YEAR 2024 BUSINESS OUTLOOK CONFERENCE

THEME: GOVERNANCE AND COMPLIANCE: SHAPING THE FUTURE OF THE FINANCIAL INDUSTRY

WEDNESDAY, FEBRUARY 21. 2024
ADMIRALTY CONFERENCE CENTER
NAVAL DOCKYARD LTD
VICTORIA ISLAND, LAGOS STATE.

The Interplay between Governance and Compliance in the Financial Industry, and the 2024 Budget: Implications for Economic Stability and Growth

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Year 2024 Business Outlook

February 21, 2024

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Introduction

- In the intricate ecosystem of the financial industry, the dynamic interplay between governance, compliance, and the national budget forms the cornerstone of economic stability and growth.

- This presentation will therefore, delve into the symbiotic relationship among these key elements, exploring how their alignment or divergence can significantly shape the trajectory of economies and financial markets.

Governance

- Processes, structures, and mechanisms through which organizations, institutions, or societies are directed, controlled, and managed.
- It encompasses the rules, norms, and practices that guide decision-making, ensure accountability, and promote transparency within an entity.
- It involves defining the roles and responsibilities of individuals or groups within an organization, establishing frameworks for decision-making, and implementing mechanisms for oversight and control.
- It provides the framework within which stakeholders, including shareholders, management, employees, and external parties, interact and collaborate to achieve common objectives.

Key Elements of Governance

- **Leadership:** This involves the selection and oversight of leaders who are responsible for setting strategic direction, making decisions, and ensuring the organization's goals are achieved.

- **Transparency**: It requires openness and transparency in decision-making processes.

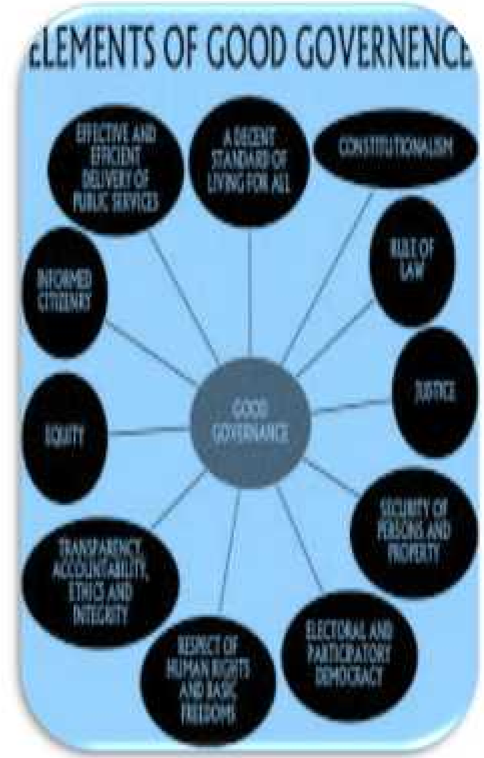
- **Accountability**: It establishes mechanisms for holding individuals and entities accountable for their actions and decisions.

Key Elements of Governance *...cont'd*

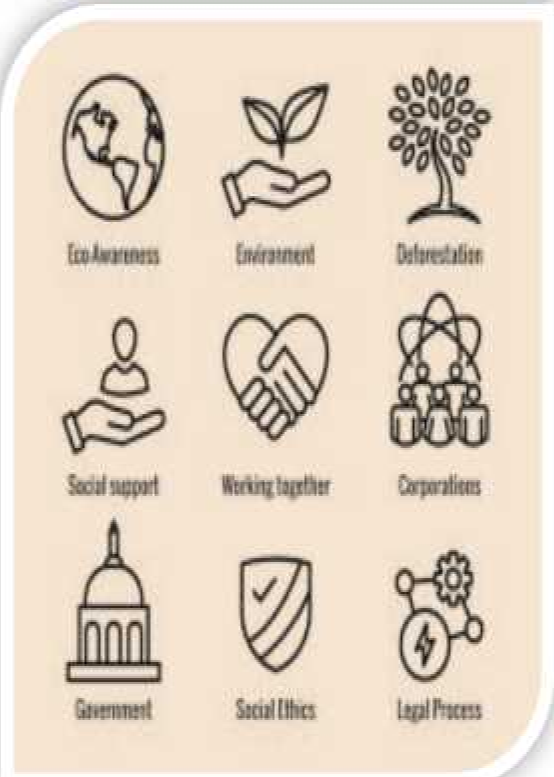
- **Integrity:** Governance promotes ethical behavior and integrity among individuals and entities, fostering trust and confidence within the organization and among stakeholders.

- **Risk Management:** It involves identifying, assessing, and managing risks to the organization, including financial, operational, legal, and reputational risks.

- **Compliance:** It also ensures compliance with applicable laws, regulations, and internal policies and procedures.



Governance in the Financial Industry



- **Regulatory Framework**

  Governance in the financial industry is heavily influenced by regulatory frameworks established by government authorities and regulatory bodies. These regulations set standards for corporate governance, risk management, disclosure, and compliance, with the aim of promoting market integrity, protecting investors, and maintaining financial stability.

- **Board Oversight**

  This involves oversight by a board of directors composed of independent directors and executive management. They are responsible for setting strategic direction, providing oversight of management, and ensuring that the institution operates in accordance with legal and regulatory requirements.

Governance in the Financial Industry …cont'd/2

- **Risk Management**

  Governance frameworks in the financial industry include robust risk management practices to identify, assess, and mitigate risks. This involves establishing risk management policies, procedures, and controls to address various types of risks, including credit, market, operational and compliance risks.

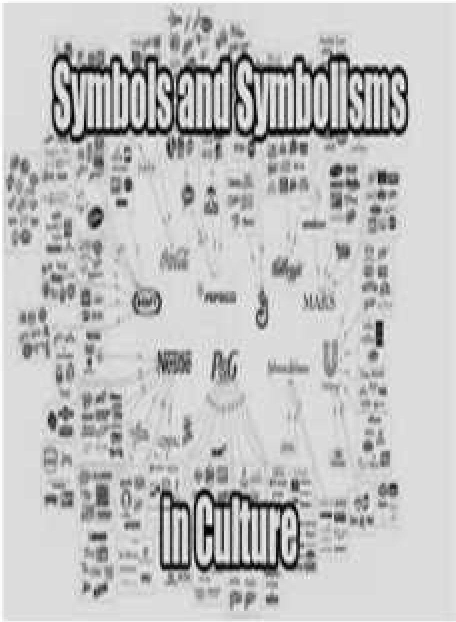
- **Compliance and Ethics**

  It emphasizes compliance with laws, regulations, and ethical standards. Compliance functions are responsible for ensuring adherence to regulatory requirements and internal policies, conducting compliance monitoring and testing, and implementing remedial actions when necessary.

- **Transparency and Disclosure**

  Governance frameworks promote transparency and disclosure of information to stakeholders, including investors, regulators, and the public.

Governance in the Financial Industry …cont'd/3



- **Stakeholder Engagement**

  It also involves engaging with various stakeholders, including shareholders, customers, employees, and regulators. Financial institutions are expected to consider the interests of stakeholders and balance competing demands to create sustainable value over the long term.

- **Culture and Conduct**

  Governance frameworks emphasize fostering a culture of integrity, accountability, and ethical conduct within financial institutions. This involves promoting a tone from the top that prioritizes ethical behavior, providing training and education on compliance and ethics, and enforcing disciplinary measures for misconduct.

Compliance

Compliance is the act of adhering to laws, regulations, policies, standards, and ethical guidelines that govern an organization's operations and activities.

- It involves ensuring that individuals and entities within an organization comply with applicable laws and regulations, as well as internal policies and procedures established by the organization itself.

- It encompasses a wide range of areas, including legal compliance, regulatory compliance, industry standards and ethical principles.

Compliance in the Financial Industry

Adherence to laws, regulations, and industry standards that govern the operations of financial institutions and professionals within the sector.

