The Board shall establish the following in order to achieve objectives of the Code:

a. An organizational structure that effectively meets the needs of insurance business with job descriptions, authority levels and working relationships for members of the management.

b. Effective human resources management system that ensures staff welfare and objective assessment of individuals with more weight given to demonstrated performance on the job and individual career developments.

c. Management control system that focuses on management processes including operational planning and control, computerization, productivity and management information system development.

d. Good security system with particular emphasis on checks and balances, dual control on operations and greater discipline to reduce incidence of malpractices.

e. Clearly thought out policies and strategies on marketing, business acquisition and claims administration.
5.07 **Conduct of the Board of Directors**

i. Directors are expected to preserve and enhance shareholders’ value.

They shall thus be legally empowered, make the needed time commitments, are suitably compensated, receive proper minutes of meetings and provided with appropriate information to enable them perform their monitoring role and evaluate the performance of the management.

ii. Directors shall be pro-active and diligent in performing the assigned responsibilities.

iii. The Board of Directors will determine compensation for directors and seek approval at the AGM.

iv. There shall be annual Board performance appraisal to be carried out by an external consultant to be appointed by the shareholders.

v. The Assessment Report shall be forwarded to NAICOM.

5.08 **Rights of Shareholders**

The shareholders of insurance companies in Nigeria shall be entitled to certain rights namely:

i. The shareholders have the right to elect and remove members of the board

ii. Shareholders have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes including, amendments to the statutes, or articles of incorporation or similar governing documents of the company; the authorization of additional shares; and extraordinary transactions, including the transfer of all or substantially all assets, that in effect result in the sale of the company.
iii. Shareholders have the right to make their views known on the remuneration policy for board members and key executives of the company.

iv. Shareholders including institutional shareholders, shall be allowed to consult with each other on issues concerning their basic shareholder rights subject to exceptions to prevent abuse.

v. The Company shall provide for the position of a minority shareholder on the Board

vi. The shareholders are entitled to receive dividends when declared.

vii. Directors shall assist the shareholders to exercise their rights by effectively ensuring the following:

   a. Communication of information that is understandable and accessible on a timely and regular basis.

   b. Encouraging shareholders to participate in Annual General Meetings.

   c. Receiving of notices of meetings and other relevant information/documents at least 21 clear days before meetings, except in cases of EGMs and other exceptions under CAMA.

   d. Giving equal opportunity to all shareholders.

   e. Capital structures and arrangements that enable certain shareholders to obtain a degree of control proportionate to their equity ownership should be disclosed.

5.09 Conflict of Interest

In order to ensure and maintain high ethical standards for the conduct of insurance business, each director and employee of an insurance company
shall formally disclose to the Board of Directors or Shareholders his/her interest whatsoever in any:

i. Insurance Broking firm

ii. Loss Adjusting firm

iii. Actuarial firm

iv. Insurance & Reinsurance company

v. Accounting/Taxation firm/Audit firms

vi. Legal firms

Pursuant to the forgoing, payment of commissions and/or fees to insurance intermediaries in which the chief Executive Officer, a director or an employee has interest whatsoever shall be fully documented and the interest therein fully disclosed to the Board/the Shareholders.

5.10 Meetings of the Board

The Board shall meet not less than four (4) times in a year. Each member is expected to attend not less than 75% of the meetings annually.

Report of attendance shall form part of the report to be presented at the AGM.

6.0 Committees of the Board

Committees of the Board shall include:

i. Finance and General Purposes Committee

ii. Investment Committee

iii. Enterprise Risk Management Committee

iv. Audit and Compliance Committee (to be headed by an Independent Director)
v. Establishment and Governance Committee (Independent Director to be a member)

7.0 **Audit and Compliance Committee**

Auditing is vital to ensuring that accounting norms for insurance businesses are effectively applied and maintained and to monitor the quality of internal control procedures; ensure compliance with all regulatory directives.

7.01 **Establishment of the Audit and Compliance Committee**

The Audit and Compliance Committee (ACC) shall be established by every insurance company in Nigeria. The Chairman of the ACC shall be an Independent Director, **Outside Shareholder** who together with its members shall possess high level of integrity, commitment and discipline.

