HEIRS LIFE ASSURANCE LIMITED

Financial Condition Report as at 31 December 2023

September 2024

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1. Appointed Actuary's Statement

I, Nikhil Dodhia, acting in my capacity as the Appointed Actuary, certify that, as at 31 December 2023, this Financial Condition Report for Heirs Life Assurance Ltd has been prepared in accordance with the "Prudential Guidelines for Insurance Institutions in Nigeria" issued by the National Insurance Commission of Nigeria, as well as generally accepted actuarial principles. The Company's Capital Adequacy Ratio is estimated at 4.8 on the minimum capital requirement of ₦2 billion. I would, in the normal course of events, expect insurance liabilities arising in 2024 from the business on the Company's book at the review date to be met as at when due.

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Nikhil Dodhia
Fellow of the Institute and Faculty of Actuaries
FRC No: FRC/2021/PRO/NAS/004/00000024023
Appointed Actuary: Heirs Life Assurance Ltd

12 September 2024

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Rotimi Okpaise, BSc, ASA, FIA

Peer Review Actuary

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 state 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. The FCR sets out the results of the analysis of the financial condition of Heirs Life Assurance Ltd ("Heirs Life") as at 31 December 2023. This report includes an analysis of the financial progress since the previous financial year-end.

2.3. Heirs Life has contracted Zamara Consulting Actuaries Nigeria Limited ("Zamara") to provide actuarial services. Nikhil Dodhia, FIA, is the Appointed Actuary and will sign off on the FCR.

2.4. This report is limited to the information of Heirs Life, not the consolidated Group information (i.e., this FCR only covers the life insurance business underwritten in Nigeria and excludes business underwritten by other companies belonging to the Group – unless stated otherwise).

2.5. Heirs Life has successfully implemented the newly adopted financial reporting standard for Insurance Contracts, IFRS 17 ("the Standard") which was effective for periods starting January 1, 2023.

2.6. This FCR is the first report under this Standard. As such, where appropriate, we have provided comparative analysis with the previous IFRS 4 Standard to allow for a smooth transition of the trends captured in this report.

2.7. In implementing IFRS 17, Heirs Life has made considerable investments in appropriate technology and human capital to ensure a smooth process and prepare for a transition to operating efficiently under the new standard.

a) **Actuarial and Accounting Processes:** Heirs Life's contracts and financial data available supports the use of the General Measurement Method ("GMM") for longer-term contracts. Heirs Life has incorporated the calculation of risk adjustment under the new standard for non-financial risk, as well as the Contractual Service Margin, which is a key component for the liability for remaining coverage ("LRC") under GMM. Additionally, the company has applied the simplified measurement method, the Premium Allocation Approach ("PAA"), for short-term contracts with coverage periods of one year or less. Under the PAA approach, Heirs Life has also incorporated the allowance for discounting and risk adjustments within its calculation of the liability for incurred claims ("LIC").

Heirs Life has also prepared policy documents on key actuarial and accounting processes that define the treatment of key requirements in line with the Standard's requirements.

Heirs Life has successfully presented its accounts in the IFRS 17 format by restating the 2021 and 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.

b) **People:** Heirs Life has an external actuarial team, Zamara, that handles its actuarial functions, including the preparation of IFRS 17 balances.

The Zamara team works closely with Heirs Life's finance and technical teams for actuarial valuations and IFRS 17 reporting, ensuring the granularity of the reporting requirements is met. The actuarial and financial reporting functions have played a critical role in the smooth transition to the new standard, with key reporting areas such as the strategy and budget plans, and solvency computations being the key items updated.

c) **Products and Contract Aggregation:** Heirs Life's financial reporting calculations are based on the aggregation of insurance contracts according to the similarity of risks insured, year of inception, and degree of profitability.

d) **Systems:** Heirs Life engaged Deloitte as its IFRS 17 implementation partner, responsible for supporting the Company in carrying out IFRS 17 transition calculations, running IFRS 17 balances, and preparing accounts and disclosures using the Iris IFRS 17 reporting tool.

2.8. Zamara has conducted a review of Heirs Life's IFRS 17 results following the implementation process and is comfortable with the approach adopted by the Company. The sections that follow provide a report on the financial condition of Heirs Life in line with the Commission's guidelines and the requirements of the IFRS 17 Standard where applicable.

Financial Performance

Statement of Profit or Loss – IFRS 17

2.9. The financial performance for the period from 1 January 2023 to 31 December 2023 is summarized below. The corresponding statistic as at 31 December 2022 is included for comparative purposes.

IFRS 17 P &L	31-Dec-23 ₦ '000	31-Dec-22 ₦ '000	Movement
Insurance service revenue	7,256,831	3,764,728	93%
Insurance service expense	(6,011,655)	(2,928,497)	105%
Insurance Service Result from insurance contracts	**1,245,176**	**836,231**	**49%**
Net Income/(Expense) from reinsurance contracts	**(44,355)**	**(224,944)**	**80%**
Insurance Service Result	**1,200,821**	**611,287**	**96%**
Investment income	2,962,183	1,276,721	132%
Net loss on FVTPL investments	(285,109)	(179,281)	59%
Profit on investment contracts	(103,896)	22,135	-569%
Net credit impairment losses	(83,750)	(2,346)	3470%
Net Investment Income	**2,489,428**	**1,117,229**	**123%**
Net finance Income from insurance contracts issued	489,896	550,205	-11%
Net finance expenses from reinsurance contracts held	(11,623)	(3,503)	232%
Net insurance finance expenses	**478,273**	**546,702**	**-13%**
Net Insurance and Investment Result	**4,168,522**	**2,275,218**	**83%**
Other income	349,957	48,731	618%
Other operating expenses (Non attributable)	(2,580,685)	(1,892,600)	36%
Finance costs	(58,499)	(52,021)	12%
IFRS 17 profit before Tax	**1,879,295**	**379,328**	**395%**
Income Tax Expense	(18,887)	(3,381)	459%
IFRS 17 profit After Tax	**1,860,408**	**375,947**	**395%**
Other comprehensive income/(loss)	-	-	
Total comprehensive income	**1,860,408**	**375,947**	**395%**

2.10. As evidenced in the IFRS 17 accounts above, the insurance service revenue increased from ₦3.77 billion in 2022 to ₦7.26 billion in 2023, representing a growth of 93%. This is mainly attributable to an increase in the expected claims and expenses, and the CSM release. Similarly, insurance service expenses increased by 105% from ₦2.93 billion in 2022 to ₦6.01 billion in 2023. This is mainly due to an increase in actual claims and expenses and an increase in losses on onerous contracts and loss reversals. These factors resulted in an increase in the gross insurance service result by 49% from ₦836.23 million in 2022 to ₦1.25 billion in 2023.

2.11. The net income/(expenses) from reinsurance contracts increased from a net expense of ₦224.94 million in 2022 to a net expense of ₦44.36 million in 2023 resulting in an increase in the net insurance service result from ₦611.29 million in 2022 to ₦1.20 billion in 2023, representing a growth of 96%.

2.12. The net investment income witnessed a growth of 123% in 2023, largely due to the realized gains on financial assets held while the net insurance finance expenses improved by 13%. The net insurance and investment result increased by 83%, from ₦2.28 billion to ₦4.17 billion resulting in a profit before tax of ₦1.88 billion in 2023 compared to ₦379.33 million in 2022.

2.13. Overall, the improved IFRS 17 profit in 2023 was attributable to the growth in insurance service revenue and improved investment returns.

2.14. Further analysis of Heirs Life's performance, over the last two years, based on the IFRS 17 accounts, is provided in section 5.1 of this report.