These includes the following areas:

- **Regulatory Framework**

  Compliance in the financial industry is heavily influenced by regulatory framework established by government authorities and regulatory bodies. These regulations cover a wide range of areas, including insurance, banking, securities, anti-money laundering, consumer protection, and market conduct.

  Financial institutions are required to comply with laws and regulations at the local, national, and international levels.

Compliance in the Financial Industry ...cont'd

- **Risk Management**

  This involves robust risk management practices to identify, assess, and mitigate risks associated with regulatory non-compliance.

- **Internal Controls and Procedures**

  Financial institutions establish internal controls and procedures to ensure compliance with regulatory requirements and industry standards.

  This includes implementing systems for monitoring transactions, conducting due diligence on customers, preventing fraud and financial crime, and reporting suspicious activities to regulatory authorities.

Compliance in the Financial Industry

…cont'd/3

- **Know Your Customer (KYC) and Anti-Money Laundering (AML)**
- Compliance with KYC and AML regulations is particularly important in the financial industry to prevent money laundering, terrorist financing, and other illicit activities.
  - Financial institutions are required to verify the identity of customers, assess their risk profiles, and monitor transactions for suspicious activities.

- **Consumer Protection**
  - In the financial industry, consumer protection includes measures to protect consumers from unfair, deceptive, or abusive practices.
  - This may involve providing clear and transparent disclosure of terms and conditions, ensuring fair treatment of customers, and resolving complaints and disputes in a timely and equitable manner.

Compliance in the Financial Industry ...cont'd/4

Market Conduct

- These are standards of market conduct aimed at promoting fair, orderly, and efficient markets.
- This includes rules governing trading practices, market manipulation, insider trading, and conflicts of interest.

Regulatory Reporting and Disclosure

- Financial institutions are required to make accurate and timely regulatory filings and disclosures to regulatory authorities and other stakeholders.
- They include, reporting financial data, capital adequacy ratios, risk exposures, and compliance with regulatory requirements.

Compliance in the Financial Industry *…cont'd/5*

- **Training and Awareness**
  - Compliance programmes in the financial industry must include employee training and awareness initiatives to ensure that staff members understand their compliance obligations and are equipped to identify and address compliance-related issues effectively.

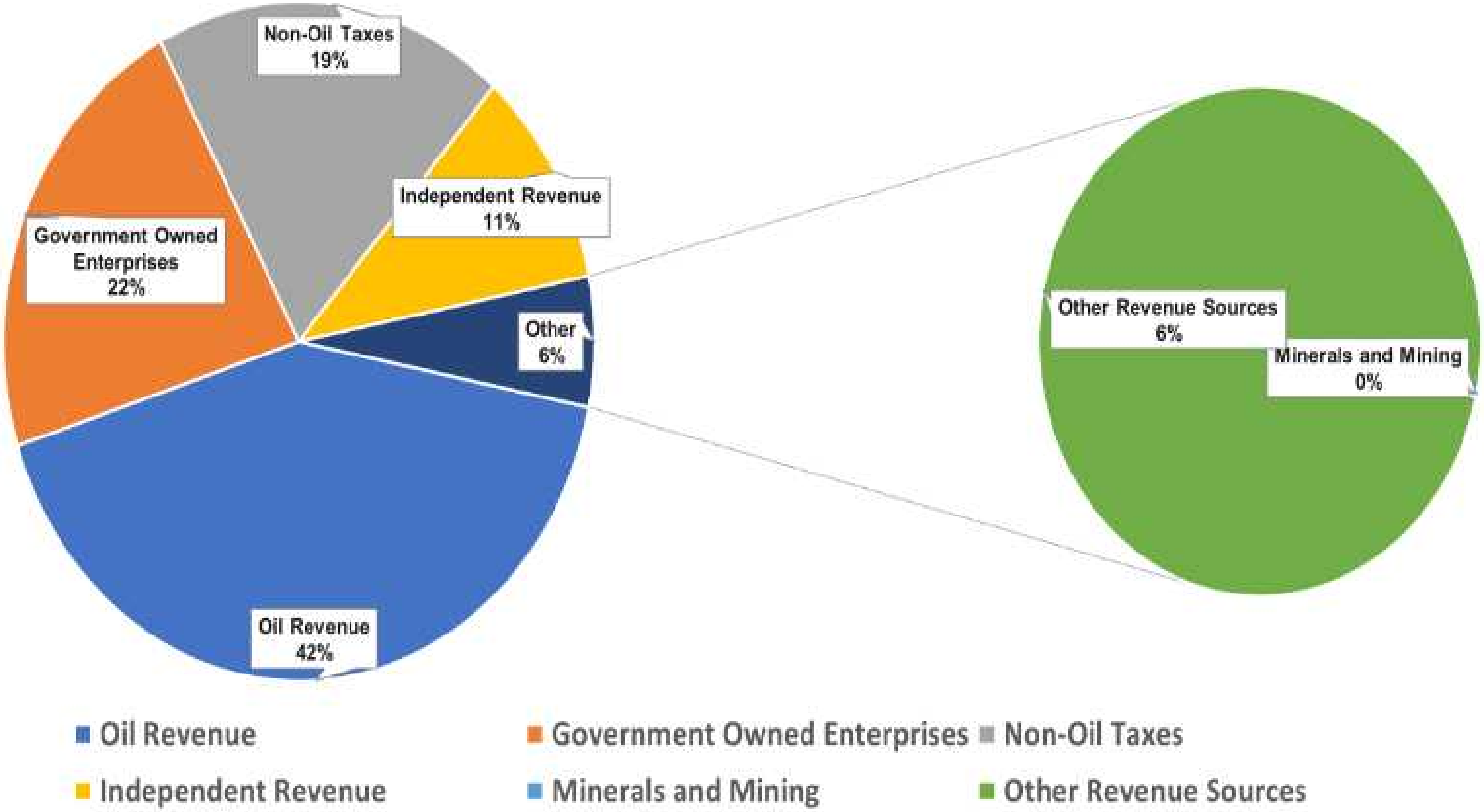
The 2024 National Budget: Overview

- The 2024 Budget outlined a total expenditure of N27.5 trillion (equivalent to $36.7 billion)
- A projected revenue of N18.32 trillion ($24.4 billion)
- A deficit of N9.18 trillion ($12.2 billion).

The 2024 National Budget: Estimated Revenue

- Estimated Oil revenue at N7.68 trillion
- Government Owned Enterprises to contribute N4.07 trillion
- Non-oil taxes projected to be N3.52 trillion
- Independent revenue set at N1.91 trillion
- Minerals and mining will account for N4.55 billion
- Other revenue sources will bring in N1.13 trillion.

