zamara
Powering Prosperity

MUTUAL BENEFITS LIFE ASSURANCE LIMITED

Financial Condition Report as at 31 December 2022

August 2023

Contents

1. Executive Summary ... 3
1.1. Financial Performance ... 3
1.2. Material Risks Identified ... 5
1.3. Recommendations ... 6
1.4. Status of Prior Year Recommendations ... 7
1.5. Conclusion ... 8
2. Information Requirements ... 9
2.1 Data Obtained ... 9
2.2 Reliance and Limitations ... 9
3. Business Overview ... 10
3.1. Company Overview ... 10
3.2. Products ... 10
3.3. Recent Experience and Profitability ... 12
3.4. Deviations from Budgeted Plans ... 14
3.5. Business Plans ... 15
4. Financial Position and Solvency Management ... 17
4.1. Results of the Actuarial Valuation ... 17
4.2. Adequacy of Past Estimates of Insurance Liabilities ... 18
4.3. Solvency ... 20
5. Premium Adequacy ... 21
5.1 Premium Adequacy ... 21
6. Asset and Liability Management ... 22
6.1. Assets ... 22
6.2. Liabilities ... 22
6.3. Asset Liability Matching ... 23
7. Reinsurance Arrangements ... 24
7.1. Reinsurance Strategy ... 24
7.2. Reinsurance Impact ... 24
8. Risk Management Strategy ... 26
8.1 Material Risks Identified ... 26
8.2 Recommendations ... 28
Conclusion ... 29
Appendix 1: Data Reconciliation ... 30

1. Executive Summary

This Financial Condition Report ("FCR") sets out the results of the analysis of the financial condition of Mutual Benefits Life Assurance Limited ("Mutual Benefits" or "the Company") as at 31 December 2022. Where available, this report includes an analysis of the financial progress since the previous financial year end. The Company has contracted Zamara Consulting Actuaries Nigeria Limited to provide actuarial services. In terms of this arrangement, Nikhil Dodhia, is the appointed actuary.

The FCR is limited to the Mutual Benefits Life Assurance Limited information not the consolidated Mutual Benefits information.

1.1. Financial Performance

The table below summarises the profitability of Mutual Benefits as at 31 December 2022 alongside that as at 31 December 2021 Key financial ratios have also been included that can be used to assess the trends in the business.

REVENUE ACCOUNT	31-Dec-22 ₦ '000	31-Dec-21 ₦ '000
Gross premium written	13,722,030	11,617,005
Gross premium income	14,204,243	10,079,103
Premium ceded to reinsurers	(513,375)	(703,624)
Net premium income	**13,690,868**	**9,375,479**
Fees and commissions	64,215	68,683
Net underwriting incomes	**13,755,083**	**9,444,162**
Net benefits and claims	6,439,857	4,751,142
Changes in individual life fund	473,709	850,885
Changes in annuity reserve	(21,083)	46,196
Underwriting expenses	3,518,293	2,420,132
Net underwriting expenses	**10,410,776**	**8,068,355**
Underwriting profit	**3,344,307**	**1,375,807**
Profit on investment contracts	(797,491)	397,679
Investment incomes	1,325,638	518,249
Net fair value gains/(loss) on assets at FVTPL	(40,373)	(4,132,749)
Other income	259,308	17,736
Impairment loss on financial assets	(220,768)	310,124
Employee benefit expenses	(699,827)	(626,654)
Other management expenses	(1,351,465)	(1,033,019)
Result in operating activities	**1,819,329**	**(3,172,827)**
Finance costs	-	-
Finance income	-	-
Profit before income tax	**1,819,329**	**(3,172,827)**
Income tax(expense)/benefit	57,004	(37,594)
Profit from continuing operation	1,876,333	(3,210,421)
Net profit	1,876,333	(3,210,421)

Ratios

Net Claims Ratio (Including Change in the life fund)	50.3%	60.2%
Underwriting Expense Ratio	25.7%	25.8%
Net Combined Ratio	76.0%	**86.1%**

From the above, there has been an increase of ₦5billion in profit, from a loss of ₦3.2billion in 2021 to a profit of ₦1.8billion in 2022 which represents a 158% increase. The observed increase is attributed to the increase in gross premium written, and resultantly, increased underwriting profit, despite the increase in net underwriting expenses. An increase in investment income also contributed to the increase in profits.

The gross written premium increased by 18% over the year, from ₦11.6billion in 2021 to ₦13.7 billion in 2022 which may be attributed to the increase in the Group Life business.

Net benefits and claims increased from ₦4.8 billion in 2021 to ₦6.4 billion in 2022 representing an increase of 36% caused by an increase in claims paid.

The underwriting expense ratio remained fairly stable, moving by 0.1% from 25.8% in 2021 to 25.7% in 2022. While this is commendable, the expense ratio should be closely monitored as it slightly exceeds the ideal range which should be between 15%-25%. Management should tighten expense controls by implementing effective cost cutting measures to reduce the expense ratio to appropriate levels.

