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Financial Focus

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Foreword

Sam Abu
Partner and Leader,
Financial Services
samuel.abu@pwc.com

The COVID-19 pandemic triggered impacts in the real economy which will increasingly manifest itself throughout the financial sector. The lockdowns and containment measures imposed by governments around the globe have caused significant damage to many industries, all of which are served by financial institutions. Compared to all previous crises—including the global financial crises and periods of oil-price shocks, COVID-19 will likely have the most substantial impact on the global economy, with a one-year reduction in worldwide GDP of more than 6%.

It is not surprising therefore that majority of the articles in the 2020 edition of our **Financial Focus: Journal of Financial Services in Nigeria** dwell on COVID-19 and its impact on the financial services sector. This edition like those before it is devoted to providing insights into strategic, operational, and technical issues facing the financial services industry.

Banks can help customers and businesses to pull through the crisis and emerge stronger when the outbreak eventually recedes. But how can they ensure they are ready to play that part? Our article *COVID-19 and its impact on the Nigerian Banking industry* tries to provide answers to this question. It identifies the immediate priorities for Nigerian banks emphasising that digital capabilities and an effective allocation of resources will be key to meeting shifting demands.

Similarly, for insurers, the fallout from the COVID-19 outbreak includes a surge in health, travel and business interruption claims, pressure on sales from reduced business activity, and less use of face-to-face channels. The gathering economic slowdown emanating from the pandemic is also driving interest rates even lower and increasing credit risk exposures from businesses facing possible default. This raises the possibility of regulators asking for extraordinary solvency tests to ensure insurers can withstand the immediate and knock-on impacts. Our article *COVID-19 and its impact on the Nigerian Insurance industry* looks at how the sector can respond immediately.

The article *How are financial services firms navigating COVID-19? Look at the workforce* spotlights the talent issues the pandemic has thrown up for FS organisations and presents some lessons for FS executives on how to handle this situation noting that every day is an opportunity to start over and approach the situation with empathy.

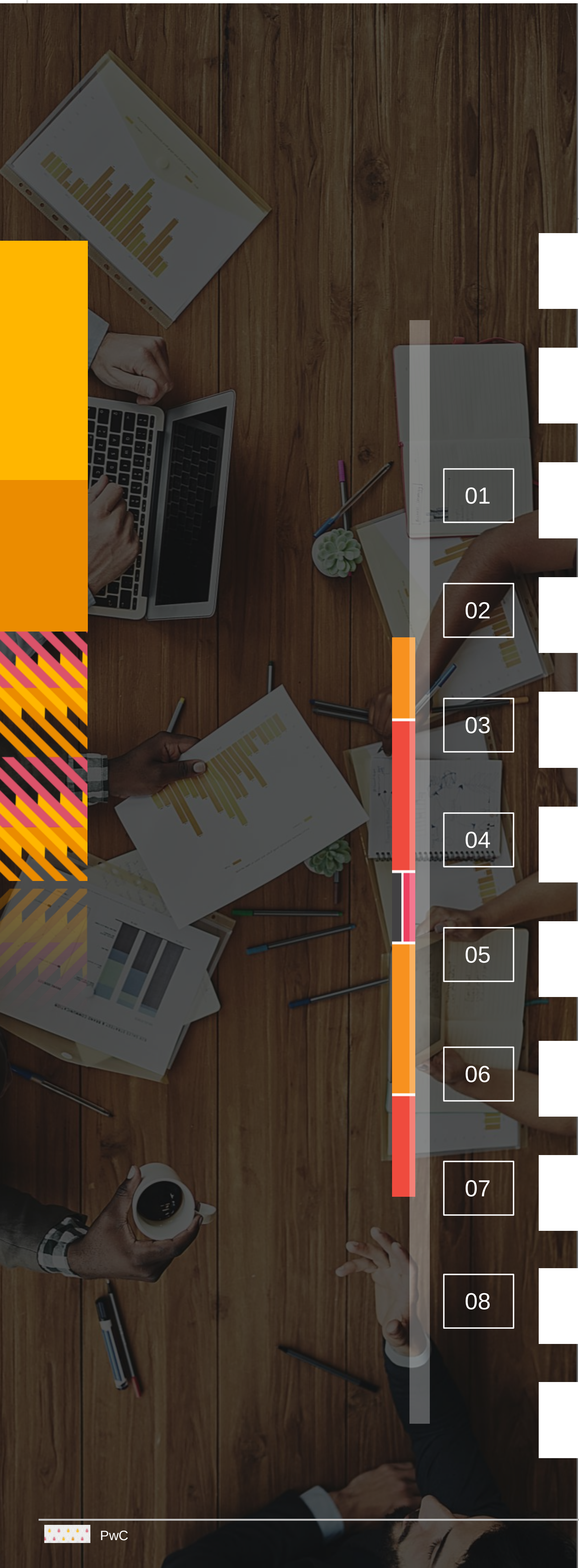
The clear imperatives that we believe can help CFOs and Heads of finance pivot their tax functions to high-performing tax functions that are not only cost effective but are able to enhance value and limit disruption to the compliance process and reporting process is the focus of the article *Tax function imperative for CFOs post COVID-19*.