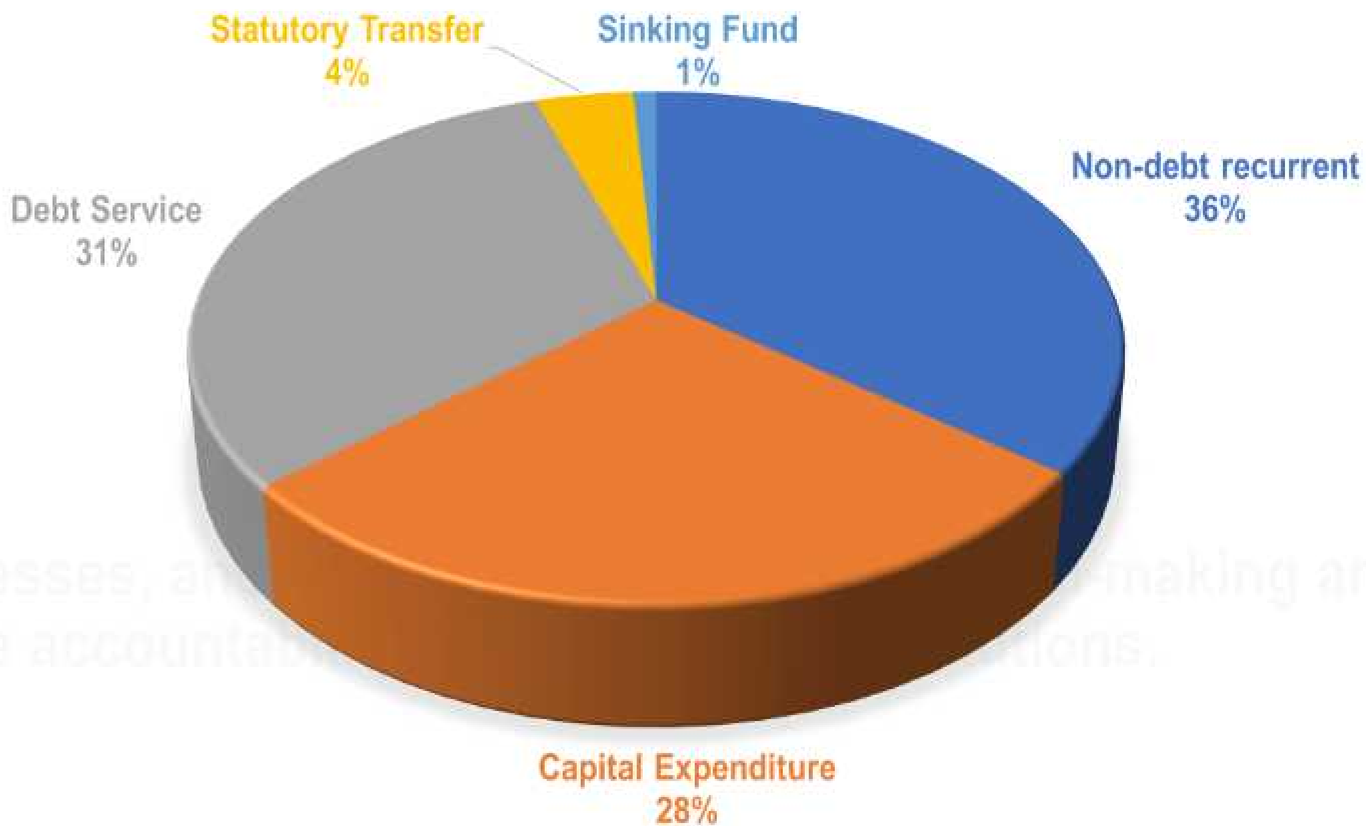
The 2024 National Budget: Estimated Revenue



The 2024 National Budget: Expenditure

- Non-debt recurrent expenditure of N9.92 trillion
- Debt Service will take up N8.25 trillion
- Capital Expenditure of N7.72 trillion (exclusive of transfers)
- Statutory Transfer of N1.37 trillion
- Sinking Fund of N243.66 billion.

The 2024 National Budget: Expenditure



Interconnection: Governance, Compliance, and the Budget

- **Governance and Budget Allocation**
  - Governance structures within governments determine how national budgets are formulated, approved, and executed.
  - The budgetary process typically involves decision-making by elected officials or government executives who are accountable to the public.
  - Effective governance therefore, ensures that budget allocations are aligned with national priorities, reflect the needs of citizens, and adhere to principles of transparency and accountability.

Interconnection: Governance, Compliance & the Budget

...cont'd

- **Governance and Compliance Oversight**
  - Governance mechanisms provide oversight and accountability for compliance with budgetary policies and procedures.
  - This includes internal controls, audit functions, and oversight bodies responsible for monitoring government expenditures and ensuring compliance with budgetary laws and regulations.
  - Effective governance structures promote transparency, integrity, and ethical conduct in budgetary decision-making and execution.

Interconnection: Governance, Compliance & the Budget

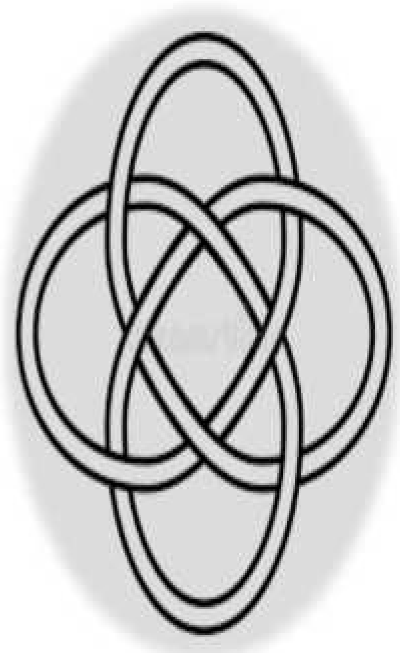
…cont'd/2

- **Compliance and Fiscal Responsibility**
  - Compliance with fiscal rules and budgetary constraints is essential for maintaining fiscal responsibility and macroeconomic stability.
  - Governments must adhere to budgetary targets, debt limits, and deficit reduction goals to ensure sustainable public finances and avoid fiscal crises.
  - Compliance with fiscal rules helps maintain investor confidence, supports stable economic growth, and mitigates risks to financial stability.
- **Budgetary Implications for Governance and Compliance**
  - The allocation of resources within the national budget can have implications for governance and compliance priorities. Budget decisions may impact the funding available for regulatory agencies, oversight bodies, and compliance enforcement mechanisms. Adequate funding for governance and compliance functions is therefore essential to ensure effective oversight, regulatory enforcement, and public accountability.

Interconnection: Governance, Compliance & the Budget

...cont'd/3

- **Alignment with National Priorities**
  - Governance, compliance, and the national budget must be aligned with national priorities and development objectives.
  - Governments must balance competing demands for resources, such as defence, education, healthcare, infrastructure, and social services, while ensuring compliance with fiscal rules and regulatory requirements. Effective governance structures facilitate decision-making processes that prioritize the allocation of resources to areas critical for sustainable development and economic growth.



- **Compliance and Budget Execution**
  - Compliance with laws, regulations, and fiscal policies is essential during the execution of the national budget.
  - Government agencies responsible for budget implementation must comply with spending rules, procurement regulations, and financial reporting requirements.
  - Compliance ensures that public funds are used efficiently, effectively, and in accordance with legal and regulatory standards, thereby safeguarding against misuse, fraud and corruption.

Implications for Economic Stability

- The implications for economic stability stemming from the interconnection between governance, compliance, and the budget are profound and multidimensional.

- This refers to the ability of an economy to maintain sustainable growth, low inflation, low unemployment, and financial resilience over time.

Implications for Economic Stability ...cont'd

The implications are:

- **Fiscal Responsibility**
  - Effective governance and compliance ensure that the budget is managed responsibly, with expenditures aligned with revenues and fiscal rules.
  - By adhering to budgetary constraints and maintaining fiscal discipline, government can avoid excessive borrowing and debt accumulation, reducing the risk of fiscal crises and instability.

- **Market Confidence**
  - Sound governance practices and compliance with budgetary regulations contribute to market confidence and investor trust in the economy.
  - Investors are more likely to invest in countries with transparent, accountable, and well-managed fiscal policies, leading to increased capital inflows, stable exchange rates, and reduced borrowing costs.

Implications for Economic Stability …cont'd/2

- **Monetary Policy Effectiveness**
  - Compliance with fiscal targets and budgetary rules enhances the effectiveness of monetary policy by providing a stable macroeconomic environment.
  - Financial institutions can more effectively manage interest rates, inflation, and money supply when fiscal policy is supportive of monetary policy objectives, leading to smoother economic adjustments and reduced volatility.
- **Investment and Growth**
  - Good governance and compliance with budgetary regulations create an environment conducive to investment, entrepreneurship, and economic growth.
  - When investors have confidence in the stability and predictability of fiscal policies, they are more willing to invest in productive activities, leading to higher levels of investment, job creation, and productivity growth.

Implications for Economic Stability ...cont'd/3

- **Financial Stability**
  - Compliance with prudential regulations and budgetary constraints enhances financial stability by reducing systemic risks and weaknesses in the financial system.
  - Adequate funding for regulatory agencies and compliance enforcement mechanisms helps prevent financial misconduct, fraud, and market abuse, safeguarding the integrity of financial markets and protecting investors.

