****

9B18N007

SIC insurance Company Limited: Corporate Governance[[1]](#footnote-1)

Joshua Abor, Elikplimi Komla Agbloyor, Agyapomaa Gyeke-Dako, and Lydia Adzobu wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

*This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e)* [*cases@ivey.ca*](mailto:cases@ivey.ca)*;* [*www.iveycases.com*](http://www.iveycases.com)*.*

Copyright © 2018, Ivey Business School Foundation Version: 2018-07-06

In 2013, SIC Insurance Company Ltd. (SIC) was one of Ghana’s elite insurance companies. SIC had approximately 23 per cent of the insurance industry market share and was one of only two insurance companies listed on the Ghana Stock Exchange. In March 2013, SIC appointed Doris Awo Nkani as chief executive officer (CEO). Nkani was a lawyer, a marketer (Chartered Institute of Marketing, Ghana), and a chartered insurer (Chartered Institute of Insurance, United Kingdom). She was also former CEO of Phoenix Insurance Company Ltd., which was a member of the CDH Investments Group. Given Nkani’s vast experience, SIC seemed poised to mark further successes in the insurance industry. However, in January and February 2015, SIC’s stock price showed a downward trend (see Exhibit 1A), while the number of shares traded showed an upward trend (see Exhibit 1B) amid wrangling in the company. This wrangling was related to allegations of financial misappropriation and a credit guarantee bond that SIC had issued in favour of Ivory Finance Company Ltd. (Ivory Finance), which eventually led to litigation in the Ghanaian courts.[[2]](#footnote-2)

These events and the subsequent pressure by Ivory Finance (a Ghanaian savings and loans company) to execute a consent judgment in which SIC had covenanted to pay ₵91.90 million[[3]](#footnote-3) culminated in the board considering the firing of Nkani in February 2015. The board was considering her dismissal because of allegations of financial misappropriation and the issue of the credit guarantee insurance bond that had the potential of bankrupting the company. The board was also contemplating whether they should resign or face the probability of being removed by shareholders. The board wanted to know why these lapses had occurred and what could be done to prevent such a colossal failure in the firm’s corporate governance and risk management system.[[4]](#footnote-4)

Industry Background

The insurance industry in Ghana had grown significantly since the 1990s. Despite this growth, however, insurance penetration in Ghana was relatively small compared with other countries in Africa (see Exhibit 2A). The average insurance penetration rate in Ghana between 2007 and 2012 was 0.9576 per cent. The National Insurance Commission regulated the industry, and The Insurance Act, 2006 (Act 724) governed the operation of the insurance industry in Ghana. Section 76 1(d) of the Actprohibited an insurer from entering into a guarantee or providing a security in connection with a loan by another person to a connected person.[[5]](#footnote-5)

The Insurance Act also required insurance companies to register to underwrite either life or non-life businesses, but not both. After the passage of the Act, the industry witnessed an influx of companies in both the non-life market and the life market (see Exhibit 2B). In 2010, the National Insurance Comission replaced the compliance-based approach by introducing a risk-based framework geared toward empowering insurance companies to effectively and efficiently manage risks and thereby enhance the stability of the insurance market. Minimum capital requirements were increased from US$1 million in 2006 to US$5 million in 2010.[[6]](#footnote-6)

Background on SIC

SIC was the largest general insurance company in Ghana. SIC commenced business in 1962 but traced its roots to 1955, when the Gold Coast Insurance Company was established. In 1962, it was re-named State Insurance Corporation, and in 2007 became SIC Insurance Company Limited. SIC was listed on the Ghana Stock Exchange on January 25, 2008. It had an asset size of ₵151.81 million and ₵175.39 million in 2013 and 2014, respectively (see Exhibits 3A and 3B). The company reported gross insurance premiums of ₵98.2 million and ₵115.7 million for 2013 and 2014, respectively.[[7]](#footnote-7)

The company incurred claims of approximately ₵20,787,537 and ₵32,344,609 in 2013 and 2014, respectively. Its capitalization was ₵76,301,550 and ₵72,388,650 as at December 2013 and 2014, respectively. The policies offered by SIC Insurance were in six main categories—marine, motor, accident, travel, aviation, and oil and gas.[[8]](#footnote-8)

The objectives of SIC were to achieve total customer satisfaction and loyalty, maximize shareholder value, create a satisfied workforce, and be a good corporate citizen. The values of the company were trust, relationships, professionalism, respect, and a sense of urgency. SIC carried out regular corporate social responsibility activities. The main goals of these activities were, in order of importance, to give back to society and to improve the image/reputation of the firm.[[9]](#footnote-9)