The COVID-19 pandemic significantly affected Reporting Financial Institutions (RFIs) ability to fully comply with the Common Reporting Standard (CRS) obligations. Although the Federal Inland Revenue Service (FIRS) extended the deadline for compliance for FY2019 from March to September 2020, RFIs still struggled to carry out the necessary due diligence to identify necessary reportable accounts. Our article *Meeting Common Reporting Standards deadlines under COVID-19 scenarios* looks at areas of considerations for RFIs in ensuring effective implementation for CRS going forward.

We know that due diligence is central to the deal process and the main purpose is to help key stakeholders make decisions during every transaction. The focus however is often restricted to finance and tax functions. Our article *Extending due diligence beyond finance and tax* argues that due diligence should cover every aspect of the business operation, as this provides decision-makers with a deeper understanding of the business, its risks and opportunities.

The last two articles in the publications deal with more exigent issues which have become even more relevant as organisations go more digital in their operations. *Dealing with sophisticated phishing techniques* uses the recent netflix phishing scam as case study to provide key learnings for FS organisations in ensuring the security of their digital platforms while *Organisational Benefits of Data Governance* reminds us that organisations who do not implement appropriate data minimisation procedures, increase their level of exposure in the event that a breach occurs.

As always, we appreciate your feedback on these articles as well as topics you would like to see addressed in future issues. For comments and feedback on any of the articles please email ng_pwc.enquiry@pwc.com



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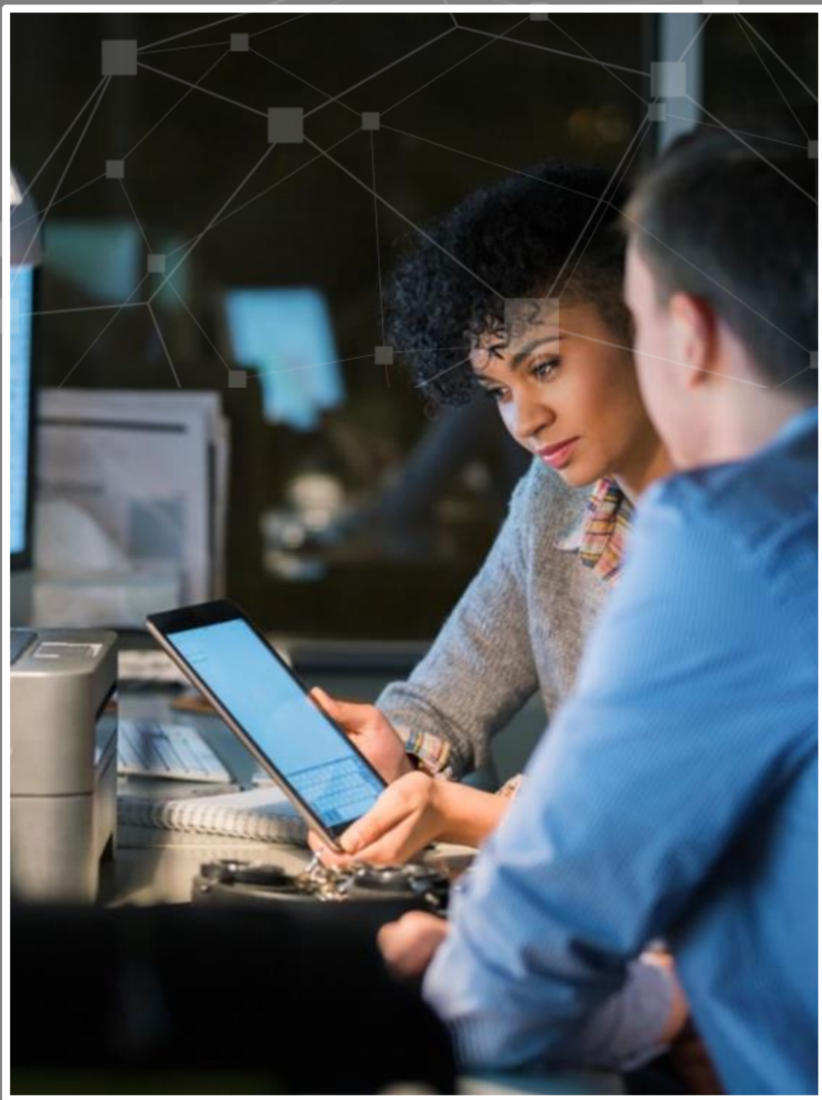