Income Distribution and Social Stability

  - Governance and budgetary decisions influence income distribution and social stability within a society.
  - Fair and equitable budget allocations for social programmes, education, healthcare, and infrastructure contribute to reducing income inequality, poverty, and social unrest, promoting social cohesion and stability.

Implications for Economic Growth

The interconnection between governance, compliance, and the national budget also carries significant implications for economic growth, influencing the pace, sustainability, and inclusiveness of economic development as itemised below:

Investment Climate

- Sound governance practices and compliance with regulatory frameworks create a favourable investment climate, attracting domestic and foreign investment.
- Investors are more likely to commit capital to economies with transparent and accountable governance structures, leading to increased investment in infrastructure, technology, and productive assets, which are essential drivers of economic growth.

Implications for Economic Growth

Access to Finance

- Effective governance and compliance mechanisms enhance access to finance for businesses, entrepreneurs, and households. A well-regulated financial system, supported by prudent fiscal policies, promotes financial inclusion, fosters competition among financial institutions, and encourages lending to productive sectors of the economy, fuelling investment, innovation, and entrepreneurship.

Infrastructure Development

- The national budget plays a crucial role in financing infrastructure development, such as transportation, energy, water, and telecommunications.
- Adequate budget allocations for infrastructure projects, combined with transparent procurement processes and efficient project management, support economic growth by reducing transportation costs, enhancing productivity, and attracting private investment in infrastructure.

Implications for Economic Growth …cont'd/3

Human Capital Development

- Budgetary allocations for education, healthcare, and skills development are critical for nurturing human capital, enhancing productivity, and promoting economic growth.

- Governance frameworks that ensure transparency, accountability, and equity in the allocation of resources for human capital development contribute to building a skilled and healthy workforce capable of driving innovation, entrepreneurship, and sustainable growth.

Trade and Investment Promotion

- Effective governance and compliance with international trade agreements and regulations enhance countries' competitiveness in global markets.

Case Studies 1: Singapore

- Singapore is renowned for its strong governance framework, efficient regulatory environment, and prudent fiscal management. The government has consistently pursued policies aimed at promoting transparency, accountability, and fiscal discipline while prioritizing investments in education, infrastructure and innovation.

- **Governance and Compliance**

  Singapore's governance framework is characterized by strong institutions, effective regulatory oversight, and zero tolerance for corruption. The country consistently ranks high in global indices of governance and transparency, providing investors with confidence in the integrity and stability of the financial system.

- **National Budget Allocation**

  The Singaporean government adopts a disciplined approach to budgetary planning and execution, with a focus on long-term economic development and social cohesion. Budget allocations prioritize strategic sectors such as education, healthcare, and technology, while maintaining fiscal sustainability through prudent spending and targeted investments.

Case Studies 2: Greece

On the flip side, Greece experienced a severe economic crisis in the late 2000s, characterized by unsustainable levels of debt, fiscal mismanagement, and weak governance structures. The crisis exposed weaknesses in governance, compliance, and budgetary oversight, leading to a prolonged recession, high unemployment, and social unrest.

- **Governance and Compliance**

  Greece faced governance challenges, including weak institutions, ineffective regulatory enforcement, and widespread corruption. Compliance with fiscal rules and budgetary regulations was lacking, with government agencies engaging in unsustainable spending practices and fiscal opacity.

- **National Budget Allocation**

  Greece's national budget was characterized by significant deficits, high levels of debt, and misallocation of resources. Budgetary decisions were driven by short-term political considerations rather than long-term economic sustainability, leading to excessive borrowing, unsustainable entitlement programmes, and a lack of investment in critical sectors such as education and infrastructure.

Case Studies 2: Greece …cont'd

Implications for Economic Stability and Growth

- The country experienced a deep recession, sovereign debt crisis, and loss of investor confidence, resulting in bailouts from international creditors and austerity measures that worsened social inequalities and unemployment.

- The crisis highlighted the importance of effective governance, compliance, and fiscal discipline in ensuring economic stability and growth, serving as a cautionary tale for other countries grappling with similar challenges.

These case studies illustrate the critical role of governance, compliance, and the national budget in shaping economic stability and growth.

While strong governance and prudent fiscal management can promote resilience and prosperity, weak governance and fiscal mismanagement can lead to instability and economic hardship.

Challenges and Opportunities

- **Complex Regulatory Environment**
  - The financial industry operates within a complex regulatory landscape characterized by multiple and sometimes overlapping regulations.
  - Compliance with these regulations can be challenging, requiring significant resources and expertise.
- **Resource Constraints**
  - Compliance efforts require substantial financial and human resources, which may strain the budgets of financial institutions, particularly smaller companies.
  - Limited resources can hinder the implementation of robust compliance programmes and lead to gaps in compliance coverage.

Challenges and Opportunities

...cont'd

- **Cybersecurity Risks**
  - The increasing digitization of financial services exposes institutions to cybersecurity threats, including data breaches, malware attacks, and ransomware.
  - Ensuring compliance with cybersecurity regulations and protecting sensitive customer information are significant challenges for the financial industry.
- **Cultural and Organizational Resistance**
  - Implementing compliance initiatives may face resistance from employees, particularly in organizations with entrenched cultures or resistance to change.
  - Overcoming cultural barriers and fostering a culture of compliance requires strong leadership and effective communication.

Challenges and Opportunities

...cont'd/2

- **Rapidly Changing Regulatory Requirements**
  - Regulatory requirements are constantly evolving in response to emerging risks, technological advancements, and global developments.
  - Keeping pace with these changes and ensuring compliance can be a daunting task for financial institutions.
- **Cross-Border Compliance**
  - Financial institutions operating across borders face the challenge of navigating diverse regulatory frameworks and compliance requirements in different jurisdictions.
  - Harmonizing compliance practices across multiple jurisdictions while respecting local regulations poses a considerable challenge.

Challenges and Opportunities ...cont'd/3

- **Technological Innovation**
  - Advances in technology, such as artificial intelligence, machine learning, and blockchain, present opportunities for streamlining compliance processes, automating routine tasks, and enhancing regulatory reporting capabilities.
  - Leveraging technology can improve efficiency, accuracy, and cost-effectiveness in compliance efforts.

- **Collaboration and Information Sharing**
  - Financial institutions can benefit from collaboration and information sharing initiatives with industry peers, regulatory authorities, and law enforcement agencies.
  - Sharing best practices, intelligence, and threat information can enhance compliance efforts and collectively address common challenges.

Challenges and Opportunities ...cont'd/5

- **Training and Professional Development**
  - Investing in training and professional development programmes for compliance professionals can enhance their skills, knowledge, and expertise in navigating complex regulatory landscapes. Continuous learning opportunities empower compliance teams to stay abreast of regulatory changes and emerging trends.

Ethical Leadership and Corporate Culture

  - Promoting ethical leadership and fostering a culture of compliance and integrity within organizations can mitigate compliance risks and enhance reputation and trustworthiness.

  - Emphasizing ethical conduct, transparency, and accountability at all levels of the organization reinforces compliance as a core value.

Conclusion

- In conclusion, the interplay between governance, compliance, and the national budget is fundamental to the stability, integrity and growth of the financial industry and the broader economy.
- Governance frameworks establish the rules, practices, and structures that guide decision-making, ensure accountability and promote transparency within financial institutions.
- Compliance with laws, regulations, and ethical standards is essential to uphold market integrity, protect investors and mitigate risks.
- The national budget, as a reflection of government priorities and fiscal policies, allocates resources, sets economic objectives and shapes the trajectory of economic development.

Conclusion …cont'd/2

- During the presentation, I have highlighted the challenges and opportunities inherent in navigating the complex interactions between governance, compliance, and the national budget.

- Challenges such as regulatory complexity, resource constraints, and cybersecurity risks require concerted efforts and innovative solutions from financial institutions, regulators, and policymakers.