Balance Sheet

2.15. Heirs Life has prepared the 2023 financial statements and also restated the 2022 financials in the IFRS 17 format, the summary of which is provided below:

Financial Position	31 Dec 2023 ₦ '000	Asset proportion	31 Dec 2022 ₦ '000	Asset proportion
Financial investments	33,281,137	88%	15,962,180	84%
Reinsurance contract assets	278,318	1%	50,477	0%
Insurance Contract Assets	222	0%	-	0%
Trade receivables	83,239	0%	2,083	0%
Statutory deposit	800,000	2%	800,000	4%
Other receivables	381,387	1%	130,612	1%
Cash & Cash Equivalents	1,708,093	5%	838,251	4%
Property, Plant & Equipment	333,419	1%	247,848	1%
Other Assets	893,939	2%	1,009,079	5%
Total Assets	**37,759,754**	**100%**	**19,040,530**	**100%**
Insurance contract liabilities	22,201,429	77%	9,753,483	83%
Reinsurance contract liabilities	40,084	0%	33,894	0%
Investment contract liabilities	3,719,006	13%	1,087,855	9%
Other Insurance contract liabilities	1,655,632	6%	291,332	2%
Provisions & other payables	513,743	2%	170,862	1%
Lease liability	518,270	2%	467,296	4%
Income tax payable	18,845	0%	3,471	0%
Total Liabilities	**28,667,009**	**100%**	**11,808,193**	**100%**
Ordinary share capital	8,000,000		8,000,000	
Contingency reserve	339,679		142,200	
Retained earnings	753,066		(909,863)	
Total Shareholder's Equity	**9,092,745**		**7,232,337**	
Total Equity and Liabilities	**37,759,754**		**19,040,530**	

2.16. The total assets of Heirs Life have grown by 98% in the period between 31 December 2022 and 31 December 2023. Financial Investment assets formed 88% (84% in 2022) of the total assets of Heirs Life as at 31 December 2023 with cash and bank balances also making up 5% of Heirs Life's total assets.

2.17. Insurance and investment contract liabilities form 90% (92% in 2022) of the total liabilities. This is followed by Trade receivables at 6% (2% in 2022).

2.18. Overall, the total assets held by Heirs Life of ₦37.76 billion (₦19.04 billion in 2022) are more than the total liabilities of the Company of ₦28.67 billion (₦11.81 billion in 2022, resulting in net assets of ₦9.09 billion (₦ 7.23 billion in 2022).

Solvency Position

2.19. The insurer's solvency position over the last two years based on the existing solvency templates provided by the regulator is summarized below:

Capital Item Amounts in N'000	2023	2022
Total Admissible Assets	36,536,545	18,182,567
Total Liabilities	28,667,009	11,340,897
Solvency Margin	7,869,536	6,841,670
Minimum Regulatory Capital	2,000,000	2,000,000
15% of Net Premium	1,088,525	9,753,483
Regulatory Capital	2,000,000	2,000,000
Statutory CAR Cover	393%	342%

2.20. The CAR cover is estimated at 3.93 as at 31 December 2023 up from 3.42 as at 31 December 2022 following an increase in the net assets. Overall, the Company is financially sound from a solvency perspective, and sufficiently capitalized to carry the net written premium capital requirement and ₦ 2.00 billion minimum capital requirement.

2.21. In May 2019, the national Insurance Commission of Nigeria ("NAICOM") had introduced new capital requirements for the insurance industry. Life Insurance companies were to hold minimum paid up capital of 8.00 billion as at 31 December 2021. The new minimum paid up capital requirements were suspended by NAICOM at the time of writing this report. Below, we show what the CAR cover would have been on the proposed new capital requirements.

Capital Item Amounts in N'000	2023	2022
Total Admissible Assets	36,536,545	18,182,567
Total Liabilities	28,667,009	11,340,897
Solvency Margin	7,869,536	6,841,670
Minimum Regulatory Capital	8,000,000	8,000,000
15% of Net Premium	1,088,525	9,753,483
Regulatory Capital	8,000,000	9,753,483
Statutory CAR Cover	98%	70%

2.22. The CAR would have been estimated at 0.98 as at 31 December 2023 up from 0.70 times as at 31 December 2022. Based on the proposed capital requirements, the Company would not have met the regulatory requirements from a solvency perspective as at 31 December 2023.

Material Risks Identified

2.23. The following summarizes the key risks faced by Heirs Life, as well as their impact and implications, based on our review as the appointed actuary.

Insurance Risk

2.24. Heirs Life is exposed to the following elements of insurance risk, with varying levels of exposure:

- Mortality Risk – The Company is exposed to the risk of actual mortality rates being higher than the assumed rates in the pricing of products. This could result in higher death pay-outs than expected.

- Longevity Risk – The Company's largest book is the annuity book. The annuity book is exposed to the risk of the annuitants living longer than expected as per the pricing basis of the annuities, which could result in higher pay-outs than expected.

- Expense Risk – The Company is exposed to the risk of the actual expenses incurred exceeding the assumed expenses in the valuation of the liabilities. The assumed renewal expenses per policy basis need to be monitored to ensure they truly represent the actual experience. A high expense ratio could be curbed by either reducing operational costs or writing more business to cover the fixed expenses of the company while making sure that expenses do not increase at the same pace as business written. We urge Heirs Life to continue growing its individual life book to support its expenses. This also includes the risk of assumed expense inflation rates being lower than actual inflation rates given the observed consistent increase in inflation rates over the years.

- Lapse Risk – The Company's lapse experience affects the spread of fixed expenses as well as the premium received, and withdrawal benefits paid by the company. There is a significant risk associated with failure to sufficiently account for lapses, as provisions made are sensitive to changes in assumed lapse rates. Withdrawal risk is crucial because it affects the number of policies in force and hence the spread of per policy expenses. We would also urge the Company to carry out a lapsation analysis in on a regular basis while monitoring the experience.

2.25. The Company needs to conduct internal investigations to check the appropriateness of the actuarial assumptions. This would assess the actual experience of the company with respect to the parameters above, guiding on the most appropriate valuation assumptions and reduce the chance of understating the company's reserves.

2.26. In addition, value of in-force and value of new business actuarial calculations combined with proper analysis of surplus (AoS) would guide the company on the actual drivers of its profitability from the above parameters, guiding on the correct course of action to be taken.

2.27. Regarding data, proper data management is key in facilitating the investigations mentioned above. The company should aim at collecting and maintaining accurate data records. In growing the ordinary life business, it is important that policyholder movements can be reconciled from year to year for consistency to properly assess the profitability of new business.

2.28. Proposal forms should be well designed, capturing the most important details in a format that facilitates entry into the system.

2.29. We would also urge Heirs Life to regularly carry out an expense and lapse investigation to ascertain the correct per policy expenses to be adopted in line with the current business environment

Regulatory and Compliance Risk

2.30. Based on the National Insurance Commission of Nigeria's ("NAICOM") proposed new capital requirements for the insurance industry, Life insurance companies were to hold minimum paid up capital of N 8.00 billion as at 31 December 2021. The new capital requirements would translate to a CAR of 1.14.

Given the requirement to adopt the IFRS 17 Standard from 1 January 2023, the company faces the possibility of increased expenses as new systems and expertise are sought. In addition, IFRS 17 stands to impact profitability patterns, volatility of financial results, transparency of profit drivers and equity levels. The company also faces the risk of not being ready to transition by the timelines set by relevant authorities.

Investment Risk

2.31. The key considerations based on the company's investment strategy are Safety, diversification, liquidity, return on investment and compliance. The Company's profits products offer minimum rates of return equal to the Savings Deposit Rate (SDR) plus 0.25%. This exposes the Company to the risk that the actual investment return achieved is insufficient to meet guaranteed interest rates – Investment returns risk.

Counterparty Default Risk

2.32. Heirs Life Assurance has entered into reinsurance arrangements. There is a risk of default by the reinsurer on meeting their obligation to Heirs Life Assurance.

Recommendations

Insurance Risk

2.33. We recommend that the Company undertakes experience analysis investigations to assess the appropriateness of the valuation assumptions adopted and hence the sufficiency of the reserves held. Experience should be continuously monitored to effectively manage insurance and investment risks.

2.34. Management should continue to monitor the claims volatility and their business volumes to minimise the probability of one-off losses wiping out the company's profits. This should be done by ensuring that the company is adequately protected by its reinsurance arrangements. Management may also consider introducing a catastrophe reserve and/or claims equalisation reserve to combat the risk.

2.35. It is worth noting that proper data management is key in facilitating the investigations mentioned above. The company should aim at collecting and maintaining accurate data records. In growing the ordinary individual life business, it is important that policyholder movements can be reconciled from year to year to properly assess the profitability of new businesses.

Regulatory and Compliance Risk

2.36. It is important for the business to understand how shocks would impact the company's solvency position going forward. Conducting an IFRS 17 financial impact assessment will provide management information on the expected profitability of the company under IFRS 17.

Investment Risk

2.37. Management should consider setting up bonus stabilisation and the cost of guarantee reserves to manage investment risk. A bonus stabilisation reserve will allow the company to smooth bonuses (interest additions) declared over time and manage policyholder expectations. We, however, note that the investment returns achieved by the Company historically have been sufficient to cover the cost of guarantee and bonuses. An asset liability matching exercise should also be undertaken to reduce investment risks associated with mismatching assets and liabilities.