COVID-19 and its impact on the Nigerian banking industry

01

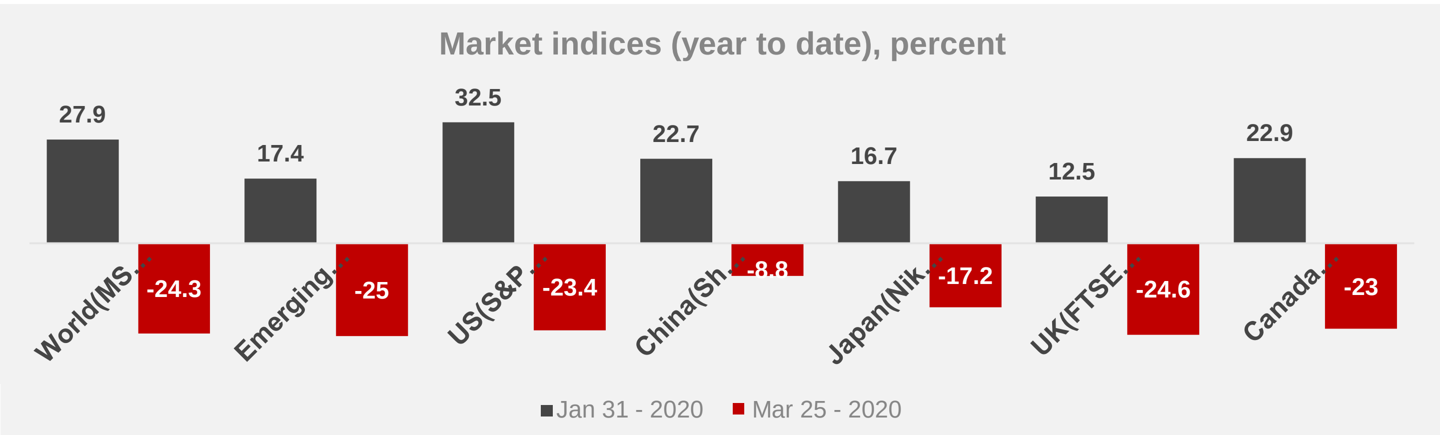
Risks from COVID-19 and its impact on the global economy

COVID-19 pandemic- Global risks and concerns and its impact on the global economy

Global risks

Recession and financial crises	Risk of global economic recession and financial crises due to debt overhang.
Supply chain	Rerouting, delays, disputes and knock-on impact on customers.
Sales	Decline in sales leading to cash flow and covenant issues.
Operations	Reduced resilience in key functions, infrastructure and services or locations become unavailable.
Travel	Restricted or prohibited travel to some locations impacting business and leisure demand.
Regulation	Compliance challenges in certain sectors.

Direct impact on the global economy



Source: *The Economist*, PwC analysis

Source: Trading economics, PwC analysis

Oil price crash	Oil prices dipped by over 50% to US$22.74 per barrel for Brent crude as at 31 March 2020 from about US$62.00 in January 2020

Risks from COVID-19 and its impact on the global economy

PwC's COVID-19 CFO Pulse Survey…

A recent CFO survey highlighted global recession, reducing consumer confidence and consumption as key concerns with respect to COVID-19…

80%	Potential global recession
48%	Decrease in consumer confidence, reducing consumption
48%	Financial impact
42%	Effects on our workforce/reduction in productivity
14%	Not having enough information to make good decisions
6%	Lack of a comprehensive/tested company emergency preparedness plan
4%	Difficulties with funding
2%	Impact on tax, trade, or immigration
34%	Supply chain issues
0%	Financial disclosures

PwC's COVID-19 CFO Pulse Survey, 11 March 2020

Q: What are your top-three concerns with respect to COVID-19? Base: 50

Global policy responses to the COVID-19 pandemic

COVID-19 pandemic: Key policy responses from selected global territories

United States of America

- Federal funds rate lowered by 150bp to 0-0.25bp.
- Purchase of Treasury and agency securities in the amount as needed.
- Expanded overnight and term repos. Lowered cost of discount window lending. Reduced existing cost of swap lines with major central banks and extended the maturity of FX operations; broadened U.S. dollar swap lines to more central banks.
- Authorized up to USD10 billion from the treasury Exchange Stabilization Fund to ease loan losses; among other key measures.

United Kingdom

- Reduced Bank Rate by 65 basis points to 0.1%
- Expanded the central bank's holding of UK government bonds and non-financial corporate bonds by GBP200 billion.
- Launched the joint HM Treasury–Bank of England COVID-19 Corporate Financing Facility, which together with the Coronavirus Business Loans Interruption Scheme, makes GBP330 billion of loans and guarantees available to businesses (15% of GDP); among other key measures.

European Union

- Establishing a Corona Response Investment Initiative to support public investment for hospitals, SMEs, etc., and stressed regions, with a view to mobilising if needed for the hardest-hit EU member states (up to EUR800 million is available in 2020).
- Redirecting EUR1 billion from the EU Budget as a guarantee to the European Investment Fund to incentivise banks to provide liquidity to hit SMEs and mid-caps, among other key measures.

China

- An estimated RMB1.3 trillion (or 1.2% of GDP) in fiscal measures have been approved and are being implemented.
- Liquidity injection into the banking system, including RMB3 trillion in the first half of February.
- Expansion of relending by RMB800 billion to support manufacturers of medical supplies and daily necessities (RMB300 billion) as well as MSME firms (RMB300 billion) and the agricultural sector (RMB100 billion) at low interest rates, among other key measures.

India

- An additional INR150 billion (about 0.1 percent of GDP) will be devoted to health infrastructure, including for COVID-19 testing facilities, personal protective equipment, isolation beds, ICU beds and ventilators.
- Some stimulus measures have been announced at the state level, the largest being an INR200 billion package in Kerala (2.5% of state GDP; 0.1% of India-wide GDP), which includes some direct transfers to poor households, among other key measures.