- However, opportunities presented by technological innovation, collaboration and professional development offer avenues for enhancing compliance effectiveness.

Conclusion

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- By addressing these challenges and seizing opportunities, financial institutions can reinforce their governance structures, strengthen compliance frameworks, and align budgetary priorities with economic stability and growth objectives.

- Ethical leadership, a commitment to transparency, and a culture of integrity are essential in fostering trust among stakeholders and promoting sustainable development.

- Ultimately, the effective interplay between governance, compliance, and the national budget is essential for building a resilient financial industry, safeguarding investor confidence, and fostering inclusive economic growth.

Thank You!

Thank you

GOVERNANCE AND COMPLIANCE: SHAPING THE FUTURE OF THE FINANCIAL INDUSTRY

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GOVERNANCE

INTRODUCTION

Many reputable corporate organisations have failed or shut down due to poor corporate governance and compliance failure.

The Nigeria Deposit Insurance Corporation website revealed that 53 banks have been successfully liquidated between the period of 1994 to 2018.

- Similarly, the numbers of insurance organisations that have been liquidated between 1990 till date is not encouraging too.
- At global level, many notable and reputable corporate organizations have collapsed majorly due to bad corporate governance practices and compliance failure which led to their liquidation and bankruptcy. Regulatory laxity and failures too contributed to the downfall of these organizations.

- Few of these organizations includes but not limited to:
  - AIG – An insurance organization – 2008
  - Lehman Brothers - A banking company – 2008
  - Royal Bank of Scotland Group – A banking company –
  - WorldCom – A telecommunication company – 2002
  - Enron – An Energy Company – 2001
  - Barings Bank – A banking organization – 1995
  - Arthur Anderson – Accounting firm – 2002.

WHAT GOVERNANCE IS

Governance is the process of making and enforcing decisions within an organisation or society. It encompasses decision-making, rule-setting, and enforcement mechanisms to guide the functioning of an organisation or society.


Corporate
Governance
Processes
Systems
Manage
Auditors
Organization
RULES
PROCESS
Tasks
ACTIONS
MANAGEMENT
Policies
REGULATIONS
PUBLIC
Accountable
Group
Bureaucracy
RULES
Corporate
Actions
BUSINESS
Management
Stakeholders
System of Rules
MONITORING
PRIVATE
REGULATIONS
DECISION-MAKING
Public
POLICY
Group
CONTROLLED AND DIRECTED
Regulatory
Process

CORPORATE GOVERNANCE

Corporate governance is the system of rules, practices, and processes by which a company is directed and controlled.

Corporate governance encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure


The Benefits of Good Governance
Improve capital flow
Mitigate Risk
Boost Reputation
Limit Disruptive Behaviour & Align Interests
Improve Decision Making
Increase staff Retention
Emphasise Compliance
Highlight Reporting

Benefits of Corporate Governance

- Good corporate governance creates transparent rules and controls, guides leadership, and aligns the interests of shareholders, directors, management, and employees.

- It helps build trust with investors, the community, and public officials.

- Corporate governance can give investors and stakeholders a clear idea of a company's direction and business integrity.

Benefits of Corporate Governance (contd)

- It promotes long-term financial viability, opportunity, and returns.
- It can facilitate the raising of capital.
- Good corporate governance can translate to rising share prices.
- It can reduce the potential for financial loss, waste, risks, and corruption.
- It is a game plan for resilience and long-term success.

Basic Principles of Corporate Governance

- Accountability
- Transparency
- Fairness
- Independence

The Principles of Corporate Governance

While there can be as many principles as a company believes make sense, some of the most common ones are:

- **Fairness**: The board of directors must treat shareholders, employees, vendors, and communities fairly and with equal consideration.
- **Transparency**: The board should provide timely, accurate, and clear information about such things as financial performance, conflicts of interest, and risks to shareholders and other stakeholders.
- **Risk Management**: The board and management must determine risks of all kinds and how best to control them. They must act on those recommendations to manage risks and inform all relevant parties about the existence and status of risks.

The Principles of Corporate Governance (cont)

- **Responsibility**: The board is responsible for the oversight of corporate matters and management activities. It must be aware of and support the successful, ongoing performance of the company. Part of its responsibility is to recruit and hire a chief executive officer (CEO). It must act in the best interests of a company and its investors.

- **Accountability**: The board must explain the purpose of a company's activities and the results of its conduct. It and company leadership are accountable for the assessment of a company's capacity, potential, and performance. It must communicate issues of importance to shareholders.

The Principles of Corporate Governance (cont)

- **Honesty** - It is only by integrating honesty and truthfulness that transparency is truly achieved. When making decisions or providing information (internally or externally) that may impact the organisation or its stakeholders, board members and management should ensure that they provide all relevant and accurate information. Hiding or selectively presenting information can be misleading and will undermine trust.

- **Independence** - It is an ability to 'stand apart' from inappropriate influences and to be free of managerial capture, to be able to make the correct and uncontaminated decision on a given issue.

The Principles of Corporate Governance (cont)

- **Corporate social responsibility** is a business model by which companies make a concerted effort to operate in ways that enhance rather than degrade society and the environment.


LAW
RULES
STANDARDS
POLICIES
COMPLIANCE
REQUIRE-
MENTS
REGULATIONS
GOVERNANCE
TRANSPARENCY

WHAT IS COMPLIANCE

- Compliance means that a company adheres to the applicable rules and laws.
- This includes both country specific laws and requirements from the regulatory authorities as well as internal company directives.
- Compliance may be costly and strenuous but non-compliance may be costlier.

Compliance is divided into two main headings;

- Legal Compliance, which denotes a set of laws, principles and precedents applicable to a particular organization or business enterprise.
- There is also Regulatory Compliance, which relates to various codes, regulations and circulars issued by regulatory authorities governing the conduct of business.

Challenges in Regulatory Compliance

Regulatory compliance remains a pressing concern for businesses in Nigeria. Various government agencies oversee different sectors, each with its own set of regulations, licenses, and permits.

This fragmented regulatory environment poses challenges for businesses, especially those operating in multiple sectors. Compliance costs, delays in obtaining approvals, and cumbersome bureaucratic processes can hinder business growth and innovation.

The importance of business compliance are highlighted below:

- To protect your business from fines, lawsuits and reputation damage that may have otherwise been caused through violation of rules.
- To stay legally compliant with the governing laws of the land your business operates in.
- Protects your business from risk and liability by preventing events that can negatively affect your business operations.
- Enables swift decision making in matters that regards to ethics, values, code of conduct and policies.

Why does compliance matter?

- **To build a good reputation -** By staying compliant as a business, you aren't only showing the governing authorities that you are fit and veritable to run the business, but also assuring your customers that they can do business with you. If your business is constantly facing legal issues, people will lose trust in the business, which will then lead to low revenue and profits.
- **To avoid civil and criminal sanctions -** To avoid this, businesses are advised to have a compliance department to monitor all compliance-related matters.
- **Higher productivity in the company -** Compliance helps you avoid waste, fraud, abuse, discrimination, and other practices that disrupt operations and put your company at risk. It also creates strong business models and an environment where employees feel safe and secure to work

Categories of Compliance

Compliance can be divided into two different types:

Internal Compliance- This refers to the measures a company takes within its own business to set a standard and maintain a certain level of quality.

Internal requirements for compliance-

- Physical entrance policies,
- Virtual Access, Password protection,
- Security update, Emergency response
- Risk Analysis
- Audits and reviews

External Compliance- This refers to the measures a company takes to remain compliant with state and federal laws.

External requirements for compliance-

- Annual statements or reports
- Taxation
- Pension and other statutory employer contributions
- Labour Laws
- Business Licenses/Permits

Below are the various business compliance according to Companies and Allied Matters Act 2020 (CAMA 2020).