Counterparty Default Risk

2.38. This can be managed by monitoring the credit rating of its reinsurers on a regular basis to ensure it is at the required levels.

3. Information Requirements

Data Obtained

3.1. The following data was received from Heirs Life in order to complete the FCR:

- Up-to-date IFRS 17 financial statements as at 31 December 2023 and restated 2022 financial statements in the IFRS 17 format;
- Actuarial valuation report of the life fund as at 31 December 2023;
- Various documents related to company governance structure and business plans for Heirs Life, including Heirs Life's:
  - Reassurance Management Strategy;
  - Investment Policy Document;
  - Budget for the 2023 financial year;
  - Projected budgets for the 2024 - 2026 financial years; and
  - Risk Management Framework.
- Solvency Calculations for the 2023 financial year.

Reliances and Limitations

3.2. This FCR is based on the audited financial statements of Heirs Life as at 31 December 2023, as well as the general business plans of Heirs Life, and company information that was provided to Zamara.

3.3. It was assumed that the data provided by Heirs Life was correct. A full audit of the data provided by Heirs Life was not conducted. However, reconciliations of the data were conducted as part of the actuarial valuation of the life fund 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. A summary of the insurance liability valuation results, including our commentary on the process is included in section 6 of this report.

3.6. 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 solvency margins as at 31 December 2023 in section 8.

3.7. As external actuaries, we are not part of the Company's management body; consequently, our exposure to the day-to-day activities of the company is limited. While we have undertaken to ensure that our report and analysis are a reliable reflection of the Company's true financial health, it is, nonetheless, possible that an external party may be unaware of material developments pertaining to the Company that may be pertinent to the analysis and reporting undertaken.

3.8. This report should not be disclosed, copied, discussed with, or otherwise furnished to any third party (unless they have a statutory right to it) without prior written consent. Zamara Consulting Actuaries Nigeria Limited, or any representative of our firm, is not responsible whatsoever for any judgements or conclusions that may be drawn by third parties from this report.

4. Business Overview

Company Structure and Key Shareholders

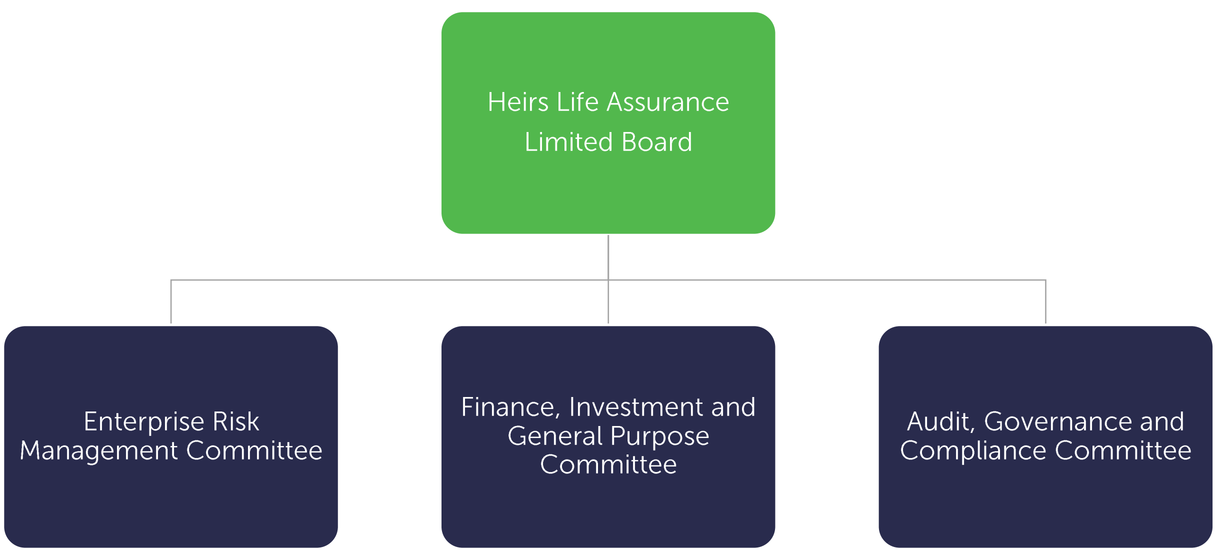
4.1. Heirs Life Assurance Limited ("Heirs Life" or "the Company") was incorporated on February 13, 2019, with registration number RC1561351 while an operational license with registration number 094 was issued by NAICOM on November 25, 2020. The Company commenced operations thereafter.

4.2. The company is a specialist life insurer that was incorporated to provide financial, family and future security to individuals and businesses.

4.3. The shareholding structure of the Company is as shown below:

Shareholder	Number of Shares ('000)	Percentage Shareholding
Heirs Holdings Limited	4,000,000	50%
United Capital Plc	2,000,000	25%
Africa Prudential Plc	1,200,000	15%
AVON HMO Ltd	800,000	10%
Total	8,000,000	100%

4.4. The Board of Heirs consists of 11 members, nine (9) of whom act in a non-executive capacity. The board discharges its duties through a number of standing committees whose terms of reference are subject to regular reviews. The terms of reference define the purpose of each of the committees, their composition, frequency of meetings, responsibilities, and duties, as well as expected reports to the Board. As at December 2023, the Board oversaw the affairs of the Company through three (3) standing Committees. The Committees are as follows:



Products

4.5. Heirs Life currently underwrites the following classes of life assurance business:

a) Individual Life Policies:

- Heirs Couples Plan
- Heirs Credit Life Assurance
- Heirs Endowment Assurance
- Heirs Entrepreneurs Plan
- Heirs Hospital Cash Advance Plan
- Heirs Hospital Cash Basic Plan
- Heirs Keyman Assurance
- Heirs Mortgage Protection Assurance
- Heirs Salary Plus Plan
- Heirs Save Extra
- Heirs Save Plan
- Heirs Smart School Plan
- My Heirs Plan
- My Heirs Plus Plan
- Heirs Triple Pay Plan
- Heirs Term Assurance Cashback
- Heirs Term Assure
- Heirs Whole Life Assurance
- Heirs Whole Life Assurance with Limited Premium Term

b) Annuity Policies

c) Group Life Policies:

- Group Credit
- Group Life
- Group Mortgage

5. Recent Experience and Profitability

Financial Performance

5.1. This table below details Heirs Life's profitability, including a comparison of actual performance for the financial year ended 31 December 2023. Key financial ratios are also included to assess trends in the business.

Financial Performance	31-Dec-23 NGN '000	31-Dec-22 NGN '000	Movement
Insurance Service Revenue			
Expected Claims and Expenses Excluding Investment Component	3,180,384	1,386,550	129%
Expected Release of Risk Adjustment	298,663	253,610	18%
CSM Release	1,223,242	246,069	397%
Acquisition Costs Recovered	352,739	125,715	181%
PAA Premium Reserve Release (Earned Premium)	2,201,804	1,752,784	26%
Total	**7,256,831**	**3,764,728**	**93%**
Insurance Service Expenses			
Actual Claims and Expenses	3,555,181	1,823,358	95%
Change in Incurred Claims	(385,090)	(171,374)	125%
Expected Claims and Expenses for Loss Component	-	-	
Expected Release of RA For Loss Component	-	-	
DAC Release	-	-	
Increase in Losses on Onerous Contracts and loss reversal	2,102,921	863,930	143%
Increase acquisition cash flows amortisation	738,643	412,583	79%
Total	**6,011,655**	**2,928,497**	**105%**
Insurance Service Result from insurance contracts issued	1,245,176	836,231	49%
Net Expenses from reinsurance contracts	**(351,614)**	**(364,833)**	-4%
Net Income from reinsurance contracts	**307,259**	**139,889**	120%
Net Income/(Expense) from reinsurance contracts	**(44,355)**	**(224,944)**	**-80%**
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Financial Performance	31-Dec-23	31-Dec-22	Movement
	NGN '000	NGN '000	
Net insurance finance expenses	478,273	546,702	13%
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IFRS 17 Profit	1,879,295	379,328	395%
Income tax expense	(18,887)	(3,381)	459%
Profit After Tax	1,860,408	375,947	395%
Investment Return	31-Dec-23	31-Dec-22	
Insurance Expense Ratio	82.84%	77.79%	
Reinsurance Impact Ratio	4.23%	3.72%	
Reinsurance Service Ratio	87.39%	38.34%	

5.2. Based on the IFRS 17 accounts above, the insurance service revenue increased from ₦3.77 billion in 2022 to ₦7.26 billion in 2023, representing a growth of 93%. This is mainly attributable to an increase in the expected claims and expenses, and the CSM release. Similarly, insurance service expenses increased by 105% from ₦2.93 billion in 2022 to ₦6.01 billion in 2023. This is mainly due to an increase in actual claims and expenses and an increase in losses on onerous contracts and loss reversals. These factors resulted in an increase in the gross insurance service result by 49% from ₦836.23 million in 2022 to ₦1.25 billion in 2023.