Source: IMF

Global policy responses to the COVID-19 pandemic

COVID-19 pandemic: Key policy responses from selected sub-Saharan African territories

Kenya

- Offered 100% tax relief to persons earning less than KES24,000; Income tax down from 30% to 25%.
- The central bank lowered its policy rate by 100 bps to 7.25%; lowered banks' cash reserve ratio by 100 bps to 4.25%; increased the maximum tenor of repurchase agreements from 28 to 91 days; and announced flexibility to banks regarding loan classification and provisioning for loans that were performing on March 2, 2020, but were restructured due to the pandemic, among other key policy measures

Ghana

- Committed USD100 million to support preparedness and response. Additional funds have been earmarked to address availability of test kits, pharmaceuticals, equipment and bed capacity.
- The Monetary Policy Committee cut the policy rate by 150 basis points to 14.5 percent on 18 March.
- Reduced primary reserve requirement from 10% to 8%
- Reduced capital conservation buffer from 3% to 1.5%, revising provisioning and classification rules for specific loan categories, among other key policy measures.

South Africa

- The government will assist companies facing distress through the Unemployment Insurance Fund and special programmes from the Industrial Development Corporation.
- Within the realm of the budget, workers with an income below a certain threshold will receive a small monthly payment during the next four months.
- Funds will be available to assist SMEs under stress, mainly in the tourism and hospitality sectors.
- The Central bank reduced the policy rate by 100 bps to 5.25% on 19 March 2020, among other key policy measures.

SSA

- The African Export-Import Bank (Afreximbank) has announced a USD3-billion facility, named the Pandemic Trade Impact Mitigation Facility (PATIMFA), to help African countries deal with the economic/health impacts of the pandemic.
- The World Bank has also suspended debt repayments for Nigeria and other countries.
- International Finance Corporation and World Bank will increase COVID-19 related financing availability to USD8 billion as part of the USD14 billion package, up from an earlier USD6 billion, to support private companies and employees hurt by the economic downturn caused by COVID-19.

Source: IMF

Global policy responses to the COVID-19 pandemic

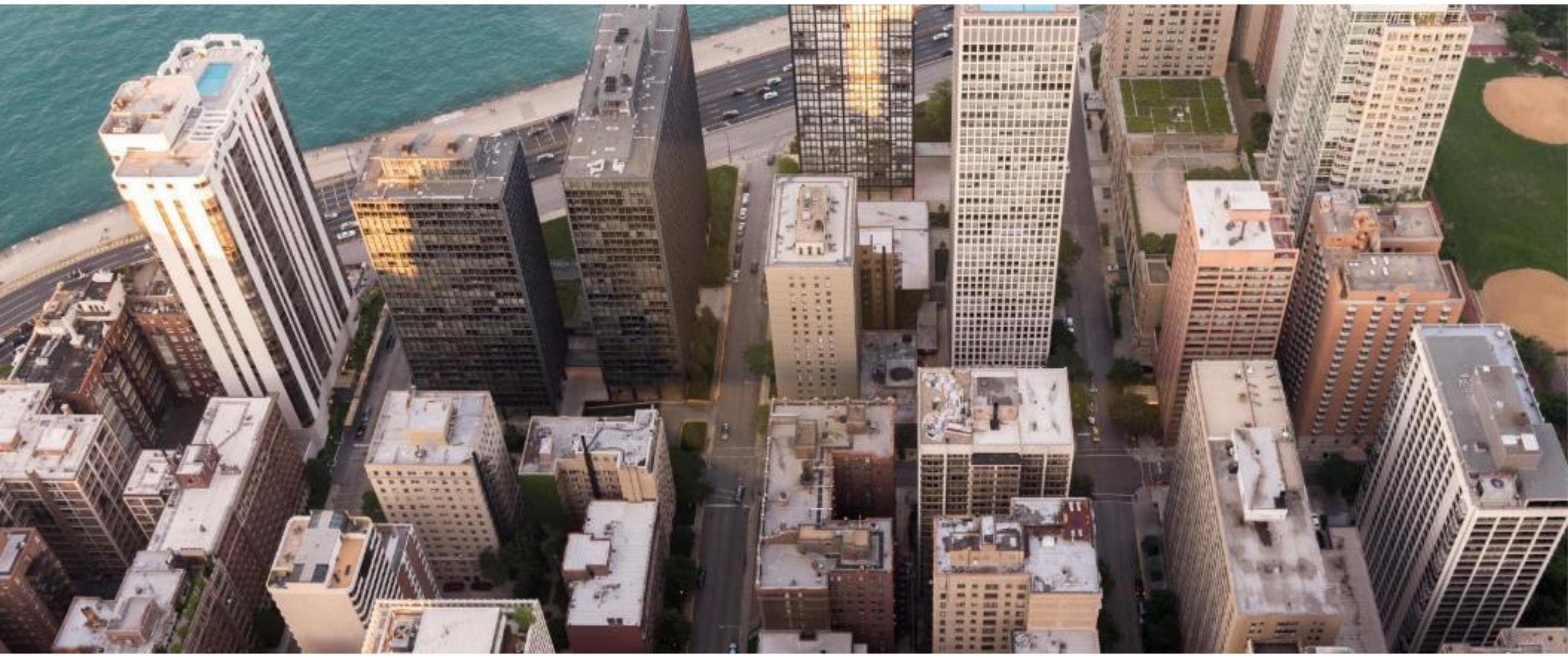
COVID-19 pandemic: Some policy measures taken by the Nigerian government