Investment income increased from a loss of ₦407 million in 2021 to a gain of ₦5 billion in 2022 majorly due to a reduction in fair value losses in 2022. The table below provides a breakdown of the investment income over the past 2 years:

Investment income ₦ '000	2022	2021
Income from investment Contracts	3,794,744	3,207,573
Investment income	1,325,638	518,249
Fair value gains/ (losses)	(40,373)	(4,132,749)
Total Investment income	5,080,009	(406,927)

1.1.1. Net Assets

The following table summarises the Net Assets of the Company:

Asset Class ₦ '000	31 December 2022	%	31 December 2021	%
Fixed interest	39,404,982	65%	36,286,595	67%
Property	5,245,000	9%	6,035,000	11%
Equity	435,573	1%	413,393	1%
Cash deposits	10,607,438	17%	6,923,714	13%
Statutory Deposit	200,000	0%	200,000	0%
Invested assets	**55,892,993**	92%	**49,858,702**	92%
Reinsurance recoveries	1,972,640	3%	1,426,918	3%
Other balance sheet assets	3,115,572	5%	2,772,076	5%
Total Assets	**60,981,205**	100%	**54,057,696**	100%
Insurance and Investment Liabilities	(46,339,836)		(41,900,805)	
Current Liabilities	(2,515,970)		(1,930,005)	
Net Assets	**12,125,399**		**10,226,886**	

Total Assets increased by 13%, from ₦54 billion in 2021 to ₦60.9 billion in 2022. This overall rise can mainly be attributed to increases in the value of fixed interest assets and the amount of cash and cash equivalents held by the Company. These ensured the rise in Net Assets despite an increase in insurance and investment liabilities and the value of current liabilities for the reporting period.

1.2. Material Risks Identified

The following section summarises the key risks faced by Mutual Benefits, as well as their impact and implications, based on our reviews as the Appointed Actuary:

1.2.1 Counterparty Default Risk

Mutual Benefits has entered reinsurance arrangements. There is a risk of the reinsurer defaulting on their obligations to Mutual Benefits. This can be managed by regularly monitoring the credit rating and obligation settlement record of reinsurers to ensure it is at the required levels.

1.2.2 Insurance Risk

Mutual Benefits 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 has an annuity book that 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. Mutual Benefits' expense ratio (including commissions ratio) as at 31 December 2022 is 26.2%. This is commendable although slightly above the ideal range for Expense Ratios, which is within 15%-25%. Expense ratios could be lowered 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 MBA 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. The expense ratio of the Company should be constantly monitored, as high expense ratios could hinder its solvency levels in the future.

- Regulatory Risk – Based on the National Insurance Commission of Nigeria's (NAICOM) previously proposed capital requirements for the insurance industry, Life Insurance companies were required to hold a minimum paid up capital of ₦ 8.00 billion, and general insurance companies to hold minimum of ₦ 10.00 billion as at 31 December 2021. It is therefore important for the business to understand how shocks brought about by similar regulation would impact the company's solvency position going forward.

1.2.3 IFRS 17 Compliance Risk

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.

Further, whilst the company is making progress towards transition and implementation of IFRS 17, there is a risk of the company not being ready to produce IFRS 17 reports within the required timelines.

1.2.4 Investment Risk

The Company's product offering includes policies with significant guaranteed rates of return. This exposes the Company to the risk that the actual investment return achieved is insufficient to meet guaranteed interest rates – Investment returns risk. This risk is also material as it concerns returns from securities Mutual Benefits has invested in. The Company is exposed to material risks as a downturn in economic conditions could result in lower investment returns, negatively impacting profits and generating operational losses.

1.2.5 Reinsurance Optimisation

Our high-level analysis of the reinsurance strategy in place revealed that the overall reinsurance arrangements were optimal for the year ended December 2022. This is evident from the gross loss ratio being higher than the net loss ratio.

1.3. Recommendations

1.3.1 Insurance Risk

We recommend that the Company undertakes experience analysis investigations in order 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.

Management should continue to monitor the claims volatility and deteriorations in their business 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.

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 business.

1.3.2 Investment Risk

Management should consider setting up bonus stabilisation and cost of guarantee reserves in order to manage investment risk. A bonus stabilisation reserve will allow the company to smooth bonuses (interest additions) declared over time and manage policy holder expectations. An asset liability matching exercise should also be undertaken in order to reduce investment risks associated with mismatching assets and liabilities.

1.3.3 Reinsurance Optimisation

We recommend that the company conducts a reinsurance optimisation exercise so that they can benefit fully from their reinsurance arrangements.

1.3.4 Asset Liability Matching

We recommend the Company considers performing annual Asset Liability Matching ("ALM") exercises to ensure that the assets held are best suited to the liabilities. This will also help to ensure that the Company can identify the level of its free assets (not required for matching purposes) that can be allocated to higher yielding investment classes for the purpose of maximising investment returns. ALM exercises will assist in effective planning that will mitigate the risk of the Company incurring heavy operational losses in the event of a severe economic downturn. In effect, it will aid the management of investment risks and insurance risks, particularly claims risks.

1.3.5 Sensitivity Analysis

The Company is exposed to Interest Rate, Expense and Expense Inflation risks. We recommend the Company undertakes experience analysis to assess the appropriateness of the valuation assumptions adopted and hence the sufficiency of reserves held. As experience is constantly monitored through sensitivity analyses, it will aid in effectively managing insurance and investment risks, ensuring the Company is in a position to effectively handle insurance claims, investment liabilities and operational expenses.

1.4. Status of Prior Year Recommendations

The following is a summary of the status of the key recommendations made in the 2021 FCR:

Recommendation	Status	Comment
Conducting Experience Analyses	Amber	This continues to be a point of focus for the company, as experience investigation analyses are yet to be conducted
Setting up an investment guarantee reserve	Amber	The Company is yet to set up an investment management guarantee reserve.