5.3. The net income/(expenses) from reinsurance contracts increased from a net expense of ₦224.94 million in 2022 to a net expense of ₦44.36 million in 2023 resulting in an increase in the net insurance service result from ₦611.29 million in 2022 to ₦1.20 billion in 2023, representing a growth of 96%.

5.4. The net investment income witnessed a growth of 123% in 2023, largely due to the realized gains on financial assets held while the net insurance finance expenses improved by 13%. The net insurance and investment result increased by 83%, from ₦2.28 billion to ₦4.17 billion resulting in a profit before tax of ₦1.86 billion in 2023 compared to ₦379.33 million in 2022.

5.5. Overall, the improved IFRS 17 profit in 2023 was attributable to the growth in insurance service revenue and improved investment returns.

5.6. We outline below the business performance ratios for the year 2023 as well as the 2022 based on key performance indicators under IFRS 17:

Investment Return	31-Dec-23	31-Dec-22
Insurance Expense Ratio	82.84%	77.79%
Reinsurance Impact Ratio	4.35%	3.77%
Reinsurance Service Ratio	87.69%	38.89%

5.7. As observed in the table above, in 2023, the insurance service expense ratio moved from 77.79% as at 31 December 2022 to 82.84% as at 31 December 2023. This is mainly due to higher increase in the insurance service revenue by 105% compared to the increase in insurance service revenue by 93% between the two periods. The impact of reinsurance increased from 3.77% in 2022 to 4.35% in 2023 while the reinsurance service ratio reduced from 38.89% in 2022 to 87.69% in 2023.

5.8. The financial ratios have been approximated as follows:

- Insurance Service Expense ratio : Insurance service expense/ insurance service revenue
- Reinsurance Impact Ratio : (Net expenses from reinsurance contracts held)/ (Insurance revenue)
- Reinsurance Service ratio : (Amounts recoverable from reinsurers for incurred claims)/(Allocation of reinsurance premiums)

Future Projections

5.9. Heirs Life has made projections on some items on the income Statement. The key items projected are in the table below. For comparative purposes, the actual amounts as at 31 December 2023 for the stated items have been included.

	2023 Actual (N'000)	2023 Projected (N'000)	2024 Projected (N'000)	2025 Projected (N'000)	2026 Projected (N'000)	2027 Projected (N'000)
		₦'000	₦'000	₦'000	₦'000	₦'000
Gross Written Premium	**19,747,898**	**23,000,000**	**35,258,545**	**47,190,467**	**60,000,000**	**80,000,000**
Gross Premium Income	**8,909,712**	**8,694,000**	**13,327,730**	**17,837,996**	**19,200,000**	**25,600,000**
Reinsurance Expenses	(579,093)	(860,000)	(1,062,922)	(1,298,967)	(1,800,000)	(2,400,000)
Net Premium Earned	**8,330,619**	**7,834,000**	**12,264,808**	**16,539,030**	**17,400,000**	**23,200,000**
Net Claims	(2,425,115)	(1,610,017)	(5,288,782)	(7,078,570)	(8,400,000)	(11,200,000)
Underwriting Expenses	(2,706,901)	(2,760,000)	(4,644,782)	(6,158,570)	(6,480,000)	(10,600,000)
Underwriting Profit	**2,225,549**	**3,463,983**	**2,331,245**	**3,301,889**	**2,520,000**	**1,400,000**
Investment Income	2,907,211	2,129,200	5,771,629	8,608,615	13,188,716	19,160,819
Operating Expenses		(1,642,000)	(1,888,300)	(2,360,375)	(3,186,506)	(4,301,783)
Staff Cost	(1,457,109)	(1,541,000)	(1,772,150)	(2,126,580)	(2,870,883)	(3,445,060)
Profit /(Loss) Before Tax	**2,255,794**	**2,410,183**	**4,442,423**	**7,423,549**	**9,651,326**	**12,813,976**

5.10. The Company projects a growth in the Gross Written Premium from an actual figure of ₦19.75 billion as at 31 December 2023 to ₦35.26 billion as at 31 December 2024.

5.11. The Company projects to record an Underwriting Profit figure of ₦2.33 billion in 2024, from an actual position of ₦ 2.23 billion in 2023.

5.12. The Company has a projection of ₦4.44 billion as the Profit Before Tax as at the financial year ended 2024.

5.13. In view of time constraints, future projections on an IFRS 17 basis could not be done, but will be, in subsequent FCR reports.

6. Results of Actuarial Valuation

6.1. We carried out the Statutory Actuarial Valuation based on the IFRS 17 standard for Heirs Life which entailed relying on the Company's data and resources available to prepare IFRS 17 accounts as at 31 December 2023.

6.2. The statutory actuarial valuation covered insurance contracts issued for individual life and group business classes of business. The group life class of business comprises of the group credit, group life and group mortgage products.

6.3. The statutory actuarial valuation was based on data and resources available at the time of undertaking this exercise. We used assumptions made by Heirs Life in selecting measurement methods, allocating items of actual experience, such as expenses and investment income across the Company's products and IFRS 17 groups.

6.4. 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.

Valuation Results

6.5. This section shows the results of the actuarial valuation of the Company's life fund as at 31 December 2023. The results of the valuation as at 31 December 2022 and 31 December 2021 have been provided for comparative purposes.

6.6. The table below details the IFRS 17 liabilities for the long-term business as at 31 December 2022 and 31 December 2023.

Liabilities as at 31st December 2022 and 31 December 2023 (Long-Term business)
Amounts in N '000

Individual Life Liabilities	Dec-2022	Dec-2023	%age Difference
Best Estimate Liability	7,730,811	14,242,302	84%
Risk Adjustment	554,067	450,854	-19%
Contractual Service Margin	580,149	6,169,127	963%
Totals	**8,865,026**	**20,862,283**	**135%**

6.7. As observed in the table above, the Best Estimate Liability (BEL) for the individual life business increased significantly as a result of the growth in the number of policies in-force. This expansion was driven by both Endowment and Retirement Annuity sales.

Liabilities as at 31st December 2021 - 31 December 2023 (Group Life -Gross)
Amounts in N '000

Group Risk Liabilities	Dec-2021	Dec-2022	Dec-2023
IBNR + OCR	109,585	345,925	577,835
Effect of Discounting	-	-	-
Risk Adjustment	6,575	20,755	47,796
LRC Transfers	-	14,833	45,692
Liability for Incurred Claims	**116,160**	**381,513**	**671,323**
Unearned Premium Reserve	213,789	362,865	211,395
Deferred Acquisition Cost	(19,246)	(40,994)	(24,366)
DAC - Initial Expenses	-	-	(7,697)
Loss Component	-	-	-
LRC - Payables	(1,267)	32,989	73,432
LRC - Receivables	-	-	-
Liability for Remaining Coverage	**193,277**	**354,860**	**252,764**
Total Reserve	309,437	736,373	924,087

6.8. As evidenced in the table above, there has been a consistent increase in the total liability between 31 December 2021 and 31 December 2023. The Liability for Incurred Claims increased mainly due to the increase in Incurred but Not Reported (IBNR) and Outstanding Claims Reserve (OCR) between the periods. Consequently, the Risk Adjustment applied to LIC also increased. It is important to highlight that IFRS 17 allows for a Risk Adjustment, which partly offsets the impact of discounting.

Liabilities as at 31st December 2021 - 31 December 2023 (Group Credit & Group Mortgage – Gross)
Amounts in N '000

Group (Credit & Mortgage) Liabilities	Dec-2021	Dec-2022	Dec-2023
IBNR + OCR	30,608	32,160	68,505
Effect of Discounting	-	-	-
Risk Adjustment	1,837	1,930	5,350
LIC/LRC Transfers	-	1,267	1,352
Liability for Incurred Claims	**32,445**	**35,356**	**75,207**
Unearned Premium Reserve	28,117	131,694	328,200
Deferred Acquisition Cost (DAC)	(2,688)	(15,870)	(32,910)
DAC - Initial Expenses	-	-	(2,267)
Loss Component	30,799	-	34,103
LRC - Payables	1,267	85	12,264
Liability for Remaining Coverage	**57,495**	**115,909**	**339,389**
Total Reserve	89,940	151,265	414,596

6.9. As seen in the table above, the total liability as at 31 December 2023 is much higher than the total liability as at 31 December 2022. By comparison, there is a significant increase in the liabilities in 2023 due to the inclusion of the Group Mortgage into this portfolio during the 2023 financial year, with the product being offered for the first time in 2023. This increase in the business between the two periods resulted in the observed increase of 149% in the Unearned Premium Reserve.