To manage its risks, SIC reinsured its risk with several reinsurers, including AON Group Ltd. (United Kingdom); Afro-Asian Insurance Services (United Kingdom); African Reinsurance Corp. (Nigeria); Assicurazioni Generali Trieste (United Kingdom); BEST Reinsure–Tunis (Tunisia); Hannover Reinsurance Co. (South Africa); Marsh Ltd. (United Kingdom); and Munich Reinsurance Co. (South Africa). SIC insured a majority of its risks outside Ghana.[[10]](#footnote-10)

At SIC, the role of the CEO differed from the role of the chair of the board of directors. Felicity Acquah was appointed as board chair in November 2013. In 2013, the board had eight directors, one of which was an executive director—the CEO (see Exhibit 4). The board met quarterly to discuss issues concerning the company. The board determined the remuneration of the CEO and other executive directors, whereas the non-executive directors determined their own remuneration. Further, the company did not provide directors with shares or options to purchase shares. SIC did not have an employee stock ownership plan in place. The board did not formally assess its performance or the performance of the individual directors.[[11]](#footnote-11)

SIC had an internal audit department, and its external auditors were Pannel Kerr Forster. According to the company, its internal auditors were qualified and had the requisite experience. The internal auditors did not report solely to management but also reported to the board. Pannel Kerr Forster provided non-audit services to SIC when the need arose. The company had more than 14,000 shareholders. The 20 largest shareholders held approximately 81.4 per cent of the company’s outstanding shares (see Exhibit 5). Most of these shareholders were institutional investors. The government of Ghana played a key role in SIC, being one of its largest shareholders with a shareholding of 40 per cent. Exhibit 6 provides an extract of the Securities and Exchange Commission of Ghana’s Guidelines on Best Practices in Corporate Governance (2010).[[12]](#footnote-12)

The Story of the Credit Guarantee Bond

In March 2013, SIC issued a credit guarantee insurance bond worth ₵19,303,800 in favour of Ivory Finance, which was owned by the CDH Investments Group. The bond was to enable a client of Ivory Finance, ITAL Construct International (ITAL), to acquire a loan from Ivory Finance. ITAL was a real estate company wholly owned by Ghanaians and was in the business of providing affordable housing and rental services. The loan taken by ITAL was intended to be used to finance a US$200 million government of Ghana contract to provide affordable housing units to accommodate public servants. The contract required ITAL to provide approximately 4,120 housing units across all the regions of Ghana. The money for this project was partly to be provided by Barclays, in the United Kingdom, and the U.K. government’s Export Finance Agency (UK Export Finance).[[13]](#footnote-13)

The bond was to cover the period March 28, 2013, to September 27, 2013. Ivory Finance and ITAL subsequently signed the loan agreement on which SIC had insured the bond on April 10, 2013. The loan was a bullet loan of ₵14 million with an interest rate of 5.5 per cent per month from the period April 11, 2013, to October 10, 2013. According to the terms of the loan, in the event of default, a penalty interest of 8 per cent per month would be charged on the outstanding balance until the loan was fully paid. Ivory Finance also charged a processing fee of 2 per cent for the loan.[[14]](#footnote-14)

On October 1, 2013, Ivory Finance approached SIC, arguing that the loan it had given to ITAL was in default. The amount outstanding as of September 30, 2013, was ₵18.96 million. On October 18, 2013, it requested SIC to fulfill its guarantee. On November 22, 2013, Ivory Finance proceeded to court to recover the loan and interest granted to ITAL. It sued SIC, ITAL, and two ITAL directors—Kwesi Baidoo and James Kwegyir-Aggrey. According to SIC, its managing director, Ivory Finance, and ITAL agreed to settle Ivory Finance with the amount of ₵91.90 million on November 24, 2014. This agreement was entered by the parties in court on November 25, 2014, as consent judgment.[[15]](#footnote-15)

Seven reinsurers joined SIC to guarantee the loan taken by ITAL. These companies refused liability because some of them had not been paid their premiums. They also argued that SIC misled them by indicating that it had provided an advanced mobilization product to ITAL instead of a credit guarantee bond. Finally, they argued that the credit guarantee bond was for a six-month period within which no default had occurred.[[16]](#footnote-16)

Two top executives, the deputy managing director (Finance and Administration) and the head of Finance and Accounting, had also been accused of misappropriating funds in the amounts of US$1.1 million and ₵700,000, respectively. In January and February 2015, investors and traders began to panic, given the rumours of the events taking place at SIC. The high selling pressure caused the firm’s stock price to tumble (see Exhibit 1A). The SIC board members convened an emergency meeting to take appropriate action and determine the way forward.[[17]](#footnote-17)

Decision Time

In February 2015, the SIC board met to determine whether to dismiss Nkani from her position. The board was also considering its own role in the events that had taken place at SIC, including whether it had satisfactorily performed its supervisory function and how to prevent a recurrence of a similar failure in its risk management and governance systems.