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

1.5. Conclusion

I, Nikhil Dodhia, acting in my capacity as the Appointed Actuary, certify that, as at 31 December 2022, this Financial Condition Report for Mutual Benefits Life Assurance Limited has been prepared in accordance with the guidelines issued by the National Insurance Commission ("NAICOM") and generally acceptable actuarial principles.

Nikhil Dodhia
Mutual Benefits Life Assurance Limited
Appointed Actuary

FRC No: FRC/2022/004/00000024023

2. Information Requirements

2.1 Data Obtained

The following data was received from Mutual Benefits in order to complete the FCR:

- Audited financial statements as at 31 December 2022 for the 2022 financial year.
- Audited financial statements as at 31 December 2021 for the 2021 financial year.
- Actuarial valuation of the Life Fund report as at 31 December 2022 prepared by Zamara.
- Mutual Benefits Financial Condition report as at 31 December 2021 prepared by Zamara
- Various documents relating to company governance structure and business plans for Mutual Benefits, including:
    - Mutual Benefits Life Assurance Limited Reassurance Management Strategy
    - Mutual Benefits Investment Strategy (2021)
    - Mutual Benefits Enterprise Risk Management (ERM) Framework
    - Mutual Benefits Shareholder Summary and Company Organogram

It was assumed that the data provided by the Company was correct, and a full audit of the data provided was not conducted.

2.2 Reliance and Limitations

This FCR is based on the life revenue accounts of the Company as at 31 December 2022, audited financial statements of the Company as at 31 December 2022, as well as the business plans and company information that were provided to Zamara.

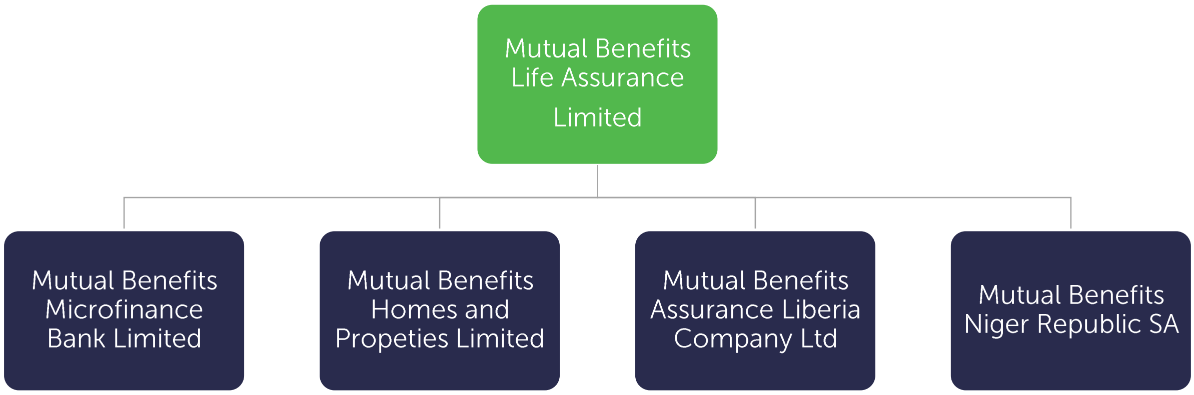
Zamara also conducted the Actuarial Valuation of the Life Fund as at 31 December 2022, the results of which are summarised in section 4 of this report.

3. Business Overview

3.1. Company Overview

Mutual Benefits Life Assurance Limited ("Mutual Benefits" or "the Company") is part of a group of Companies owned by Mutual Benefits Assurance Plc in Nigeria. Mutual Benefits Assurance Plc began operations in Nigeria in October 1995 as a private Company and became a public liability company in May 2001. Mutual Benefits Life Assurance primarily transacts life insurance with its Subsidiaries providing other financial services including Microfinance banking and General insurance.

Below is the Company structure of Mutual Benefits:



Mutual Benefits Life Assurance Limited ownership structure is as follows:

Shareholder	No of Shares	Percentage Shareholding
Mutual Benefits Assurance Plc	7,978,250,000	99.7%

3.2. Products

The Company underwrites the following life assurance products for individuals and businesses:

Group Products

- Group Term Assurance
- Deposit Administration Funds

Individual Risk Products

- Term Assurance
- Whole Life
- Anticipated Endowment
- Mortgage Protection
- Mutual Multi-Life Shield
- Mutual Education Endowment Plan
- Mutual Term Plus
- Mutual School Fees Guarantee Scheme

Individual Investment Products

- Children Education Plan
- Individual Savings and Protection Plan
- Micro-Pension and Investment Plan
- Mutual Benefit Life Investment Plan
- Mutual Micro- Pension Plan
- Mutual Dignity Plan
- Mutual Education Guarantee Plan
- Personal Pension and Investment Plan

Annuities

- Immediate Annuities
- Deferred Annuities

3.3. Recent Experience and Profitability

3.3.1. Revenue Accounts

The table below details the profitability of Mutual Benefits, as well as a comparison of Actual performance for the financial year ended 31 December 2022. Key financial ratios have also been included that can be used to assess any trends in the business.