Liabilities as at 31st December 2022 and 31 December 2023 (Individual Credit Life - Gross)
Amounts in N '000

Individual Credit Liabilities	31 December 2022	31 December 2023
IBNR + OCR	-	6
Effect of Discounting	-	-
Risk Adjustment	-	0
LIC/LRC Transfers	-	(234)
Liability for Incurred Claims	-	**(228)**
Unearned Premium Reserve	1,053	7
Deferred Acquisition Cost	-	-
DAC – Initial Expenses	-	(0)
Loss Component	-	-
LRC - Payables	(234)	(0)
Liability for Remaining Coverage	**819**	**6**
Total Reserve	819	(222)

6.10. From the table above, we note that the total reserve as at 31 December 2023 is lower than the total reserve as at 31 December 2022. This decrease between the two periods is attributable to the decline in the Unearned Premium Reserve (UPR).

Reinsurance Assets as at 31 December 2021 - 31 December 2023 (Short-Term Business)
Amounts in NGN '000

Reinsurance Assets	Dec-2021	Dec-2022	Dec-2023
IBNR + OCR	(56,234)	(108)	(175,520)
Effect of Discounting	-	-	-
Risk Adjustment	(3,374)	-	(14,518)
LIC/LRC Transfers	-	(979)	(6,619)
Sub-Total Asset for Incurred Claims	**(59,608)**	**(1,087)**	**(196,657)**
Unearned Premium Reserve	(44,274)	(87,549)	(164,323)
Deferred Acquisition Cost	11,913	16,115	38,929
Loss Component	-	-	-
LRC - Payables	65,980	23,659	38,365
LRC - Receivables	-	652	6,616
Sub-Total Asset for Remaining Coverage	**33,619**	**(47,123)**	**(80,414)**
Total Reserve	(25,990)	(48,210)	(277,070)

6.11. For Reinsurance, the total reinsurance reserve slightly increased between 2021 and 2022 but recorded a significant increase in 2023. The increase was driven by a rise in the sub-total reinsurance asset for incurred claims, which grew from NGN 1.09 million as at 31 December 2022 to NGN 196.66 million as at 31 December 2023.

6.12. Please refer to the Statutory Report on the actuarial valuation of the Life Fund as at 31 December 2023 conducted for the Company for a detailed breakdown of the methodology, basis and results of the actuarial valuation.

Actuary's Opinion

6.13. As the Appointed Actuary, we are satisfied with the reserves booked by Heirs Life in their audited accounts.

6.14. The 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 made by the insurer.

6.15. We recommend that Heirs Life continues to carry out the experience analysis of all economic and non-economic assumptions to ensure that they remain current and reflective of the business.

7. Capital Management & Capital Adequacy

Capital Management Framework

7.1. The Company's Capital Management Policy documents the guidelines for the allocation and management of capital and resources in the Company. The capital management framework describes the minimum requirement for allocation, taking into consideration current business realities and capabilities; the framework comprises of the principles and governance structures as well as the monitoring and reporting requirements which are necessary for the efficient allocation of capital by the Company.

7.2. The Company manages and monitors its capital level in order to ensure its going concern and compliance with its regulatory capital requirements.

Solvency Margin Requirement

7.3. The insurer's solvency position over the last two years based on the existing solvency templates provided by the regulator is summarized below:

Capital Item Amounts in N'000	2023	2022
Total Admissible Assets	36,536,545	18,182,567
Total Liabilities	28,667,009	11,340,897
Solvency Margin	7,869,536	6,841,670
Minimum Regulatory Capital	2,000,000	2,000,000
15% of Net Premium	1,088,525	9,753,483
Regulatory Capital	2,000,000	2,000,000
Statutory CAR Cover	393%	342%

7.4. The CAR cover is estimated at 3.93 as at 31 December 2023 up from 3.42 as at 31 December 2022 following an increase in the net assets. Overall, the Company is financially sound from a solvency perspective, and sufficiently capitalized to carry the net written premium capital requirement and ₦ 2.00 billion minimum capital requirement.

7.5. In May 2019, the national Insurance Commission of Nigeria ("NAICOM") had introduced new capital requirements for the insurance industry. Life Insurance companies were to hold minimum paid up capital of 8.00 billion as at 31 December 2021. The new minimum paid up capital requirements were suspended by NAICOM at the time of writing this report. Below, we show what the CAR cover would have been on the proposed new capital requirements.

Capital Item Amounts in N'000	2023	2022
Total Admissible Assets	36,536,545	18,182,567
Total Liabilities	28,667,009	11,340,897
Solvency Margin	7,869,536	6,841,670
Minimum Regulatory Capital	8,000,000	8,000,000
15% of Net Premium	1,088,525	9,753,483
Regulatory Capital	8,000,000	9,753,483
Statutory CAR Cover	98%	70%

7.6. The CAR would have been estimated at 0.98 as at 31 December 2023 up from 0.70 times as at 31 December 2022. Based on the proposed capital requirements, the Company would not have met the regulatory requirements from a solvency perspective as at 31 December 2023.

8. Pricing and Premium Adequacy

Pricing Policy

8.1. Heirs Life has in place an underwriting policy which provides guidelines for acceptable life underwriting practice in the Company. The policy provides the procedures, documents to be relied upon, performance measures and the risk and controls to be employed in the underwriting process.

8.2. The document covers the business acquisition process including its interaction with other units in the organization such as reinsurance, IT and customer service. In particular, the document provides guidance on management of new business, management of renewal business, risk acceptance criteria and approval limits.

8.3. The Company also has an Underwriting Risk Management Policy in place which is intended to address the management of exposures in light of business strategies and other management policies put in place by the Company.

Premium Adequacy

8.4. The table below indicates key financial ratios for Heirs Life for the financial year ended 31 December 2023. The corresponding statistics from the previous year have been included for comparative purposes.

Ratios	31-Dec-23	31-Dec-22
Loss Ratio	43.81%	13.51%
Expense Ratio	72.46%	22.60%
Combined Ratio	**116.27%**	**36.11%**

8.5. The above statistics indicate that the overall mix of exposure for the Company results in a loss due to a combined ratio above 100%.

8.6. High-level analysis of the financial statements to understand the movement in the combined ratio revealed the unusual jump in the Changes in Unearned Premium Reserve, which impacted the net premium earned amount, despite the overall growth in the gross written premium.

8.7. Overall, the combined ratio increased from 36.11% as at 31 December 2022 to 116.27% as at 31 December 2023. A combined ratio of above 100% indicates that the premium rates being charged are not sufficient to handle the claims and expense experience arising.

8.8. We recommend that in order to effectively assess the premium adequacy of Heirs Life, a profit test analysis of the business in force has to be carried out. The exercise involves projecting to maturity future cash flows in respect of the business in force based on the actual expected experience.

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8.9. The cash flows include all contractual outgo and income as well as the increase in statutory reserves for every period of projection. As the reserves held include risk margins, we expect that the margins are released as profits through the term of the policy. The discounted profits are then expressed as a proportion of the present value of future expected premiums in order to arrive at a profit margin of the business.

8.10. A positive profit margin indicates that the premiums are sufficient to cater for expenses and claims. The profit test exercise may be extended to assess the profitability of all policies in force as well as expected new business in an appraisal value calculation. This would serve as a granular check on the profitability of each type of product sold by the company, together with the actual drivers of the same.

8.11. An explicit analysis of surplus would further determine the parameters that are contributing to the profits, e.g. lapses being lower than expected could release profits.