Monetary policy	Fiscal policy
The Central Bank of Nigeria (CBN) maintained the current monetary policy rate in March, but introduced additional measures, including: • Reducing interest rates on all applicable CBN interventions from 9 to 5 percent and introducing a one-year moratorium on CBN intervention facilities. • Creating a NGN50 billion (USD139 million) targeted credit facility, and liquidity injection of NGN3.6 trillion (stimulus package in the form of loans) (2.4% of GDP) into the banking system. • NGN100 billion to support the health sector, NGN2 trillion to the manufacturing sector, and NGN1.5 trillion to impact industries in the real sector. • NGN50 billion targeted credit facility through NIRSAL Microfinance Bank for households and MSMEs. Regulatory forbearance was also introduced to restructure loans in impacted sectors.	• Contingency funds of NGN984 million (USD2.7 million) were released to Nigeria's Centre for Disease Control, and an additional NGN6.5 billion (USD18 million) is planned. • The government is reviewing its 2020 budget and, given the expected large fall in oil revenues, announced plans to cut/delay non-essential capital spending by NGN1.5 trillion (close to 1% of GDP). • Three-month repayment moratorium for all TraderMoni, MarketMoni and FarmerMoni loans with immediate effect. Similar moratorium to be given to all Federal Government-funded loans issued by the Bank of Industry, Bank of Agriculture and the Nigerian Export Import Bank • NGN15 billion grant from Federal Government to Lagos State Government • Conditional cash transfers for the next two months to be paid immediately to the most vulnerable at Internally-displaced persons camps
The CBN intends to strengthen and support its loan-to-deposit ratio (LDR) to further support lending to individuals, household and businesses.	• Also, due to the reduction in global oil prices, the government reduced the petrol pump price from NGN145 per litre to NGN123.59 per litre on 1 April 2020.

CBN policy communiques, FGN, PPPRA, PwC

Global policy responses to the COVID-19 pandemic

COVID-19 pandemic: Some policy measures by the Nigerian government



Exchange rate

Sale of foreign currency to members of the Association of Bureau De Change Operators of Nigeria (ABCON) suspended.

Adoption of uniform/single exchange rate for official transactions, Bureaux De Change as well as for importers & exporters of goods and services, among others.

Official rate pegged at NGN360/US$ and NGN380 at the Investors and Exporters (I&E) window.

Emergency Economic Stimulus Bill 2020

Nigeria's House of Representatives introduced and passed for third reading a bill that seeks to provide a stimulus for the Nigerian economy. Some of the measures in the bill are expected to protect jobs and alleviate the financial burden on citizens in response to the economic downturn occasioned by the outbreak of COVID-19 disease. Below are some of the key elements contained in the Bill:

All payment of mortgage obligations on residential properties obtained by individuals will be deferred for a period of 180 days from 1 March 2020.

From 1 March to 31 December 2020, there will be a waiver of import duty on medical equipment, personal protection and other medical necessities.

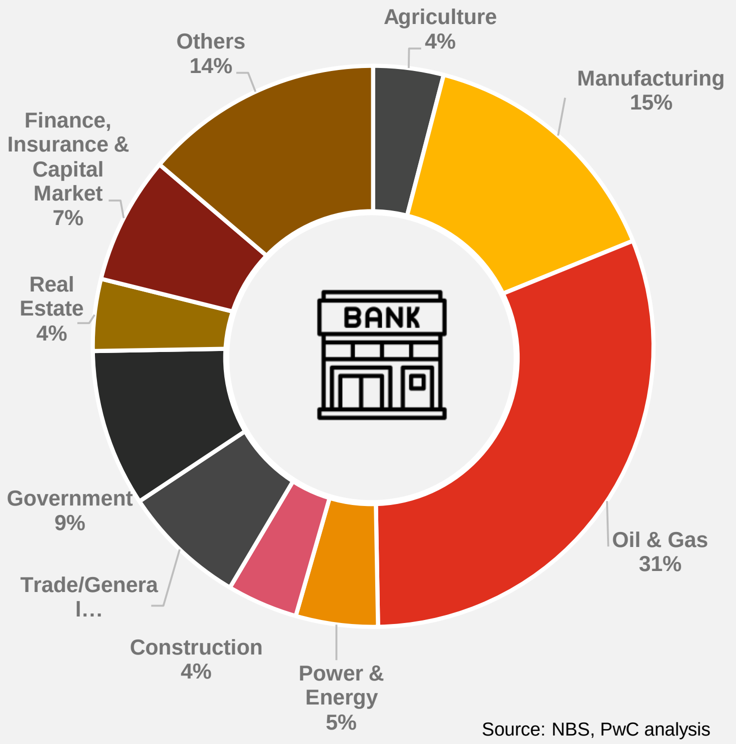
Any employer duly registered under the Companies and Allied Matters Act (CAMA) which maintains the same employees' status without retrenching their staff as at 1 March 2020 till 31 December 2020 shall be entitled to 50% income tax rebate on the total amount due or paid as PAYE under the Personal Income Tax Act.