REVENUE ACCOUNT	31-Dec-22 ₦ '000	31-Dec-21 ₦ '000
Gross premium written	13,722,030	11,617,005
Gross premium income	14,204,243	10,079,103
Premium ceded to reinsurers	(513,375)	(703,624)
Net premium income	13,690,868	9,375,479
Fees and commissions	64,215	68,683
Net underwriting incomes	13,755,083	9,444,162
Net benefits and claims	6,439,857	4,751,142
Changes in individual life fund	473,709	850,885
Changes in annuity reserve	(21,083)	46,196
Underwriting expenses	3,518,293	2,420,132
Net underwriting expenses	10,410,776	8,068,355
Underwriting profit	3,344,307	1,375,807
Profit on investment contracts	(797,491)	397,679
Investment incomes	1,325,638	518,249
Net fair value gain/(loss) on assets at FVTPL	(40,373)	(4,132,749)
Other income	259,308	17,736
Impairment loss on financial assets	(220,768)	310,124
Employee benefit expenses	(699,827)	(626,654)
Other management expenses	(1,351,465)	(1,033,019)
Result in operating activities	1,819,329	(3,172,827)
Finance costs	-	-
Finance income	-	-
Profit before income tax	1,819,329	(3,172,827)
Income tax(expense)/benefit	57,004	(37,594)
Profit from continuing operation	1,876,333	(3,210,421)
Net profit	1,876,333	(3,210,421)

Ratios

Net Claims Ratio (Including Change in the life fund)	50.3%	60.2%
Underwriting Expense Ratio	25.7%	25.8%
Net Combined Ratio	76.0%	86.1%

From the above, there has been an increase of ₦5billion in profit, from a loss of ₦3.2billion in 2021 to a profit of ₦1.8billion in 2022 which represents a 158% increase. The observed increase is attributed to the increase in gross premium written, and resultantly, higher underwriting profit, despite the increase in net underwriting expenses. An increase in investment income also contributed to the increase in profits.

The gross written premium increased by 18% over the year, from ₦11.6billion in 2021 to ₦13.7 billion in 2022 which may be attributed to the increase in the Group Life business.

Net benefits and claims increased from ₦4.8 billion in 2021 to ₦6.4 billion in 2022 representing an increase of 36% caused by an increase in claims paid.

The underwriting expense ratio barely changed, moving by 0.1% from 25.8% in 2021 to 25.7% in 2022. While this is commendable, the expense ratio should be closely monitored as it slightly exceeds the ideal range which should be between 15% -25%. Management should tighten expense controls by implementing effective cost cutting measures to reduce the expense ratio to appropriate levels.

Investment income increased from a loss of ₦407 million in 2021 to a gain of ₦5 billion in 2022 majorly due to improvement in fair value losses in 2022. The table below provides a breakdown of the investment income over the past 2 years:

Investment income ₦ '000	2022	2021
Income from investment Contracts	3,794,744	3,207,573
Investment income	1,325,638	518,249
Fair value gains/ (losses)	(40,373)	(4,132,749)
Total Investment income	5,080,009	(406,927)

3.3.2. Net Assets

The following table summarises the Net Assets of the Company:

Asset Class ₦ '000	31 December 2022	%	31 December 2021	%
Fixed interest	39,404,982	65%	36,286,595	67%
Property	5,245,000	9%	6,035,000	11%
Equity	435,573	1%	413,393	1%
Cash deposits	10,607,438	17%	6,923,714	13%
Statutory Deposit	200,000	0%	200,000	0%
Invested assets	55,892,993	92%	49,858,702	92%
Reinsurance recoveries	1,972,640	3%	1,426,918	3%
Other balance sheet assets	3,115,572	5%	2,772,076	5%
Total Assets	60,981,205	100%	54,057,696	100%
Insurance and Investment Liabilities	(46,339,836)		(41,900,805)	
Current Liabilities	(2,515,970)		(1,930,005)	
Net Assets	12,125,399		10,226,886	

Total Assets increased by 13%, from ₦54 billion in 2021 to ₦60.9 billion in 2022. This overall rise can mainly be attributed to increases in the value of fixed interest assets and the amount of cash and cash equivalents held by the Company. These ensured the rise in Net Assets despite an increase in insurance and investment liabilities and the value of current liabilities for the reporting period.

3.4. Deviations from Budgeted Plans

The table below identifies deviations in the financial performance of Mutual Benefits for the financial year ended 31 December 2022 relative to the budget for the same period.

Income Statement	2022 Actual ₦ '000	2022 Budget ₦ '000	Difference ₦'000	Difference %
Gross premium written	13,722,030	14,103,948	381,918	3%
Gross premium income	14,204,243	11,988,355	(2,215,888)	-16%
Premium ceded to reinsurers	(513,375)	(1,046,942)	(533,567)	104%
Net premium income	13,690,868	10,941,414	(2,749,454)	-20%
Fees and commissions	64,215	208,186	143,971	224%
Net underwriting incomes	13,755,083	11,149,600	(2,605,483)	-19%
Net benefits and claims	6,892,483	5,131,523	(1,760,960)	-26%
Underwriting expenses	3,518,293	2,911,918	(606,375)	-17%
Net underwriting expenses	10,410,776	8,043,441	(2,367,335)	-23%
Underwriting profit	3,344,307	3,106,159	(238,148)	-7%
Profit on investment contracts	(797,491)	980,400	1,777,891	-223%
Investment incomes	1,325,638	2,259,342	933,704	70%
Net fair value loss on assets at FVTPL	(40,373)	-	40,373	-100%
Other income	259,308	-	(259,308)	-100%
Impairment loss on financial assets	(220,768)	-	220,768	-100%
Employee benefit expenses	(699,827)	(1,762,581)	(1,062,754)	152%
Other management expenses	(1,351,465)	(1,187,682)	163,783	-12%
Result in operating activities	1,819,329	3,395,638	1,576,309	87%
Ratios				
Net Claims Ratio	50%	47%		
Underwriting Expense Ratio	26%	27%		
Net Combined Ratio	76.0%	73.5%		

The actual financial performance in 2022 overall fell short of the expected performance as per the 2022 budget projections as shown by the result in operating activities. This can be attributed to the shortfall in investment income and the loss on investment contracts.