- Incorporation of Companies & Annual Returns
- Taxation
- Employee Compensation Scheme
- Industrial training fund
- Nigerian Immigration Service (NIS)- where applicable
- Financial Reporting Council (FRC)
- Special Control Unit Against Money Laundering **(SCUML)**

CORPORATE GOVERNANCE ISSUES IN NIGERIA

- In Nigeria, corporate governance challenges influencing business practices are multifarious and multifaceted. They include regulatory laxity, political instability, endemic corruption and fraud, opaque transparency and incomplete disclosure amongst others.
- Nigeria corporate landscape has witness significant reforms in recent years, driven by the need to enhance investors' confidence, attract foreign investments and promote sustainable business practices.

The primary legal and regulatory framework for corporate governance in Nigeria includes but not limited to:

- The Company and Allied Matters Act 2020 (CAMA 2020)
- Nigeria Code of Corporate Governance (2018)
- Code of Corporate Governance for Public Companies issued by Security and Exchange Commission (SEC)
- CBN Code of Corporate Governance for Banking Industry
- NAICOM Code of corporate Governance for Insurance Industry
- Data Protection Act
- Anti-Money Laundering and Terrorism Financing Act

The global standard includes :

- Organization for Economic Co-operation and Development (OECD) – Principles of Corporate Governance
- United Nations' – Global Compact set benchmark for Corporate Behaviours
- These acts and local standards/guidelines aim to align the practices of Nigeria organizations with global best practices, improving governance structures, board effectiveness and shareholders rights.

SHAPING THE FUTURE

Your decision and choices you make today shape not only the current results, but also the future.

The basic principles of shaping the future includes:

- Have a dream about the future and develop thoughts and content for the desired future
- The desired future has to create a value - Innovation is the engine of development and value creation.
- Have a realistic assessment of the resource needs and how to gain access to them.
- Have a broad understanding of the environment – this can only be achieved by those who have a passion for learning and continuous improvement.
- Create trust and effective communication of the vision
- Changing your current deficient behaviors and attitudes.
- Be strategic – this require a long term focus and discipline

SHAPING THE FUTURE OF THE FINANCIAL INDUSTRY

- The future is here. It is upon us!!!
- In 2024 and beyond, the dominance of digital banking is expected to reach new heights.
- Mobile money adoption and expanded digital lending offerings is anticipated
- ESG –Environmental, Social and Governance will be emphasize.
- Board of directors will take succession plan into serious consideration.
- Cost of living will continue to rise thereby basic needs may competing for consumption of insurance products. Innovation of attractive insurance products is inevitable.

- Governance v Compliance : Delicate balancing. Some organization may want to cut corner.
- insurers must evolve through digital and cultural transformation to address changes in their operating landscape and meet new societal expectations.
- Board Diversity very important - diversity in the choice of boardroom members (skills, gender, experience, diverse background) for insurance institutions would allow companies to have varied approaches to problems during the year and beyond.
- IFRS and higher disclosure
- Independent Non-Executive Director will play more prominent roles in protecting the interest of the stakeholders

- Innovation will take the front burner. The common saying "innovate or die"
- Regulatory supervision should also be step up through massive deployment of technology to ensure adequate compliance.
- Capacity building – Investment in human capital to acquire needed skills through massive quality training such as CIIN various training programmes
- Customer centric – Value your customers and treat them well
- Improved branding – through good public perception of the financial industry

- Massive deployment of compliance tools will enhance compliance and prevent any overlook of relevant compliance
- Appointment of Chief Compliance Officer is imperative.
- Continuous Management and quality improvement is important.

Thank you

2024 BUDGET AND INSURANCE INDUSTRY

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2024 BUDGET AND INSURANCE INDUSTRY

PRESENTATION BY DR MUDA YUSUF

CEO, CENTRE FOR THE PROMOTION OF PRIVATE ENTERPRISE [CPPE]

AT THE 2024 CIIN BUSINESS OUTLOOK

21ST FEBRUARY 2024

PRESENTATION OUTLINE

- Budget objectives
- Budget assumptions
- 2024-2026 Fiscal Framework
- Budget numbers – Expenditure and Revenue estimates
- 2023 Budget Performance
- Sectoral Budget Allocations

PRESENTATION OUTLINE

- Budget implications for insurance
- State of the insurance sector
- Insurance and inflation risk
- Insurance and exchange rate risk
- Resilience strategies for insurance companies
- Leveraging government legislations and policies
- Silver Lining in the current crisis

2024 BUDGET OBJECTIVES

- JOB CREATING ECONOMIC GROWTH
- MACROECONOMIC STABILITY
- BETTER INVESTMENT ENVIRONMENT
- ENHANCED HUMAN CAPITAL DEVELOPMENT
- POVERTY REDUCTION

2024 BUDGET OBJECTIVES

- DEEPENING PUBLIC PRIVATE PERTNERSHIP [PPP] IN ENERGY AND TRANSPORTATION
- REGIONAL LEADERSHIP IN GLOBAL MOVEMENT TOWARDS CLEAN AND SUSUTAINABLE ENERGY
- ACCESS TO SOCIAL SECURITY
- BETTER INTERNAL SECURITY
- SUSTAINABLE FUNDING MODEL FOR TERTIARY EDUCATION

BUDGET ASSUMPTIONS

INFLATION RATE	21.4%
OIL PRODUCTION	1.78mbd
OIL PRICE	$77.98mbd
GDP GROWTH RATE	3.88%
EXCHANGE RATE	N800/$

COMMENTS ON BUDGET ASSUMPTIONS

ASSUMPTION: INFLATION RATE OF 21.4%

- Its rather optimistic, given that headline inflation in January 2024 was 29.9, with food inflation at 35.4%
- Key inflation drivers remain exchange rate depreciation, high energy prices, high transportation cost.
- However, there may be decline in the course of the year due to base effects in inflation computation.

INFLATION ASSUMPTION

- Increased domestic refining of petroleum products may have a moderating effect on inflation.
- The commitment of the CBN to comply strictly with the CBN Act with respect to Ways and Means financing of federal government expenditure may also have a moderating effect on inflation.

OIL PRODUCTION ASSUMPTION [1.78 MBD]

- The oil output assumption of 1.78 mbd is on the optimist side.
- Current production level has oscillated between 1m to 1.3 million barrels over the past few years.
- However, the optimism may be anchored on the current onslaught on crude oil theft, if sustained.
- The prospect of enhanced production also lies in the oil and gas policy reform as reflected in the Petroleum Industry Act.

OIL PRICE ASSUMPTION [$77.98/Barrel]

- Oil price assumption of $77.98 per barrel is optimistic.
- Current crude oil price is around $78 per barrel
- Typically, there should be a headroom of about $5 between the current price and budget assumption.
- The assumption does not give room for oil price volatility.
- A more conservative price assumption would offer opportunities to rebuild the excess crude account.

GDP GROWTH ASSUMPTION OF 3.76%

- The 3.76 GDP growth rate is achievable if reforms are sustained and investment climate issues are addressed. GDP growth forecasts by other bodies are within the same threshold as follows:
- World bank 3.3%
- AfDB 3.3%
- Fitch 2.9%
- United Nations 3.1%
- IMF 3%

KEY ASSUMPTIONS & MACRO-FRAMEWORK

REVISED 2024 – 2026 MTFF PROJECTIONS

- The key parameters as well as other macroeconomic projections driving the medium-term revenue and expenditure framework have been revised in line with the emergent realities. The new figures are presented in the table below.