9. Asset and Liability Management

9.1. The financial statements as at 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.

9.2. We provide below a summary of the balance sheet including the IFRS 17 results based on the IFRS 17 accounts produced by Heirs Life as at 31 December 2023 and the restated IFRS 17 2022 financials:

Financial Position	31 Dec 2023 N '000	Asset proportion	31 Dec 2022 N '000	Asset proportion
Financial investments	33,281,137	88%	15,962,180	84%
Reinsurance contract assets	278,318	1%	50,477	0%
Insurance Contract Assets	222	0%	-	0%
Trade receivables	83,239	0%	2,083	0%
Statutory deposit	800,000	2%	800,000	4%
Other receivables	381,387	1%	130,612	1%
Cash & Cash Equivalents	1,708,093	5%	838,251	4%
Property, Plant & Equipment	333,419	1%	247,848	1%
Other Assets	893,939	2%	1,009,079	5%
Total Assets	**37,759,754**	**100%**	**19,040,530**	**100%**
Insurance contract liabilities	22,201,429	77%	9,753,483	83%
Reinsurance contract liabilities	40,084	0%	33,894	0%
Investment contract liabilities	3,719,006	13%	1,087,855	9%
Trade Payables	1,655,632	6%	291,332	2%
Provisions & other payables	513,743	2%	170,862	1%
Lease liability	518,270	2%	467,296	4%
Income tax payable	18,845	0%	3,471	0%
Total Liabilities	**28,667,009**	**100%**	**11,808,193**	**100%**
Ordinary share capital	8,000,000		8,000,000	
Contingency reserve	339,679		142,200	
Retained earnings	753,066		(909,863)	
Total Shareholder's Equity	**9,092,745**		**7,232,337**	
Total Equity and Liabilities	**37,759,754**		**19,040,530**	

Assets

Valuation of Assets

9.3. For the purposes of this FCR, the assets have been taken into account at 100% of fair (or market) value. The value of assets as at 31 December 2023 was ₦37.760 billion (₦19.040 billion in 2022).

Asset Admissibility

9.4. The following assets held by Heirs Life are inadmissible for the purposes of demonstrating regulatory solvency under the existing solvency templates:

- Other receivables & prepayments
- Portion of financial assets at amortised cost
- Right of use asset

Liabilities

9.5. The Company underwrites life insurance and savings products for the individual and business markets. Please see section 4 for further details.

9.6. The life assurance liabilities held by the Company are primarily long-term and are all denominated in Naira.

9.7. The Company is exposed to foreign exchange currency risk primarily through transactions denominated in foreign currency, as well as currency fluctuations in its investments. The Company regularly reviews its investment policy with a view to taking advantage of the foreign exchange volatility and immunizing the liability obligations of the Company.

9.8. The currency, nature and term of the liabilities impact the assets that the Company should be investing in to reduce the risk of a mismatch between assets and liabilities.

Asset Liability Matching

9.9. The currency, nature, and term of the liabilities impact the assets that the Company should be investing in to reduce the risk of a mismatch between assets and liabilities.

9.10. Given that the Company's liabilities are primarily annuities with guaranteed payments, management should adopt an investment strategy that provides a stable return that meets the guaranteed and future survival pay-outs. 88% (84% in 2022) of the Company's invested assets comprises fixed interest securities.

9.11. The Company has none of its assets in equity, and investment property. Investment income from the two asset classes is characterized by high volatility and cannot be relied upon to always meet investment guarantees. However, Equity and Property provide real returns which are expected to increase in the long term. The assets, therefore, serve to provide higher returns compared to fixed interest securities that will allow the Company to make competitive interest additions to funds under administration and better claims experience being better than the benefits assumed. The company should consider investing a small part of its assets in equity and investment property for higher long-term returns.

9.12. Cash deposits that make up 5% (4% in 2022) of assets may not be sufficient to provide liquidity to match the short-term pay-outs expected due to claims and expenses.

9.13. An overall view of the balance sheet of Heirs Life shows that the company's assets give an acceptable level of matching to the expected liabilities.

Investment Policy

9.14. Heirs Life 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 the investment philosophies and objectives of the Company, and establishes appropriate investment guidelines for the strategic and operational execution of the Company's investment strategy, in order to ensure that investment opportunities are maximized, as they occur, within acceptable risk limits, while providing reasonable parameters to ensure prudence, attention to relevant market details, care in executing investment decisions and appropriate portfolio performance evaluation.

9.15. Furthermore, the Policy provides guidance for, expectations of, and limitations on all parties who are responsible for the Company's investment activities.

9.16. The Policy is subject to periodical reviews in order to reflect changes in market conditions, company objectives, risk profile or other factors relevant to the Company.

9.17. Overall, the Policy gives clear guidance on the investment process for the insurer's funds. The Policy is robust as it addresses key issues in the investment cycle.

9.18. The investment policy as approved by the Board shall be filed with the Commission on an annual basis.

Investment Objectives

9.19. The Company's primary investment objectives as stipulated in the Investment Policy as provided are outlined below in order of priority:

a) **Safety**: The Company recognizes that safety of overall capital and policyholder funds is paramount in the formulation of their investment policy.

b) **Diversification**: The investments will be diversified by asset class and security type in order to reduce the overall portfolio risk to any one security type or asset class.

c) **Liquidity**: The investment portfolio will remain sufficiently liquid to enable the fund to meet all future claims liabilities.

d) **Return on Investment**: The investment portfolio shall be designed with the objective of achieving a positive return, consistent with the appropriate investment income budget and at least above the annual liability of the fund, but at the same time taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

e) **Compliance with the Insurance Act 2003**: Apart from compliance with other regulatory circulars, the policy shall comply with the Insurance Act 2003.

f) **Accounting policy**: The investment policy shall also be in tandem with the approved accounting policy of the company

Investment Strategy

9.20. The Company's investment strategy aims to diversify the assets of the company broadly and expose different segments of the funds to different investment risks to achieve optimum returns on investments.

9.21. The Company shall adopt a balanced investment strategy in managing its investment portfolios (Policyholders Fund and Shareholders Funds), in order to ensure the realization of superior long-term risk adjusted returns on a consistent basis, in line with the Company's risk appetite and income target.

Duties and Responsibilities

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

9.23. **The Board** has the ultimate responsibility for overall oversight and over the management and overall investment performance of the Company. The Board will from time-to-time review and approve the investment policy as well as monitor compliance with the policy. The Board will also be responsible for approving certain level of investments as recommended by the Board Finance, Investment & General-Purpose Committee.

9.24. Further, there exists a **Finance, Investment & General-Purpose Committee** that implements the set policies and guidelines. The committee is tasked acting on behalf of the Board of Directors in the periodic oversight over the management and evaluation of the investment performance of the Company. The Committee shall consist of members of the Board with sound knowledge and broad experience in investment and portfolio management and shall be responsible for the review of recommendations from Executive Management and refer such recommendations for Board approval.

9.25. The **Executive Management Investment Committee** has the responsibility of the day-to-day management and execution of the investment policy and strategy of the Company as approved by the Board of Directors. The Committee shall comprise of the following:

a) Chief Executive Officer (CEO).

b) Executive Director – Technical

c) Chief Finance officer (CFO)

d) Chief Compliance and Risk Officer

e) Investment Manager

9.26. **The Investment Manager,** who reports directly to the CFO, shall:

a) Implement business investment strategy.

b) Prepare investment performance report.

c) Advice on investment options

d) Prepare periodic investment schedules.

e) Implement investment directives from EMIC.

f) Manage corporate finance issues

g) Manage financial risk as contained in the financial risk management framework.

h) Ensure compliance with NAICOM guidelines on investments

i) Any other investment-related functions as may be assigned from time-to-time by the management.

10. Reinsurance Arrangements

Reinsurance Management Strategy

10.1. The Company has a reinsurance risk management policy in place. The policy provides guidelines governing the Company's reinsurance strategy. The policy also considers the systems for the selection of reinsurers and retention.

10.2. The remainder of this section details the Company's reinsurance management practices.

Current Reinsurance Arrangements

10.3. Heirs Life Assurance Limited holds Treaty Reassurance arrangements with two companies;

- Africa Reassurance Corporation – 65%
- Continental Reassurance – 35%

Where the risk exceeds the treaty capacity or where no treaty exists, a facultative Reassurance arrangement will be used to fully place the risk.

Heirs Life's retention is arranged by class of insurance businesses that is; the retention level of Individual life will differ from Group Life.