3.5. Business Plans

Mutual Benefits developed a 4-year business plan from 2022. We have outlined below the main points of the second year of the budget:

Income Statement	2022 Actual	2023 Budgeted	Difference	Difference
	N'000	N '000	N'000	%
Gross premium written	13,722,030	17,160,858	3,438,828	25%
Gross premium income	14,204,243	14,586,729	382,486	3%
Premium ceded to reinsurers	(513,375)	(1,273,857)	(760,482)	148%
Net premium income	13,690,868	13,312,872	(377,996)	-3%
Fees and commissions	64,215	253,309	189,094	294%
Net underwriting incomes	13,755,083	13,566,181	(188,902)	-1%
Net benefits and claims	6,892,483	6,243,737	(648,746)	-9%
Underwriting expenses	3,518,293	3,543,051	24,758	1%
Net underwriting expenses	10,410,776	9,786,788	(623,988)	-6%
Underwriting profit	3,344,307	3,779,393	435,086	13%
Profit on investment contracts	(797,491)	1,115,280	1,912,771	-240%
Investment incomes	1,325,638	2,404,147	1,078,509	81%
Net fair value gain on assets at FVTPL	(40,373)	-	40,373	-100%
Other income	259,308	-	(259,308)	-100%
Impairment loss on financial assets	(220,768)	-	220,768	-100%
Employee benefit expenses	(699,827)	(1,445,102)	(745,275)	106%
Other management expenses	(1,351,465)	(2,107,097)	(755,632)	56%
Result in operating activities	1,819,329	3,746,620	1,927,291	106%
Ratios				
Net Claims Ratio	50%	47%		
Underwriting Expense Ratio	26%	27%		
Net Combined Ratio	76.0%	73.5%		

From the above projections, the top line is expected to grow by 25% from 2022 which implies a growth of ₦3.4 billion in written premiums corresponding to an increase of 3% in gross premium income. The expected growth in written premiums is to be supported by implementing the following action points of the business strategy in place:

- Establishing the brand of Mutual Benefits as the most customer focused insurance Company by establishing a platform of getting customer feedback and optimising key customer facing processes.
- Aggressive expansion of the customer base particularly in the retail segment by using alternative distribution channels.
- Recruitment, training, and retention of over 10,000 marketing agents

The proposed business growth strategy is reasonable given the Company's recent performance.

The projected claims ratio of 47% is reasonable. However, the realisation of this will also be dependent on adequate pricing regarding making sufficient allowance for expenses.

Overall, Mutual Benefits is expected to remain profitable, but management should continue focusing on controlling claims and management costs while monitoring its top-line and working on improving investment returns.

4. Financial Position and Solvency Management

Zamara conducted an actuarial valuation of the Life fund of Mutual Benefits as at 31 December 2022, and this section includes a summary of the analysis.

4.1. Results of the Actuarial Valuation

The tables below shows the results of the actuarial valuation of the Company's Life Fund as at 31 December 2022. The results of the valuation as at 31 December 2021 have also been provided for comparative purposes:

Published assets	31-Dec-22	31-Dec-21
Total assets from balance sheet	60,981,205	54,057,696
Less: Gross policyholder liabilities	46,339,836	41,900,805
Less: Current liabilities	2,515,970	1,930,005
Excess of assets over liabilities	12,125,399	10,226,886
Represented By		
Share Capital	8,002,500	8,002,500
Share Premium	-	-
Contingency Reserve	1,357,814	1,170,181
Fair value losses	(380,900)	(403,079)
Retained Income	3,145,985	1,457,284
Total	12,125,399	10,226,886

Actuarial liabilities for each class of business summarized in the table below;

Published assets	2022 Reserves ₦'000	2021 Reserves ₦ '000
Insurance Contract		
Individual Life	2,406,963	1,933,254
Annuities	353,810	374,893
Group Life	10,073,561	13,523,083
Investment Contract		
Individual investment contracts	32,476,754	29,335,421
Deposit Administration contracts	1,028,748	843,195
Total	**46,339,836**	**46,009,846**

There was a significant increase of actuarial reserves in respect to individual life assurances in 2022 of ₦474 million. The overall increase in reserves was mainly attributed to changes in the actuarial valuation of the group life contracts. Annuity reserves decreased following an upward revision of the valuation interest rate.

The observed decrease in Group Life reserves is attributed to the reduction in the volume of business.

An increase in the reserves of investment contracts follows from interest additions and deposits made over the year.

4.2. Adequacy of Past Estimates of Insurance Liabilities

The bulk of Mutual Benefits reserves comprise of investment contracts which make up 72% of the total reserves. Reserves held as at 31 December 2022 constituted policyholder contributions and interest earned to the date of the valuation which represent the full amount owed by the Company in respect to policy holder liabilities. The reserves were therefore sufficient. It was however recommended that the Company establishes an investment reserve in order to manage the investment risk associated with guaranteed interest rates.