Exhibit 1A: Stock Price Data for SIC Insurance company ltd., January–February 2015

Source: Created by the authors based on Ghana Stock exchange., “Daily Shares and ETFs Trades,” Ghana Stock Exchange, n.d, accessed July 13, 2017, [www.gse.com.gh/Market-Statistics/shares](http://www.gse.com.gh/Market-Statistics/shares).

Exhibit 1B: Trading Volume Data for SIC Insurance company ltd., January–February 2015

Source: Created by the authors based on Ghana Stock exchange, “Daily Shares and ETFs Trades,” Ghana Stock Exchange,n.d, accessed July 13, 2017, www. gse.com.gh/Market-Statistics/shares.

Exhibit 2A: AVERAGE Insurance Penetration in selected African Countries (%), 2007–2012

Source: Created by the authors based on University of Ghana Business School, *Ghana Business Development Review*,1sted. (Accra, Ghana: University of Ghana , 2016),134.

Exhibit 2B: Players in the ghanaian Insurance Market, 2007 and 2014

Source: Created by the authors based on University of Ghana Business School, *Ghana Business Development Review*,1sted. (Accra, Ghana: University of Ghana , 2016),134.

Exhibit 3A: Financial highlights for SIC insurance company ltd., 2013–2015 (in Ghana Cedis)

Note: ₵= GHS = Ghanaian cedi; ₵1 = US$0.26 on March 31, 2015.

Source: Created by the authors based on University of Ghana Business School, *Ghana Business Development Review*,1sted. (Accra, Ghana: University of Ghana , 2016),132.

Exhibit 3B: Pictorial Representation of SIC insurance company ltd.’s Guarantee to Turnover and Assets

Source: Created by the authors based on SIC Insurance Company Ltd., *Annual Report and Financial Statements 2013–2015*, n.d, accessed July 13, 2017, www.sic-gh.com/subcat\_select.cfm?prodcatID=5&tblNewsCatID=24.

Exhibit 4: SIC insurance company ltd.’s Board of Directors, 2013–2015

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Position (2013)** | **Position (2014)** | **Position (2015)** |
| Mike Allen Hammah | - | Chair | Chair |
| Felicity Acquah | Chair | - | - |
| Doris Awo Nkani | Managing Director | - | - |
| Justice Benjamin Okai Tetteh | Non-exec Director | Non-exec Director | Non-exec Director |
| Robert Afflah Sackey | Non-exec Director | Non-exec Director | Non-exec Director |
| Dr. Sydney Yayah Laryea | Non-exec Director | Non-exec Director | Non-exec Director |
| Nancy Dakwa Ampofo | Non-exec Director | Non-exec Director | - |
| Fiifi Gyabra-Forson | Non-exec Director | Non-exec Director | Non-exec Director |
| Ato Pobee Ampiah | Non-exec Director | Non-exec Director | Non-exec Director |
| Daniel Ofori | - | Non-exec Director | Non-exec Director |

Source: Created by the authors based on SIC Insurance Company Ltd., *Annual Report and Financial Statements 2013–2015*, n.d, accessed July 13, 2017, [www.sic-gh.com/subcat\_select.cfm?prodcatID=5&tblNewsCatID=24](http://www.sic-gh.com/subcat_select.cfm?prodcatID=5&tblNewsCatID=24).

Exhibit 5: Shareholding Structure of SIC insurance company ltd., 2013–2015

Source: Created by the authors based on SIC Insurance Company Ltd., *Annual Report and Financial Statements 2013–2015*, n.d, accessed July 13, 2017, www.sic-gh.com/subcat\_select.cfm?prodcatID=5&tblNewsCatID=24.

EXHIBIT 6: EXTRACT OF the Securities and Exchange Commission of Ghana’s GUIDELINES ON BEST PRACTICES IN CORPORATE GOVERNANCE (2010)

**Section 1 – The Mission, Responsibilities and Accountability of the Board of Directors**

***The Size of the Board***

5. The size of the board of every corporate body should be arrived at with a view to promoting effectiveness and ensuring appropriate representational needs.

6. No specific numbers are prescribed with regard to membership, however a board of between 8 – 16 members is considered ideal.

***Composition***

21. The board should include a balance of executive and non-executive directors with the complement of independent non-executive directors being at least one third of the total membership of the board and in any event not less than two.

***Separation between Chairman and Managing Director/CEO***

14. There should ideally be a separation between the role of the chairman and managing director/chief executive officer particularly in listed companies, unless there are specific reasons which militate against such separation or, as may be in the case of smaller corporate bodies, the cost of separation is uneconomical.

15. If the two offices are combined in the case of the corporate bodies having their securities listed on a stock exchange, the rationalization behind the decision to combine the roles should be explained to shareholders and the board must enact procedures that ensure the independence of the board as a whole.