Description	2023	2023 Revised Forecast (as at July 2023)	2024	2025	2026
Oil Price Benchmark (US$/b)	75.0	75.0	77.96	73.76	69.90
Oil Production (mbpd)	1.69	1.72	1.78	1.80	1.81
Exchange Rate (N/$)	435.57	700.00	750.00	665.61	669.79
Inflation (%)	17.16	17.16	21.40	20.30	18.60
Non-Oil GDP (N'bn)	214,049.5	214,049.5	223,989.2	249,188.0	278,251.7
Oil GDP (N'bn)	11,457.8	11,457.8	12,316.0	13,225.7	14,272.0
Nominal GDP (N'bn)	225,507	225,507	236,305.2	262,413.7	292,523.7
GDP Growth Rate (%)	3.75	3.75	3.76	4.22	4.78
Imports	24,385.6	24,385.6	32,453.5	33,401.3	34,515.4
Nominal Consumption (N'bn)	121,933.1	121,933.1	163,227.8	189,992.8	218,594.2

OVERVIEW OF THE 2024 – 2026 FISCAL FRAMEWORK

FGN Fiscal Deficit

- The budget deficit is projected to be **N9.18 trillion** in 2024, i.e., **N4.6 trillion** down from **N11.60 trillion** budgeted in 2023. The proposed deficit represents about **50%** of total FGN revenues and **3.88%** of the estimated GDP.

- The high projected level of fiscal deficit in 2024 is partly attributable to the proposed salary review of Federal workers across board, increased pension obligations and higher debt service cost.

- At **3.88%**, the projected level of deficit is higher than the **3%** threshold stipulated in the Fiscal Responsibility Act (FRA), 2007, but significantly lower than the 2023 level of **6.11%; FRA 2007** however allows government to exceed the 3% threshold if justified by threats to national security.

EXPENDITURE OUTLOOK

	2023	2024	INCREASE [%]
CAPITAL	5.97	9.99	67
NON-DEBT RECURRENT	8.33	8.76	5
DEBT SERVICE	6.56	8.28	26
STATUTORY TRANSFERS	0.97	1.74	79
TOTAL EXPENDITURE	21.83	28.77	32
DEFICIT	11.34	9.18	

COMMENTS ON EXPENDITURE

- Though total budget is N28.77 trillion. But if we take out the debt service component, what is left for real spending is N20 trillion.
- Capital expenditure exceeds recurrent non debt expenditure for the firs time in many years.
- But the question remains that what is the percentage of infrastructure spending in the capital expenditure.
- Debt service continues to mount gulping N8.28 trillion
- There is a reduction in the fiscal deficit. This has not happened in long time.

REVENUE OUTLOOK

	2023	2024	PERCENTAGE CHANGE
OIL REVENUE [NTrn]	2.23	9.21	313%
INDEPENDENT REVENUE/ OTHERS [Ntrn]	5.83	6.86	18%
NON-OIL TAXES [Ntrn]	2.43	3.52	87%

REVENUE OUTLOOK

- Oil revenue projected to increase by a whopping 313%.
- Looks ambitious
- However, revenue outlook will be positively impacted by:
- Fuel subsidy removal revenue gains
- Expected increase in crude oil output on the back of efforts to curb crude oil theft.
- PIA impact on investment in the sector

YEAR	BUDGET [NTrn]	EXCHANGE RATE [N/$]	DOLLAR VALUE OF BUDGET [$BILLION]
2020	10.8	360	30
2021	13.59	383	35.5
2022	17.3	410	42
2023	20.5	435	47
2024	28.7	1500	19

SUBNATIONALS IN BUDGET DISCOURSE

Revenue Allocation

- Federal Government 52.68
- State Governments 26.72%
- Local Governments 20.6%
- There is additional revenue to oil producing states on Derivation.
- Sub nationals have more revenue resulting from current reforms.
- States also have internally generated revenue.
- All these need to be interrogated as well for accountability.

CRITICAL SECTORAL ALLOCATIONS IN THE 2024 BUDGET

Critical Allocations in 2024 Budget

Education Sector N2.18 Trillion i.e. 7.9% of FGN Budget

N1.23 trillion

Amount provisioned for **Federal Ministry of Education and its agencies (Recurrent & Capital expenditure)**

N251.47 billion

Amount provisioned for **Universal Basic Education Commission (UBEC)**

N700.0 billion

Transfers to the Tertiary Education Trust Fund (**TETFUND**) for infrastructure projects in Tertiary institutions

Critical Allocations in 2024 Budget

Health Sector N1.33 Trillion i.e. 5% of FGN Budget

N1.07 trillion

Amount provisioned for **Federal Ministry of Health and its agencies (Recurrent & Capital expenditure)**

N137.21 billion

Gavi/ Immunization funds, including Counterpart Funding for Donor Supported Programmes

N125.74 billion

Transfer to Basic Healthcare Provision Fund (**BHCPF**)
1% of CRF

Defence & Security Sector (N3.25 trillion) – *(12% of Budget)*

Amount provisioned for the Military, Police, Intelligence & Para-Military *(Recurrent & Capital expenditure)*

Infrastructure (N1.32 trillion) 5% of Budget

This include provisions for Works & Housing, Power, Transport, Water Resources, Aviation.

Social Development & Poverty Reduction Programmes (N534 billion) - *(2% of Budget)*

Amount provisioned for Social Investments / Poverty Reduction Programmes

INSURANCE, BUDGET AND THE ECONOMY

BUDGET IMPLICATIONS INSURANCE

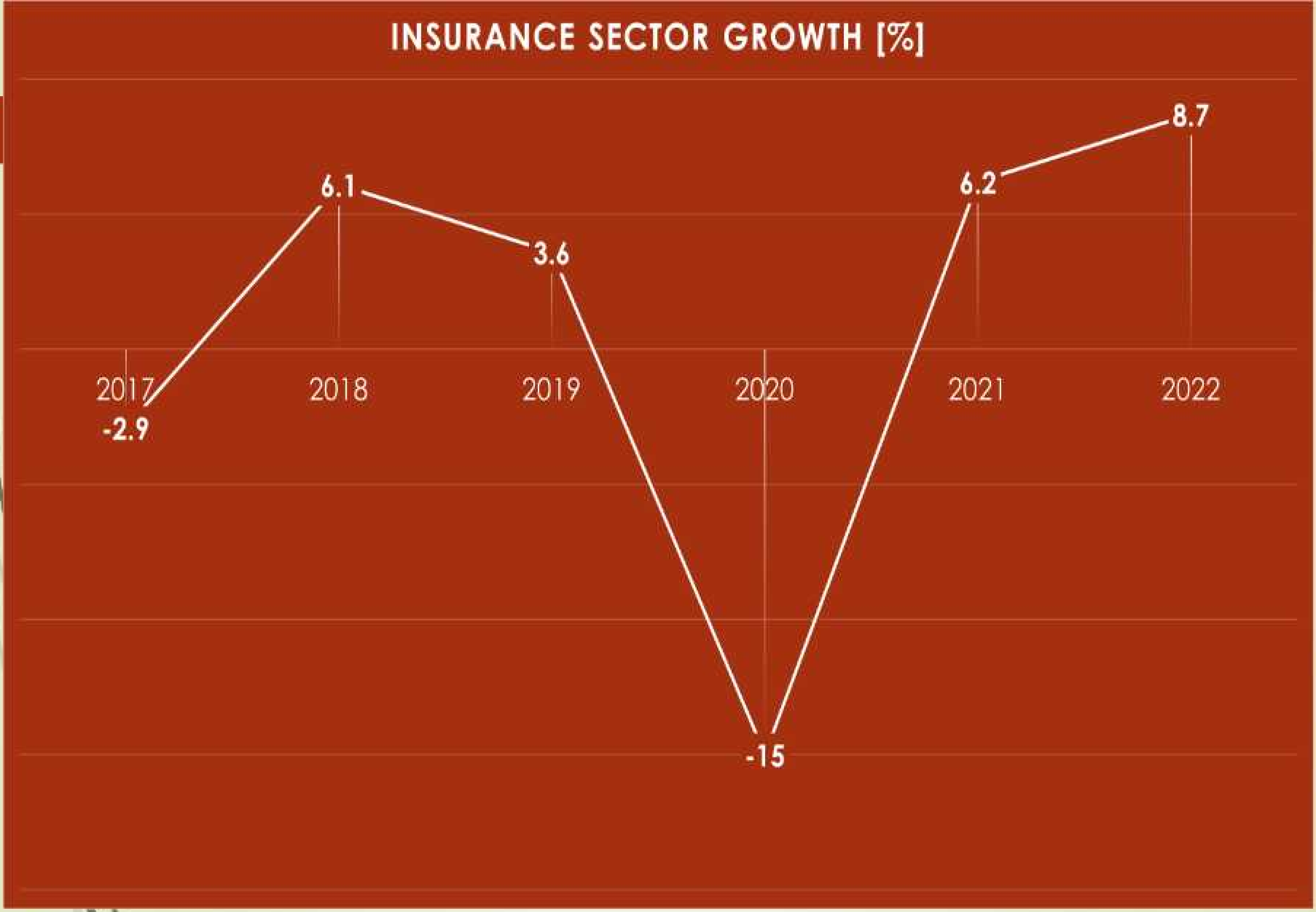
- Sectoral Appropriations give information on opportunities for insurance companies as service providers in various MDAs.
- Details of proposed spending should be useful for insurance companies to offer insurance services in the MDAs.