CBN, PwC

Impact on the Nigerian banking industry

Risks and Challenges for the banking sector (1 of 2)

Banking industry credit exposures by sector in 2018

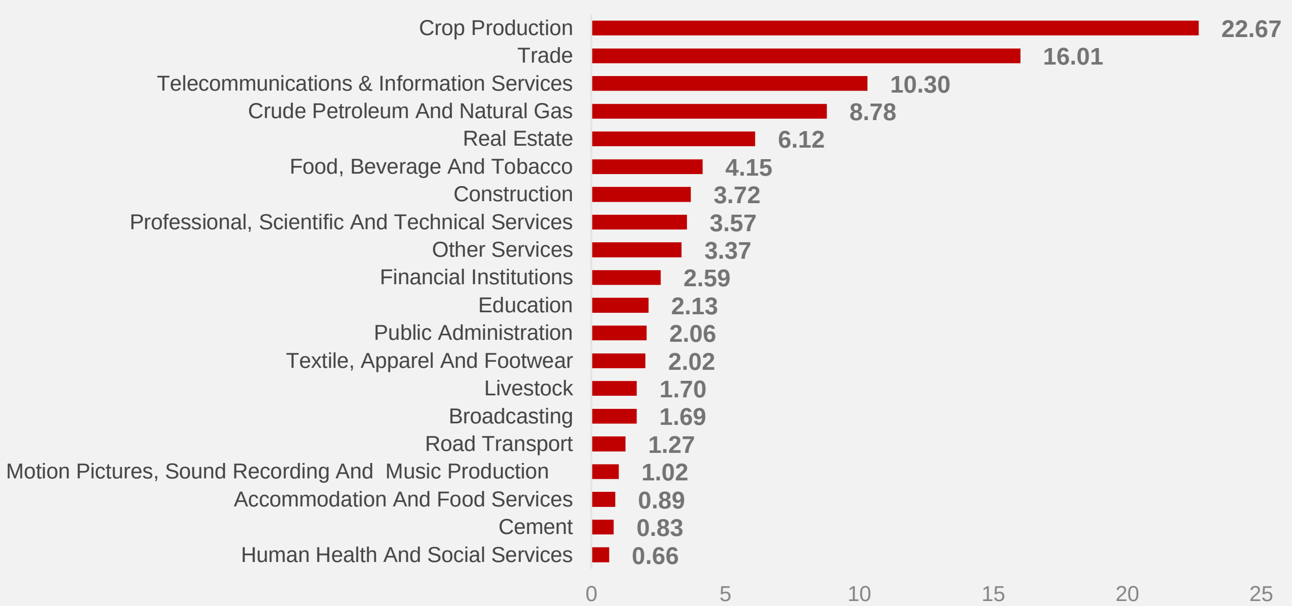


Source: NBS, PwC analysis

Most vulnerable sectors

- Trade and commerce
- Hospitality/Leisure
- Construction and Real estate
- Textile, Apparel and Footwear
- Oil and Gas sector
- Education
- Transport incl. aviation
- Fast food & Restaurants
- Non-food Manufacturing

Top 20 contributors to Real GDP by sector (percent)



Source: NBS, PwC analysis

Impact on the Nigerian banking industry

Risks and Challenges for the banking sector (2 of 2)

With the economic slowdown, there is a heightened risk of:

1. Economic contraction
2. Reducing fee and trading income as well as pressure on net-interest income
3. Higher credit losses and its attendant impact on overall asset quality, capital and liquidity
4. Cybersecurity breaches
5. Operational constraints of keeping employees safe and meeting customer expectations
6. Deterioration of IT and other support services because of internal challenges or vendor problems

Banking industry focus on IFRS 9 expected credit losses

Measuring expected credit losses (ECLs)

While the uncertainties arising from COVID-19 are substantial and circumstances are sure to change, we do not expect this to preclude banks from estimating their expected credit losses (ECLs). Estimating ECLs is challenging, but that does not mean it is impossible to estimate an impact, based on the reasonable and supportable information that is available.

Identifying significant increases in credit risk

A key element in determining ECL is the assessment of whether or not a significant increase in credit risk (SICR) has occurred, and hence whether a lifetime, rather than 12-month, ECL is required. In many cases, and in particular in Q1 2020, it is unlikely that banks will have sufficient timely data to update loan-level probabilities of default which are often a core element of assessing SICR.

Modifications and forbearance To help borrowers cope with the financial consequences of COVID-19, many banks and governments have announced various types of relief programmes that involve payment holidays. Payment holidays which are expected to be temporary payment relief would result in modifications to the expected cash flows over the remaining life of the financial instrument.

Interim reporting under IAS 34 and other disclosure considerations

Many regulators around the world are revising timelines and requirements for interim reporting. When banks do issue interim reports under IAS 34, it will be important to keep in mind the overarching requirement to explain events and transactions since the end of the last annual reporting period that are significant to understanding changes in financial position and performance.

Government relief programmes

Many governments, central banks and other agencies are developing programmes to provide economic support. Where these interventions are made through the banking system (e.g. by providing funding or guarantees to banks at potentially advantageous rates or terms), a key accounting consideration is whether an element of the transaction is a government grant.

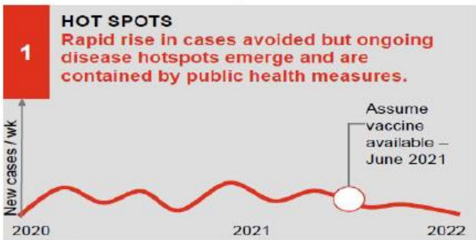
Conclusion

The COVID-19 pandemic has given rise to unprecedented challenges that have affected virtually every aspect of modern life. The economic implications of COVID-19 will have a consequent impact on many aspects of accounting and financial reporting. Banks face some of the biggest accounting challenges, and we hope the information provided here will help you as you navigate the key issues.