16. In the event of a separation of the two offices, the relationship between the managing director/chief executive officer and the chairman and the board as a whole along with their respective responsibilities should be formally defined.

***Board Committee Meetings***

34. The board should meet regularly and in the case of listed corporate bodies at least six times a year.

**Section II - Committees of the Board**

***Remuneration Policy***

63. Stock options, employee share ownership schemes and other equity oriented plans should be considered as a means of linking management’s interest to that of shareholders.

**Section III – Relationship to Shareholders and Stakeholders**

***Shareholders and Stakeholders***

67. Corporate governance practices implemented by the board should not be aimed at benefiting stakeholders at the expense of shareholders but should endeavor to increase shareholder value by monitoring and maintaining stakeholder relationships effectively and professionally.

**Section IV – Financial Affairs and Auditing**

***Role of the External Auditor***

85. The external auditor should be the primary source of an objective, independent and effective opinion on the financial statements of the corporate body.

Source: Adapted by the authors from Securities and Exchange Commission Ghana, *Corporate Governance: Guidelines on Best Practices* (Accra, Ghana: Securities and Exchange Commission of the Republic of Ghana, 2010).

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in the case are not necessarily those of SIC Insurance Company Limited or any of its employees. [↑](#footnote-ref-1)
2. SIC Insurance Company Ltd., “About Us,” accessed July 13, 2017, www.sic-gh.com/maincat\_ select.cfm? prodcatID=1; SIC Insurance Company Ltd., “Executive Management”, SIC Insurance Company Ltd, n.d, accessed July 13, 2017, http://www.sic-gh.com/details.cfm?tblNewsCatID=22&prodcatID=6&tblNewsID=177. [↑](#footnote-ref-2)
3. ₵= GHS = Ghanaian cedi; ₵1 = US$0.26 on March 31, 2015. [↑](#footnote-ref-3)
4. Samuel Boadi, “SIC Insurance Explains Deal with Ivory Finance,” Daily Guide, January 9, 2017, accessed July 13, 2017, http://dailyguideafrica.com/sic-insurance-explains-deal-ivory-finance/. [↑](#footnote-ref-4)
5. University of Ghana Business School, Ghana Business Development Review, 1st ed. (Accra, Ghana: University of Ghana , 2016),134; Insurance Act, 2006 (Act 729), accessed July 13, 2017, http://nicgh.org/acts-regulations/insurance-act-2006-act-724/. [↑](#footnote-ref-5)
6. SIC Insurance Company Ltd., “History of SIC,” SIC Insurance Company Ltd, n.d, accessed July 13, 2017, http://www.sic-gh.com/subcat\_ select.cfm? prodcat ID=1&tblNewsCatID=1; SIC Insurance Company Ltd., Annual Report and Financial Statements 2013–2015, n.d, accessed July 13, 2017, www.sic-gh.com/subcat\_select.cfm?prodcatID=5&tblNewsCatID=24. (Created by the authors based on data extracted from SIC’s annual reports); Ghana Stock exchange, “Listed Companies”,Ghana Stock exchange, n.d, accessed July 13, 2017, https://gse.com.gh/listing/listed-companies. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. SIC Company Limited, “GSE Market Information Archive”, Annual Reports Ghana, accessed July 13, 2017. [↑](#footnote-ref-8)
9. SIC Insurance Company Ltd., “About Us,” op. cit. [↑](#footnote-ref-9)
10. Ibid. [↑](#footnote-ref-10)
11. University of Ghana Business School, Ghana Business Development Review, 1st ed. (Accra, Ghana: University of Ghana, 2016),139. [↑](#footnote-ref-11)
12. Ital Construct International Limted, “About Us”, Ital Construct International Limited, n.d, accessed July 13, 2017, http://italconstruct.com/index.php/about-us; ITAL Construct International Limited, “$200 Million Affordable Housing Project Rolls Out by December 2014,” ITAL Construct International Limited, n.d, accessed July 13, 2017, www.italconstruct.com/index.php/company-news/207-200-million-affordable-housing-project-rolls-out-by-december-2014. [↑](#footnote-ref-12)
13. Ibid. [↑](#footnote-ref-13)
14. University of Ghana Business School, op. cit. [↑](#footnote-ref-14)
15. Ibid. [↑](#footnote-ref-15)
16. News Ghana, “SIC Misled Us on Credit Guarantee Bond – Insurance Companies,” News Ghana, March 3, 2015, accessed July 13, 2017, <https://www.newsghana.com.gh/sic-misled-us-on-credit-guarantee-bond-insurance-companies/>. [↑](#footnote-ref-16)
17. Modern Ghana, “SIC Bosses Busted for ₵4m Theft”, Modern Ghana, December 20, 2014, accessed July 13, 2017, <https://www.modernghana> .com /news/587730/sic-bosses-busted-for-gh4m-theft.html. [↑](#footnote-ref-17)