BUDGET IMPLICATIONS FOR INSURANCE

- The ambitious revenue targets may put pressure on insurance companies from tax and regulatory authorities. MDAs are under pressure to raise more revenue and this may be transmitted to investors in the form of additional levies, fees, and taxes.
- Finance Act normally comes with each budget. It is not clear yet whether there will be one this year. The policy component of the budget typically comes under the finance Act. It typically has implications for businesses in form of fiscal policy measures.

INSURANCE SECTOR CONTRIBUTION TO THE GDP

YEAR	CONTRIBUTION [N BILLION]	CONTRIBUTION TO GDP [%]
2017	505	0.44
2018	548	0.43
2019	585	0.41
2020	508	0.33
2021	548	0.32
2022	647	0.32


INSURANCE SECTOR GROWTH [%]
-2.9
6.1
3.6
-15
6.2
8.7
2017
2018
2019
2020
2021
2022

INSURANCE AND INFLATION RISK

- Risk of higher cost of claims
- Premium lagging behind inflation
- High operating cost
- Erosion of shareholder value
- Erosion of the value of investment
- Risk of depressed demand for insurance

MANAGING INFLATION RISK

- Flexible premium policy
- Product innovation to address macroeconomic risks
- Indexation of premiums
- Diversification of investment portfolios
- Technology and digitization
- Communication with customers.

INSURANCE AND EXCHANGE RATE RISK

- Foreign exchange risk is when a business financial performance could be affected by changes in exchange rate.
- It increases with forex exposure of the business.
- Doing business across jurisdictions elevates exchange rate risk
- Offshore investors are at bigger risk
- Meeting offshore credit obligations could be challenging.
- Balance sheet of the organization may be adversely impacted.

MANAGING EXCHANGE RATE RISK

- Investment in hedged assets. For example, Hedged Exchange Traded Funds.
- Forward contracts
- Currency forwards
- Currency options in foreign exchanges.
- Diversification of investment portfolio

FOREIGN EXCHANGE LOSSES FIRST HALF 2023 {NBILLION}

NIGERIA BREWERIES	70.6
MTN	131.5
NESTLE PLC	123.8
DANGOTE CEMENT	83.1
GUINESS PLC	49
UNILEVER	14.6
DANGOTE SUGAR	83
INTERNATIONAL BREWERIES	40.7
AIRTEL AFRICA	$471M

EXIT OF MULTINATIONAL COMPANIES

- GlaxoSmithKline
- Procter and Gamble
- Unilever [home care and skin cleansing]
- PZ
- Nampak
- Shell divested from onshore
- Many other oil companies may divest their onshore Assets
- Sanofi
- Afprint had discontinued textile production

RESILIENCE STRATEGIES FOR INSURANCE COMPANIES

- Flexibility and nimbleness of business model to reflect current market dynamics.
- Embracing innovation
- Hedging against volatile macroeconomic variables, especially exchange rate.
- Leveraging technology for better efficiency and cost effectiveness.
- Collaboration and partnerships
- Scenario Planning

RESILIENCE STRATEGIES

- Deepening customer focus or customer centric business strategy
- Cost containment
- Minimizing forex exposure in business operations because of exchange rate risk
- Minimizing exposition to bank credit because of interest rate risk.

POLICY ON COMPULSORY INSURANCE OF GOVERNMENT ASSETS

- PRONOUNCEMENT BY GOVERNEMENT THAT ALL GOVERNMENT ASSETS SHOULD BE INSURED IS YET TO BE IMPLEMENTED
- BUDGETARY ALLOCATIONS TO INSURANCE PREMIUM BY MDAs ARE GROSSLY INADEQUATE.
- MANY MDAs DO NOT EVEN HAVE ANY BUDGETARY FOR INSURANCE PREMIUM.
- THERE IS ALSO CONCERNS ABOUT THE CENTRALISATION OF INSURANCE PREMIUM IN THE OFFICE OF HEAD OF SERVICE
- STAKEHOLDERS SHOULD TAKE ADVANTAGE OF THE WINDOW OF OPPORTUNITIES OFFERED BY THE SGF.

COMPULSORY INSURANCE PRODUCTS AND COMPLIANCE ISSUES

- Group life Insurance in line with the Pencom Act 2004
- Employers liability in line with the Workmen's Compensation Act 1987
- Buildings under construction-section 64 of the Insurance Act 2003
- Occupiers liability insurance –section 65 of the Insurance Act 2003
- Motor Third party Insurance –section 68 of the Insurance Act 2003
- Health care Professional indemnity insurance under section 45 of the NHIS Act 199
- Compliance is generally very weak

RISKS TO THE ECONOMY

- Unprecedented currency volatility.
- Galloping inflation
- Corruption and transparency issues in the management of public funds at all levels of government
- High cost of governance
- Insecurity in many parts of the country.
- Debt sustainability concerns.
- Social issues arising from the high cost of living.
- Global geopolitical issues

REAL SECTOR OUTLOOK

- The following may continue to put pressure on the real sector in the fiscal year:
- Foreign Exchange rate
- High energy cost
- High interest rate likely from monetary policy tightening to curb inflation.
- Weak purchasing power of consumers.
- But the pressures would moderate by middle of the year.

FOREX REFORMS [UPSIDES]

- Commitment of the CBN to clearance of forex mature obligations.
- The AFREXIM forex intervention deal to enhance forex liquidity.
- Commitment to curbing crude oil theft to likely boost forex earnings from oil.
- Oil sector reform as reflected in the Petroleum Industry Act [PIA] to incentive investment in the oil sector and boost forex earnings.
- Domestic Refining of petroleum products and the import substitution effects to ease pressure on the forex market.

FOREX REFORMS [DOWNSIDES]

- Worsening currency depreciation.
- Resurgence of speculative pressure on the naira.
- Resurgence of liquidity challenges.
- Rates are beginning to diverge again.
- Heightened money laundering risk to exchange rate stability.
- Currency flight to the dollar as store of value.

SILVER LINING IN THE CURRENT ECONOMIC CRISIS

- Incredible opportunities for import substitution across all sectors – education, medical, vacations abroad, industrial raw materials, consumption of local foods, fabrications of spare parts.
- High food prices are a great opportunity for investment in agriculture.
- Greater opportunities for export business. $1m is now about 1.5 billion naira. It's incredible.
- Opportunities for diaspora Nigerians to invest at home.

SILVER LINING IN THE CURRENT ECONOMIC CRISIS

- Opportunities for export of services. India had $125 billion remittances in 2023, Philippines $40 billion; China $50 billion; Mexico N67 billion , Nigeria $22 billion in 2022.
- There should be deliberate policy to promote migration abroad. Even our artisans, care givers, truck drivers can benefit.
- Outsourcing opportunities for business abroad.

SILVER LINING IN THE CURRENT CRISIS

- Bigger Investment opportunities in the petroleum refineries and related industries following the PIA and the deregulation of the sector.
- Opportunities in renewable energy investment, cheaper and more environment friendly.
- New opportunities in the use of CNG, LPG in transportation.

THANK YOU

Thank you