Immediate priorities for banks

The immediate crisis management challenges for all businesses include dealing with the impact on the workforce and business continuity management

PwC epidemiologists and economists have worked together to form coherent scenarios based on fact-driven assumptions.

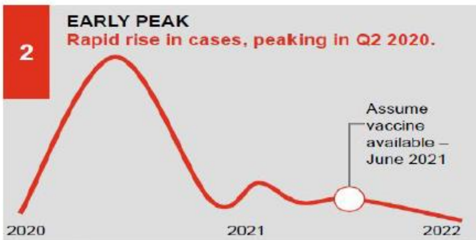


Assumptions:

- Not all cases are detected, allowing spread at a reduced frequency.
- Successful contact tracing and quarantine around emerging cases prevents a rapid increase in cases.

Impact:

- **Workforce:** Home working and travel restrictions in existing and newly-affected countries
- **Supply chain:** Reduced output from affected countries impacts supply chain.
- **Economy:** Ongoing uncertainty has longer-term impact on markets. Affected countries are more significantly impacted.
- **Time-frame:** 12 to 18 months.

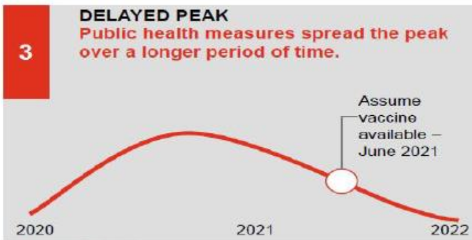


Assumptions:

- Contact tracing and population distancing controls fail to prevent a rapid growth in cases.
- Cases peak in mid 2020, with a decline as population immunity levels increase.
- Potential for further peaks depending on the seasonality of the virus.

Impact:

- **Workforce:** Major global disruption, including home working, travel restrictions and morbidity and mortality in the workforce. Significant impact on health systems.
- **Supply chain:** Global shortage of some goods due to production slowdown.
- **Economy:** Increased risk of global recession dependent on the severity of the pandemic
- **Time-frame:** 12 to 18 months, peak within 3 months.



Assumptions:

- Contact tracing and population distancing controls have some effect, spreading the impact of disease over a longer period of time.

Impact:

- **Workforce:** Major global disruption, including home working, travel restrictions and morbidity and mortality in the workforce. Impact on health systems somewhat reduced compared to early peak scenario.
- **Supply chain:** Global shortage of some goods due to production slowdown.
- **Economy:** Increased risk of global recession dependent on the severity of the pandemic and longer period of uncertainty than with an early peak.
- **Time-frame:** 12 to 18 months, peak in 6 to 9 months.

Source: PwC COVID-19 Response Considerations

Immediate priorities for banks

Leveraging insight from the PwC network, we have identified some immediate priorities for banks

Setting up your COVID-19 response: Sample strategy and operating model checklist

Strategic considerations

- Establish a cross-functional steering committee, led by a C-suite member. Ensure senior representation from business divisions plus specialist leadership such as HR, Legal, IT, Operations, Risk, Communications, Finance, Health and Safety, Procurement, Sales and Crisis and Business Continuity.
- Establish and agree process for decision making and agree critical milestones.
- Determine reasonable worst-case scenarios to inform planning and assumptions.
- Consider likely trigger points for decision-making. Review and refresh Crisis, Continuity and specialist plans (e.g. pandemic/COVID-19). Stress test assumptions and exercise plans.
- Prepare your core Incident Management Team (IMT) to coordinate response and containment efforts.
- Map critical stakeholders and agree communication strategies for them. Base the immediate response and communications on established facts from reliable, trusted sources.
- Appoint functional workstreams and owners and align activity with response objectives.
- Ensure alignment with organization's reputation, purpose and values (e.g. supporting the wider community response).
- Agree communications to staff and stakeholders - and feedback loops. Balance transparency and preparedness with not wanting to appear to be overreacting.

Set up an Incident Management Team to coordinate your response

- Set clear roles, accountabilities and objectives.
- Agree meeting cadence and team ways of working.
- Agree communications and stakeholder engagement strategy.
- Use approved sources of information to monitor the spread of COVID-19 and emerging clusters of cases.
- Embed an incident reporting mechanism.
- Identify critical decision triggers to manage and contain the outbreak (e.g. travel restrictions; office closing/work from home; meeting restrictions/virtual solutions).
- Deploy a rapid response process for your own cases and develop personnel recovery plans.
- Verify that technology infrastructure can support remote operations.
- Review supplier service availability and resilience.

Scenario planning

- Evaluate COVID-19-specific scenarios for your organisation.
- Identify potential risks and assess impacts.
- Ensure business continuity plans include arrangements and processes for handling an infectious disease outbreak, epidemic and pandemic.
- Model the financial impact of scenarios and potential triggers for urgent action (e.g. breach of covenants).
- Identify strategic interventions to stabilise your organisation.