The reassurance treaties are as summarised below:

Individual Life Contracts

	2023	2022
Retention Limit per Life	15,000,000.00	15,000,000.00
Treaty Capacity per Life	700,000,000.00	700,000,000.00
Underwriting Capacity	715,000,000.00	715,000,000.00
Reassurer and Proportion	AfricaRe - 65% Continental Re- 35%	AfricaRe - 65% Continental Re- 35%

Group Life Contracts

	2023	2022
Retention Limit per Life	20,000,000.00	20,000,000.00
Treaty Capacity per Life	700,000,000.00	700,000,000.00
Underwriting Capacity	720,000,000.00	720,000,000.00
Reassurer and Proportion	AfricaRe - 65% Continental Re- 35%	AfricaRe - 65% Continental Re- 35%

Credit Life Contracts

	2023	2022
Retention Limit per Life	20,000,000.00	20,000,000.00
Treaty Capacity per Life	700,000,000.00	700,000,000.00
Underwriting Capacity	720,000,000.00	720,000,000.00
Reassurer and Proportion	AfricaRe - 65% Continental Re- 35%	AfricaRe - 65% Continental Re- 35%

The retention limit is determined by considering the following factors,

- Paid up capital - Retention will be determined by 5% of HLA's paid-up capital or between the greater of 10% - 15% of annual Net premium income
- Contingency Reserves
- Premium Income in the preceding year
- Underwriting Experience and Portfolio size
- Loss ratios for the preceding underwriting year
- Heirs Life Assurance's Strategy

Placing Reinsurers

10.4. Heirs Life has strict criteria for selecting Reassurance companies, including:

a) The leader of the Reassurance agreement must have a rating of AA+ or higher from S&P or equivalent from Fitch, Moody's, AM Best, or Agusto.

b) Reassurance participation in unlimited layers must have a rating of BBB+ or higher from S&P.

c) In each layer of the Reassurance agreement, any Reassurer participating with 10% or more must have a rating of BBB or higher from S&P.

d) At least 80% of the Reassurance coverage for each limited layer must be from Reassurance companies with a rating of BBB- or higher from S&P.

e) Any Reassurer with a rating lower than BBB- from S&P must not have contracted liabilities exceeding 10% of its own capital.

Additional criteria include: Availability, Price, Service, Security, Size (shareholders' surplus), Rating, Ownership, Retrocession, Long-tail lines, Maintaining continuity of relation and Quality of Retrocessionaires,

Management of Liquidity in terms of timing mismatches between recoveries and payments

10.5. The treaty provides that in the event of a claim, Heirs Life pays the full amount to the claimant, and gets recovery from the Reassurers provided;

- The claim amount is beyond the retention limit.
- Proper reassurance arrangement was set in place at the inception of that policy (with the exception of cash calls).

Impact of Reinsurance on Insurance Service Result

10.6. We assessed the impact of the reinsurance arrangements on Heirs Life's performance over the last two years based on the IFRS 17 results over these periods as shown below.

Reinsurance Impact	31 Dec 2023 N'000	31 Dec 2022 N'000
Insurance Service		
Insurance Service Revenue	7,256,831	3,764,728
Insurance Service Expense	(6,011,655)	(2,928,497)
Insurance service result before reinsurance (A)	1,245,176	836,231
Reinsurance		
Reinsurance Costs	(360,235)	(364,833)
Reinsurance Recoveries	315,880	141,888
Reinsurance Service result (B)	(44,355)	(222,944)
Insurance Service Result (C) = (A) + (B)	1,200,821	613,287
Ratios		
Reinsurance Cost/Insurance Service Revenue	4.96%	9.69%
Reinsurance Recoveries/Insurance Service Expense	5.25%	4.85%

10.7. Based on the 2023 results, the proportion of reinsurance cost incurred to the reinsurance service revenue decreased to 4.96% from 9.69% in 2022 wile the recoveries increased to 5.25% from 4.85% in 2022. Even though the reinsurance impact in 2023 shows an improvement in performance, the recoveries in both years were not commensurate with the reinsurance costs incurred by the Company.

10.8. We recommend Heirs Life undertake a comprehensive analysis of the reinsurance contracts in place to assess their cost versus benefit as well as value for money to the Company.

Actuary's Opinion

10.9. We recommend that Heirs Life undertake a reinsurance optimization exercise to ensure that its retentions are at an appropriate level to cover its claims and expenses in the future as well gain from the reinsurance arrangements in place.

10.10. We recommend that Heirs Life develops metrics to be adopted for the performance review of the reinsurance contracts held. This might include setting thresholds for key ratios as highlighted above.

11. Risk Management

Risk Management Strategy

11.1. This section provides a high-level 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.

11.2. 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.

11.3. 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

11.4. The major focus of the Company's ERM Framework is to ensure that the risk management framework is appropriate to the size of the organization, aligned with the strategy, embedded in the decision-making process, and is responsive to the Company's constantly changing environment.

11.5. The following objectives serve as a basis of assessment for the Company's risk management performance:

a) Provide the Company with a centralized, overlapping, and cross-functional strategy for identifying and mitigating the organization's biggest risks.

b) Define risk governance structure, roles, and duties of key stakeholders.

c) Assist the Company achieve its strategic goals by systematically identifying, assessing, and managing risks using a standard vocabulary and simple-to-use methodologies.

d) Integrate risk management into the Company's risk-aware culture, routine processes and operations, strategic planning, and decision-making.

e) The Company conducts risk assessments carefully, thoughtfully, and openly with full support from the Executive Management and sponsorship from the Board of Directors.

11.6. The Risk Management Strategy refers to the Company's strategy with regards to the types of business and risks that it is willing to participate in and provides guidance on the approach to measuring and managing risk and return, which is consistent with the overall business strategy.

11.7. NAICOM's guidance on risk management requires that all insurers within the Nigerian insurance market develop a Risk Management Strategy. The Company confirmed that the Risk Management Strategy utilized is embedded in the Risk Management Framework.

11.8. Management identified the main risks the company is exposed to as being Insurance Risks, Operational Risks, Financial Risks, Credit Risks, Liquidity Risks, Reinsurance Risks, Regulatory Risks and Market Risks

11.9. The company also intends to improve the risk management framework by the following:

a) Risk Technology and Digitization Plan: The risk technology aims to enable the business to assess risk objectively and timely to support strategic business decision-making. Pursuing a long-term digital initiative is aimed at delivering an integrated risk management system (IRMS) to manage the Company's risk database for financial and non-financial risk data, analyses, models, and reports.

b) Policies and Processes Plan: Heirs Life continues to develop a customized approach to risk management and embedding proactiveness in risk actions and advocacy. The Company will continually drive to promote a shift from a reactive risk management culture to a proactive risk management culture.

c) People and Culture Plan: Heirs Life will continue to empower its people to efficiently control and mitigate against disruptions and controllable events under normal and stressed conditions. This will involve integrating risk management activities into daily and routine business operations to eliminate surprises resulting in financial and/or non-financial loss to the business.

d) Governance and Reporting Plan: The Company continues to implement the three lines of defense rule designed by the COSO Enterprise Risk Management Framework as directed by NAICOM.

Risk Appetite Framework

11.10. The Company has a risk appetite framework that articulates its appetite for Insurance Risks, Operational Risks, Financial Risks, Credit Risks, Liquidity Risks, Reinsurance Risks, Regulatory Risks and Market Risks. The Company's risk appetite establishes key risk metrics for the Board of Directors' review. This report is discussed with the Board quarterly and filed with NAICOM as required

Risk Governance

11.11. The Company adopts a Risk Governance structure that encompasses all organizational levels. Heirs Life employs the three lines of defence model with individual and collective oversight functions. These are outlined below.

Three Lines of Defence Model

11.12. The Company has adopted the three lines of defence model for its risk governance framework, specifying roles and responsibilities for each line of defense and ensuring independence of the parties involved.

11.13. The following table provides a brief summary of the model:

Line of Defence	Parties Responsible
First line of Defence	▪ Risk Champions (Departmental Risk Supports) ▪ Business Units ▪ Executive Management
Second line of Defence	▪ Management ERM Committee
Third line of Defence	▪ Board Audit Committee ▪ Management Audit and Compliance Committee ▪ Internal Audit

Below are the stakeholders and their respective responsibilities:

- **Board of Directors**: Directs and formulates the risk management framework, approves risk appetite, and monitors significant risks.
- **CEO:** Ensures effective ERM structure and monitors top risks.
- **Executive Management Risk Committee**: Validates risk register, oversees risk processes, participates in ERM training, addresses risk management barriers, develops reporting protocols, establishes ERM policies, and reports quarterly to the Board.
- **Chief Risk Officer**: Develops and implements ERM policies, establishes risk management processes, promotes ERM competence, oversees departmental risk limits, facilitates reporting, and ensures regulatory compliance.
- **Internal Audit**: Audits risk management activities, supports risk management, and assesses internal controls.
- **Heads of Department**: Manage and report risks, execute risk guidelines, identify, and assess risks, monitor activities, report risk status, and facilitate risk training.
- **Risk Champions**: Facilitate risk identification, ensure consistent scoring, support risk analysis, develop risk responses, maintain risk register, coach team members, and contribute to risk management improvement.