For long term assurance contracts which make up 5.2% of the total liabilities, the adequacy of GPV reserves held depends on how closely assumptions adopted in the valuation represent the actual experience of the Company. If the actual experience of the Company turns out to be worse than that expected as per the valuation assumptions adopted, the reserves held will prove to be insufficient

There were three key assumptions on which computed reserves were based:

- Interest Rate Assumptions
- Expense Assumptions
- Mortality Assumptions

The assumed valuation rate of return was 11.8% for assurances and annuities. The interest rate was estimated using Mutual Benefits Life's expected investment income on life funds, which is 12% less a 0.25 basis point margin for reinvestment and credit risk.

Mortality assumptions for individual life assurances were based on SA 1956-62 ultimate mortality tables published on behalf of the Actuarial Society of South Africa (ASSA). For the valuation of annuitants' mortality, assumptions were based on SA 1985-90 ultimate mortality tables. The Company has not undertaken a mortality investigation analysis over the year to assess the suitability of the mortality assumptions. However, given that the volume of insurance risk business is relatively small, the volume of data available will not be sufficient to provide credible mortality rates for the Company to adopt. Overall, actual mortality rates should still be monitored relative to the expected rates as per the reserves held.

We tested the sensitivity of the reserves to various changes in the assumptions adopted and below are the results of the analysis:

Assumptions	Change in Assumption	Increase/(Decrease) in Liability ₦ '000
Mortality	10%	57,169
Longevity	10%	5,054
Lapse and Surrender	10%	(15,425)
Discount rate	1%	(136,009)
Mortality	-10%	(54,387)
Longevity	-10%	(4,819)
Lapse and Surrender	-10%	16,023
Discount rate	-1%	151,342

From the analysis above, the Company's insurance liabilities will reduce by ₦54.4 million if mortality decreases by 10%. The profitability of term assurance products is especially sensitive to changes in mortality rates. Management should consider incorporating appropriate risk margins on mortality assumptions used in pricing and reserving.

The value placed on liabilities is also significantly affected by the rate of return used. This is especially critical for annuities, the profitability of which depends on the investment return earned on assets backing the liabilities.

The results revealed that reserves decrease with an increase in lapses. This is true for term assurances as the policies lapse without value. For the anticipated endowments, however, the impact of lapses depends on the policy's duration in force as well as the value of the surrender benefits payable relative to the reserve.

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

To assess the adequacy of Group Life reserves, past claims should be analysed against reserves held. We recommend that the Company maintains proper records of claims data including claim amounts, dates of deaths, and reporting dates. The data will be used in carrying out IBNR and UPR sufficiency analyses.

Overall, we are confident that the reserves computed are adequate. We, however, recommend that the Company undertakes a detailed analysis of surplus exercise to assess the extent of the deviation of the actual experience from that assumed and to also make adequate provision including sufficient liquidity for partial maturity payments expected under the Anticipated Endowment product. This is especially crucial given that in 2022 majority of the policies underwritten in 2018 will be in their fourth year and therefore due to receive the first partial maturity payments.

4.3. Solvency

The statutory solvency position of the Company over the past two years is summarised below:

Published assets	31-Dec-22	31-Dec-21
	₦ '000	₦ '000
Total admissible assets from balance sheet	58,607,518	52,000,660
Less: Gross policyholder liabilities	46,339,836	41,900,805
Less: Current liabilities	2,515,970	1,930,005
Excess of assets over liabilities	9,751,712	8,169,850
Required Solvency Margin (max (N 2b, 15% net premiums)	2,000,000	2,000,000
Solvency Ratio	4.88	4.08

From the above, the solvency status of the Company reflects a surplus of ₦9.8 billion. This follows from the inadmissible assets held by the Company comprising, Deferred tax assets of ₦431 million, other receivables balance of ₦1.1 billion, investment in foreign equities of ₦722 million and deposit for equity shares in Mutual Microfinance Bank limited of ₦100 million.

The statutory basis also deducts from the current liabilities as the current liabilities increased to ₦2.5 billion from the prior year of ₦1.9 billion.

We understand that the Company was permitted by the regulator (National Insurance Commission "NAICOM") to hold as an admissible asset, its loan to Prime Exploration and Production Limited a year to July 2022.

The table below summarises the valuation results including the solvency status on a statutory basis:

Published assets	31-Dec-22	31-Dec-21
	₦ '000	₦ '000
Total assets from balance sheet	60,981,205	54,057,696
Less: Gross policyholder liabilities	46,339,836	41,900,805
Less: Current liabilities	2,515,970	1,930,005
Excess of assets over liabilities	12,125,399	10,226,886
Required Solvency Margin (max (N 2b, 15% net premiums)	2,000,000	2,000,000
Solvency Ratio	6.06	5.11

From the table above, the excess of assets over liabilities more than exceeded the required solvency margin of ₦2 billion up to 6.06 times. This implies that the Company is sufficiently capitalised. There is however a regulatory risk to which the Company is exposed relating to the admissibility of assets held in demonstrating solvency. We note that the restructured loan to Prime Exploration and Production Limited now expires in 2025.

5. Premium Adequacy

5.1 Premium Adequacy

The table below indicates key financial ratios for Mutual Benefits for the financial year ended 31 December 2022. The corresponding statistics from the previous year have been included for comparative purposes.