7.02 **Membership of the Committee**

Membership of the Audit Committee shall be in accordance with provisions of CAMA with not more than one Executive Director on the Committee.

The Audit Committee shall have the following attributes:

i. Shall be elected at the Annual General Meeting of the Company in accordance with CAMA.

ii. Composed of Non-Executive Directors at least two of whom shall have requisite knowledge of accounting, financial analysis and financial reporting.

iii. The chairman shall be an Independent Director and members shall possess high level of integrity, commitment and discipline.
iv. At least one member shall have good understanding of the business of insurance.

7.03 **Responsibilities of Audit & Compliance Committee**

1. The Committee shall have a written mandate and terms of reference.

2. The Committee shall be responsible for the review of the integrity of the data and information provided in the Audit and/or Financial Reports.

3. The Committee shall provide oversight functions with regard to both the company’s financial statements and its internal control and risk management functions.

4. The Committee shall review the terms of engagement and recommend the appointment or re-appointment and compensation of External Auditors to the Board and the shareholders.

5. Review the procedure put in place to encourage honest whistle blowing.

6. The Audit Committee shall meet at least three times in a year and at least once with the External Auditors.

7. The Committee’s performance shall be evaluated periodically.

8.0 **External Auditor**

1. The External Auditor(s) is/are answerable to the Board.

2. Appointment of External Auditor for Insurance and Reinsurance Companies shall be approved by the National Insurance Commission.
iii. The tenure of an appointed External Auditor shall be for a maximum period of five (5) years.

iv. The Auditor’s performance shall be reviewed periodically.

9.0 **Internal Audit Unit**

i. This is vital in order to monitor internal control procedures and ensure adequate protection of assets of the company.

ii. The Internal Audit Unit shall be headed by a professionally qualified Accountant not below the rank of an AGM or its equivalent.

iii. The Head of Internal Audit Unit shall be highly competent, objective and with high integrity.

iv. The Head of the Internal Audit Unit shall report directly to the MD/CEO but a copy of the Audit Report shall be forwarded to the Audit Committee on regular basis.

v. Each insurance company under an insurance group shall have a separate Internal Audit Unit.

9.01 **Internal Audit Report**

i. Each Annual Report shall confirm an Internal Audit Report which will state the responsibility of management for establishing and maintaining an adequate Internal Control Structure and procedure of the issuer for financial reporting.

ii. The Internal Audit Report of each Insurance/Reinsurance company shall be filed with the Commission every quarter.

iii. The External Auditor shall attest to and report on the assessment made by the management.
10.0 **Accounting Principles, Disclosure and Reporting Requirements**

10.01 Accounting systems are central to the information needed by Investors, Customers, Supervisors and other Stakeholders so that they can make objective assessment of the effectiveness of the enterprise and its future prospects.

10.02 Accounting methods shall provide real economic gains and losses. Each accounting item shall be clearly defined and precise method of evaluation clearly stated so that the financial condition of the company can be disclosed without ambiguity.

10.03 The disclosure and reporting requirements shall be in line with Insurance Industry Policy Guidelines that is published by National Insurance Commission from time to time.

10.04 The Annual accounts shall disclose the following in addition:

i. Information about each shareholder who owns directly or indirectly a minimum of (5%) five percentage of shares of the company as well as the shareholders who control the company when acting in concert.

ii. Show manner of compliance with, or explain any deviation from applicable corporate governance codes.

iii. Disclose Board Meeting attendance record of members

iv. Disclose the major items that have been estimated and any deviation from applicable accounting, auditing and corporate governance standards.

v. Disclose related party transactions in accordance with International Accounting Standards (IAS).

vi. Disclose all contraventions on which penalties have been imposed by NAICOM and/or any other regulatory/supervisory body in any accounting year.
11.0 **Scope of Application and Effective Date**

This code applies to ALL Insurance and Reinsurance Companies where the National Insurance Commission (NAICOM) is the primary regulator. Application of the Code shall be effective from 1\textsuperscript{st} March 2009.

12.0 **Follow – Up**

Good corporate governance evolve with changing business circumstances and international financial market requirements. NAICOM will ensure regular review of the code and adaptation with changing circumstances.