Risk Management Process

Risk Identification

11.14. The Company uses business processes to extract risk factors and the Risk Register to document the risk factors accordingly.

11.15. The various methods or techniques that are utilised as part of the risk identification process includes Workshops and Brainstorming sessions, Stakeholder Interviews Questionnaires and Surveys, Root Cause Analysis, Assumption Analysis, Scenario Analysis Business process Analysis, Document Reviews and Benchmarking.

11.16. As a next step, all risks that are identified during the risk identification process are assessed. The assessment is conducted through Desktop-based assessments, facilitated workshops, Structured interviews and Questionnaires.

11.17. As part of the assessment process all risks are assigned a probability of occurring and the expected impact on the Company if the risk should materialize. A residual risk rating is calculated by taking the effectiveness of the respective risk controls into account.

11.18. The assessment of the various risks is used as an input into deciding how that risk needs to be managed. A qualitative assessment method is adopted that assigns "Rare", "Unlikely", "Possible", "Likely and "Almost Certain" to the likelihood of occurrence. Similarly, the Impact is assigned a rating of "Insignificant", "Minor", "Moderate", "Major" and "Catastrophic".

Risk Mitigation

11.19. Following the assessment of the risks within the Company, the appropriate risk management techniques and various control mechanisms are identified for each risk. As part of the process, it is ensured that those risks that are retained are managed to be within the Company's risk appetite and available resources.

11.20. Risk management and mitigation decisions include Risk Tolerance; Risk Avoidance and Risk Transfer/ Sharing.

11.21. The 2023 Financial Statements specify how Insurance Risks, Underwriting Risks, Market Risks, Liquidity Risks, Concentration Risks are mitigated. The Company has identified the following main risk types and the method of management for these risks:

Risk	Risk Management Process
Insurance Risk	▪ The Company enforced the 'no premium, no insurance cover' rule by NAICOM ▪ Periodic policy issuance and claims settlement reviews were carried out ▪ Process enhancements through automation of underwriting and claims processes.
Underwriting Risk	▪ All alterations to life insurance products must pass through the approvals framework that is part of the governance process. The statutory actuary certifies that new and revised products are financially sound. ▪ The Company's underwriting strategy seeks to diversify its underwriting risks in terms of type (medical, occupational, and financial) and amount of risk covered. In spite of the difficulty of measuring this at the underwriting stage, the success or failure of a strategy can be determined by the historical consistency of profits emerging from the book of business. ▪ Prior to issuance, premium rates must be certified by the statutory actuary as being financially sound. ▪ At least every six months, investigations into mortality and morbidity experience are conducted to ensure that corrective action is taken where necessary.
Market Risk	▪ The Company holds 80% of its investment in government bonds and treasury bills, 13% in money market placements, and 7% in corporate bonds. This distribution enables the business to comply with NAICOM's prudential guidelines and protect the invested funds to enhance business profitability.

Risk	Risk Management Process
	▪ The imminent switch to risk digitization will enable the Company to conduct Value-at-Risk (VaR) analysis and stress testing with the integration with the investment database.
Liquidity Risk	▪ The Company actively monitors its liquidity management processes using risk indicators such as stressed liquidity coverage ratio (LCR), net stable funding ratio (NSFR), liquidity ratio (LR), and stock of the quality and level of high-quality liquid assets (HQLA) ratio. ▪ The risk management team monitors the assets-liabilities mismatches and the gaps management.
Concentration Risk	▪ Depending on the nature of contract being written, the company utilizes standardized mortality basis tables to guide its premium pricing and underwriting decisions.
Capital Adequacy Risk	▪ The Own Risk and Solvency Assessment (ORSA) process at Heirs Life identifies, assesses, monitors, manages, and reports risk exposures, ensuring the necessary own funds to meet capital adequacy and solvency requirements. ▪ The Company regularly assesses capital adequacy across various assets, liabilities, and risks, taking necessary actions to maintain its capital position. The company's capital management approach includes setting target risk-adjusted rates of return to align with performance objectives and enhance shareholder value.

Risk Monitoring

11.22. The Company monitors its risks to ensure the Company's risk priorities and risk treatment plans remain relevant. The Chief Risk Officer oversees risk assessment, reporting, monitoring, and communication. The goal of reporting is to compare actual risk exposures to risk appetite, with updates provided to the Board of Directors, Senior Management, and designated committees (such as the Executive Management Committee, Management Finance & Investment Committee, Management Technical Committee, Management Audit & Compliance Committee, or IT Steering Committee) as part of their oversight roles and to receive assurance that risks are being managed within approved risk thresholds.

Risk Reporting

11.23. Reporting enables the decision-makers to evaluate potential risks in a timely manner. All business units are responsible for documenting and reporting identified risks through their Risk Champions.

Material Risks Identified

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

Insurance Risk

Heirs Life is exposed to the following elements of insurance risk, with varying levels of exposure:

- Mortality Risk – The Company is exposed to the risk of actual mortality rates being higher than the assumed rates in the pricing of products. This would represent higher death pay-outs than expected.

- Longevity Risk – The Company's biggest book is the annuity book. The annuity book is exposed to the risk of the annuitants living longer than expected as per the pricing basis of the annuities, representing higher pay-outs than expected.

- Expense Risk – The Company is exposed to the risk of the actual expenses incurred exceeding the assumed expenses in the valuation of the liabilities. The assumed renewal expenses per policy basis need to be monitored to ensure they truly represent the actual experience. A high expense ratio could be curbed by either reducing operational costs or writing more business to cover the fixed expenses of the company while making sure that expenses do not increase at the same pace as business written. We urge Heirs Life to continue growing its individual life book to support its expenses. This also includes the risk of assumed expense inflation rates being lower than actual inflation rates given the observed consistent increase in inflation rates over the years.

- Lapse Risk – The Company's lapse experience affects the spread of fixed expenses as well as the premium received, and withdrawal benefits paid by the company. There is a significant risk associated with failure to sufficiently account for lapses, as provisions made are sensitive to changes in assumed lapse rates. Withdrawal risk is crucial because it affects the number of policies in force and hence the spread of per policy expenses. We would also urge the Company to carry out a lapsation analysis in on a regular basis while monitoring the experience.

11.25. The Company needs to conduct internal investigations to check the appropriateness of the actuarial assumptions. This would assess the actual experience of the company with respect to the parameters above, guiding on the most appropriate valuation assumptions and reduce the chance of understating of the company's reserves.

11.26. In addition, value of in-force and value of new business actuarial calculations combined with proper analysis of surplus (AoS) would guide the company on the actual drivers of it's profitability from the above parameters, guiding on the correct course of action to be taken.

Credit Risk

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

Reinsurance Risk

11.28. Our high-level analysis of the reinsurance strategy in place revealed that the existing reinsurance arrangements have led to an unfavourable reinsurance impact.

11.29. The reinsurance service ratio was 87.69% and 38.89% as at 31 December 2023 and as at 31 December 2022 respectively. For both years, the ratio is below 100% indicating that the expenses to the reinsurers exceeded the income from the reinsurance arrangements. We recommend that going forward, Heirs Life reconsider its reinsurance arrangements in place as at 31 December 2023.

Liquidity Risk

11.30. Whereas as a going concern, Heirs Life 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

11.31. 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.

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

Operational Risk

11.33. Operational risk is the risk of loss from failure of internal processes, systems and people. When offering insurance services, there's a risk that systems may fail to accurately capture policy data or provide the latest information on policyholders.

11.34. Due to the dynamic nature of this risk, the company should monitor each of these risk components (people, systems and processes) regularly and review the risk management measures to ensure any arising issues are adequately dealt with. Measures that may be considered include regular and updated business training of the employees, adoption of efficient systems and processes as well as regular reviews and updates of the same.

Investment Risk

11.35. Management should consider setting up bonus stabilisation and the cost of guarantee reserves to manage investment risk. A bonus stabilisation reserve will allow the company to smooth bonuses (interest additions) declared over time and manage policyholder expectations. We, however, note that the investment returns achieved by the Company historically have been sufficient to cover the cost of guarantee and bonuses. An asset liability matching exercise should also be undertaken to reduce investment risks associated with mismatching assets and liabilities.