Ratios	31 December 2022	31 December 2021
Net Claims Ratio	50%	60.2%
Management Expense Ratio	26%	25.8%
Net Combined Ratio	76%	86.1%
Investment return	9.8%	-0.8%

The above statistics indicate that the overall mix of exposure for the Company results in a profit (combined ratio less than 100%). There was a higher investment return this year due to the reduction in net fair value losses which were much higher last year, resulting in the negative Investment return last year.

To effectively assess the premium adequacy of Mutual Benefits, 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 to the business in force based on the actual expected experience. 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 to arrive at a profit margin of the business.

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 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.

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.

6. Asset and Liability Management

6.1. Assets

6.1.1. Asset Classes

The table below shows the composition of the Company's assets between the various asset classes as at 31 December 2022. Corresponding statistics for the previous financial year are shown for comparative purposes.

Asset Class N'000	31 December 2022	%	31 December 2021	%
Fixed interest	39,404,982	65%	36,286,595	67%
Property	5,245,000	9%	6,035,000	11%
Equity	435,573	1%	413,393	1%
Cash deposits	10,607,438	17%	6,923,714	13%
Statutory Deposit	200,000	0%	200,000	0%
Invested assets	55,892,993	92%	49,858,702	92%
Reinsurance recoveries	1,972,640	3%	1,426,918	3%
Other balance sheet assets	3,115,572	5%	2,772,076	5%
Total Assets	60,981,205	100%	54,057,696	100%
Insurance and Investment Liabilities	(46,339,836)		(41,900,805)	
Current Liabilities	(2,515,970)		(1,930,005)	
Net Assets	12,125,399		10,226,886	

6.1.2. Valuation of Assets

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 2022 was ₦60.9 billion.

6.2. Liabilities

The Company underwrites life insurance products for the individual and business markets. Please see Section 3.2 for further details.

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

The Company has a significant book of long-term investment individual life policies whose sums assured comprise the full amount of policyholder contributions accumulated with accrued interest standing to the credit of the policyholder. Investment contract actuarial liabilities made up 72% of the total liabilities held.

Insurance risk liabilities form the remaining 28% of the Company's liabilities, which mainly comprise short term group life insurance liabilities. The proportion of long-term insurance liabilities relative to the Company's total liabilities is 5.2%. Long-term liabilities constitute actuarial reserves of annuities and assurances, a large proportion of which are guaranteed in monetary terms. A small portion of the long-term liabilities includes discretionary liabilities in respect to reversionary bonuses declared under the individual life anticipated endowment assurance.

6.3. Asset Liability Matching

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.

Given that the Company's liabilities are primarily investment linked with investment guarantees, management should adopt an investment strategy that provides a stable return that meets the minimum guarantee. 65% of the Company's total assets comprises fixed interest securities.

The Company also has as part of its assets, equity, and property that make up 10% of invested assets. Investment income from the two asset classes is characterised 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.

Cash deposits that make up the remaining proportion of 17% of assets may not be sufficient to provide liquidity to match the short-term pay-outs expected due to claims and expenses.

An overall view of the balance sheet of Mutual Benefits shows that the company's assets give an acceptable level of matching to the expected liabilities. However, we would recommend that a full Asset Liability Matching exercise is carried out to ensure that liabilities are well matched in the short, medium and long-term.

7. Reinsurance Arrangements

7.1. Reinsurance Strategy

The following sections are summarised from the Mutual Benefits Life Assurance Limited Reassurance Management Strategy.

7.1.1. Current Reinsurance Arrangements

- The retention is limited to a maximum of ₦25 million on individual life and Group Life Policies
- The non-medical limit on Individual life is ₦40 million and Group Life is ₦30 million
- The treaty capacity per individual Life Assured is ₦600 million

No changes have been made to the reinsurance arrangement from 2021.

In terms of management of Liquidity, Mutual Benefits Life is readily available to meet all obligations pending recovery from reinsurer.

7.2. Reinsurance Impact

The impact of reinsurance has been assessed by the difference between the gross and net loss ratios. A positive difference indicates reinsurance savings while a negative difference indicates that reinsurance arrangements in place may not be optimal. Between the years 2021 and 2022. In 2021, the reinsurance impact was -2.5% and this improved to 16.4% in 2022 indicating a positive impact.

The table overleaf provides the analysis for the year ending 31 December 2022 and the previous year.

	31 December 2022	31 December 2021
Gross Written Premium	13,722,030	11,617,005
Gross Earned Premium	14,204,243	10,079,103
Reinsurance Premium	(513,375)	(703,624)
Net Premium	13,690,868	9,375,479
Gross incurred Claims	8,700,179	5,598,661
Reinsurance Recoveries	(2,260,322)	(847,519)
Net incurred Claims	6,439,857	4,751,142
Commission's income	64,215	68,683
Gross Loss Ratio A	63%	48%
Net Loss Ratio B	47%	51%
Reinsurance Impact (A-B)	16.4%	-2.5%
Commission's income Ratio	0.5%	0.7%

The above statistics indicate that overall, the reinsurance arrangements seem to be sufficient for the year ended December 2022. This is due to the reinsurance net loss ratios being lower than the gross loss ratios. With the exception of 2021 that indicated a negative impact, the impact across the years has been positive and this is commendable. We recommend that management continue to monitor the impact of the reinsurance arrangements.

8. Risk Management Strategy

Mutual Benefits has adopted a formal Enterprise Risk Management Framework. We have summarised below the key points from the strategy:

- Empower all staff to proactively identify, control, monitor, and regularly report risk issues to management.
- Strengthen the risk management framework to fully support the strategic business units and the overall business strategy. The strategy is to develop an integrated approach to risk assessments, measurement, monitoring, and control that captures all risks in every area of the business activities.
- Drive overall corporate objective with emphasis on protecting the organization from risks while increasing its market share.
- Ensure the existence and appropriate implementation of a risk management process that is well articulated to identify, assess, measure, monitor and control all the identified risks elements.
- Develop detailed policies and guidelines to guide the management of claims risks, operational risks, market risks, investment risks, liquidity risks, and other identified risk types.

8.1 Material Risks Identified

The following summarises the key risks faced by Mutual Benefits, as well as their impact and implications, based on our reviews as the Appointed Actuary:

8.1.1 <u>Counterparty Default Risk</u>

Mutual Benefits has entered reinsurance arrangements. There is a risk of the reinsurer defaulting on their obligations to Mutual Benefits. This can be managed by regularly monitoring the credit rating and obligation settlement record of reinsurers to ensure it is at the required levels.

8.1.2 <u>Insurance Risk</u>

Mutual Benefits 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 has an annuity book that 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. Mutual Benefits' expense ratio (including commissions ratio) as at 31 December 2022 is 26.2%. This is commendable although slightly above the ideal range for Expense Ratios, which is within 15%-25%. Expense ratios could be lowered 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 MBA 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. The expense ratio of the Company should be constantly monitored, as high expense ratios could hinder its solvency levels in the future.

- Regulatory Risk – Based on the National Insurance Commission of Nigeria's (NAICOM) previously proposed capital requirements for the insurance industry, Life Insurance companies were required to hold a minimum paid up capital of ₦ 8.00 billion, and general insurance companies to hold minimum of ₦ 10.00 billion as at 31 December 2021. It is therefore important for the business to understand how shocks brought about by similar regulation would impact the company's solvency position going forward.

8.1.3 IFRS 17 Compliance Risk

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.

Further, whilst the company is making progress towards transition and implementation of IFRS 17, there is a risk of the company not being ready to produce IFRS 17 reports within the required timelines.

8.1.4 Investment Risk

The Company's product offering includes policies with significant guaranteed rates of return. This exposes the Company to the risk that the actual investment return achieved is insufficient to meet guaranteed interest rates – Investment returns risk.

8.1.5 Reinsurance Optimisation

Our high-level analysis of the reinsurance strategy in place revealed that the overall reinsurance arrangements were optimal for the year ended December 2022. This is evident from the gross loss ratio being higher than the net loss ratio.

8.2 Recommendations

8.2.1 Insurance Risk

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.

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.

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.

8.2.2 Investment Risk

Management should consider setting up bonus stabilisation and 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. An asset liability matching exercise should also be undertaken to reduce investment risks associated with mismatching assets and liabilities.

8.2.3 Reinsurance Optimisation

The reinsurance arrangements are deemed to be sufficient for the year ending December 2022. However, we recommend that the company carries out a reinsurance optimisation exercise so that they can benefit fully from their reinsurance arrangements, and to ensure consistent positive reinsurance impact on the business.

8.2.4 Asset Liability Matching

We recommend the Company considers performing annual Asset Liability Matching ("ALM") exercises to ensure that the assets held are best suited to the liabilities. This will also help to ensure that the Company can identify the level of its free assets (not required for matching purposes) that can be allocated to higher yielding investment classes for the purpose of maximising investment returns. ALM exercises will assist in effective planning that will mitigate the risk of the Company incurring heavy operational losses in the event of a severe economic downturn. In effect, it will aid the management of investment risks and insurance risks, particularly claims risks.

8.2.5 Sensitivity Analysis

The Company is exposed to Interest Rate, Expense and Expense Inflation risks. We recommend the Company undertakes experience analysis to assess the appropriateness of the valuation assumptions adopted and hence the sufficiency of reserves held. As experience is constantly monitored through sensitivity analyses, it will aid in effectively managing insurance and investment risks, ensuring the Company is in a position to effectively handle insurance claims, investment liabilities and operational expenses.

Conclusion

I, Nikhil Dodhia, acting in my capacity as the Appointed Actuary, certify that, as at 31 December 2022, this Financial Condition Report for Mutual Benefits Life Assurance Limited has been prepared in accordance with the guidelines issued by the National Insurance Commission ("NAICOM") and generally acceptable actuarial principles.

Nikhil Dodhia
Mutual Benefits Life Assurance Limited
Appointed Actuary

FRC No: FRC/2022/004/00000024023

Appendix 1: Data Reconciliation

The following data was received from Mutual Benefits in order to complete the FCR:

- Audited financial statements as at 31 December 2022 for the 2022 financial year.
- Audited financial statements as at 31 December 2021 for the 2021 financial year.
- Actuarial valuation of the Life Fund report as at 31 December 2022 prepared by Zamara
- Various documents relating to company governance structure and business plans for Mutual Benefits, including:
  - Mutual Benefits Assurance Life Limited's Reassurance Management Strategy
  - Mutual Benefits Investment Strategy
  - Mutual Benefits Assurance Company's Strategic Plan
  - Mutual Benefits Enterprise Risk Management (ERM) Framework
  - Mutual Benefits Shareholder Summary and Company Organogram

It was assumed that the data provided by the Company was correct, and a full audit of the data provided was not conducted.