Source: PwC COVID-19 Response Considerations

Setting up your COVID-19 response: Considerations (1 of 2)

COVID-19 response strategy

Workforce

Protect your people and plan your workforce

- Have you identified the critical work which delivers your P&L, the workforce that do this and the capacity of the organisation to move labour to sustain those critical activities?
- Do you have full visibility of your people (geography, nationality, visa, etc.) and the right processes and systems in place to track and move your workforce, where required, as well as the legal / tax implications of doing so?
- Do you have a system in place to monitor changing laws and regulations (e.g. travel restrictions) affecting your workforce?
- Have you completed workforce profiling to understand where work levels are likely to decrease or increase due to impact?
- How can you enable flexible / remote working arrangements in the event of quarantine and do you have the necessary infrastructure in place?
- Is a comprehensive set of people policies in place that addresses the risks identified by your scenario planning and any local, legal or regulatory requirements?
- Have you reviewed your HR policies to understand where risks are exacerbated / mitigated and the extent to which this supports / undermines the proposed response (e.g. flexible working, immigration, travel, and other relevant policies and regulations)?
- Have you put risk mitigation around employees working while ill and causing further spread by considering the ability to enforce policy changes quickly?
- Do you have a strategy to manage any defined benefit pension plans, as stock market and bond yield declines will have led to increased deficits at the same time that trustees and regulators are under increasing pressure for cash funding?

Operations and supply chain

Maintain business continuity and protect your supply chain

- Have requirements of key suppliers, such as facilities management and IT service providers, been reviewed in light of any requirements that may change during a pandemic period (e.g. increased cleaning regimes)?
- Have you liaised with key third parties to ensure they will be able to continue to deliver desired service levels during the coming period?
- Are you monitoring exposure trends and restrictions against your supply chain?
- Have you performed an operational risk assessment and considered the impact of disruptions on critical business functions?
- Do you have visibility of critical supply chain parts and data to properly assess the potential damage and create immediate plans?
- Do you have any third-party single points of failure?
- Have you performed a risk assessment across all supply chain tiers? Have you considered using machine learning to find patterns that can be indicators of risk - or opportunity?
- Have you evaluated strategies for alternative sourcing, including the impact of tariffs to cost?
- Do you have a communications strategy in place for key supply chain stakeholders?
- Have you conducted scenario planning exercises to understand the operational implications, both financial and non-financial, of various scenarios?

Communication strategy

Provide clarity to employees and stakeholders and enable business continuity

- Have you created an internal and external stakeholder map for key communications (considering staff, customers, suppliers, regulators, etc.)?
- Do you have a clear communications strategy that can be implemented in a crisis to protect your reputation and maintain the trust of your stakeholders?
- How are you communicating with your employees?
- How are you keeping employees regularly informed about the latest updates and guidance?
- How are you providing reassurance and consistent messaging to all staff and showing a duty of care?
- How are your crisis communications aligned with your organisation's culture and communications requirements?
- How can best practice approaches be tailored to suit your organisation?

Source: PwC COVID-19 Response Considerations

Immediate priorities for banks

Setting up your COVID-19 response: Considerations (2 of 2)

COVID-19 response strategy

Focus on data

Gain insight and assess your exposure to risk

- Do you understand how an affected country/region might impact the commercial performance of your industry, your business, or that of your suppliers?
- Do you understand the potential impact of a global or country-specific slowdown on your business?
- Are you able to access robust data insights to underpin key decisions that you need to make?
- Do you have the time and skills to digest and analyse existing data sources in new ways to enable decision making?
- Are you able to identify new data sources that may be required?
- Are you able to rapidly automate data capture processes for new data sources?
- Can you efficiently blend datasets to reveal insights?
- Do you have the skills and experience to manage sensitive data responsibly?
- Do you have models that answer your questions or issues, including challenging and validating data and model assumptions?

Customers and revenue

Balance customer care with commercial priorities

- Have you updated your sales and demand planning strategy, including assessing changes in customer behaviour (e.g. buyer habits)?
- Have you formed a coherent customer communications plan?
- Does your plan help to preserve and enhance customer loyalty?
- How does your health and safety plan extend to customers?
- Do your policies reflect the need to protect both your customer and commercial interests?
- Have you evaluated your competitive position under the new environment, identifying both risks and opportunities?
- Have you identified and created an action plan against the core marketing and sales priority areas Can you innovate and invest in available sales channels?

Head office functions

Join up efforts on a cross-functional basis to ensure business continuity and resilience

- Do you need to financially or operationally restructure your business to reduce risk and protect value?
- Have you updated your working capital plans and forecasts?
- What contractual options are available to you as the customer, or could be used against you as the supplier?
- What contractual levers do you have available to suspend, terminate or change the terms of supply (e.g. invoking force majeure provisions, termination provisions and step-in rights)?
- What access do you have to emergency funding, increased production funding needs or government supported financing, tax and liquidity e.g. tax deferrals, rates holidays etc.?
- Have you considered the tax and regulatory implications of moving people to alternative locations? What systems and processes do you have in place to monitor movement of your employees?
- What insurance policies and access to emergency insurance do you have in relation to your scenarios (e.g. notifiable disease implications)?
- What technology infrastructure/resilience capabilities do you have?
- Can your IT infrastructure support vast remote access demand?
- How are you securing and maintaining your IT systems and data?
- Have you assessed whether the changes in the IT environment would increase the risk of a cyberattack?
- What are your triggers for making disclosures to the markets?
- Have you considered the personal and corporate tax and regulatory implications?

Source: PwC COVID-19 Response Considerations

How PwC can help

We can work alongside you to tackle the challenges you face in responding to COVID-19

Crisis response and management

- Establish a crisis response structure with established work streams, clear responsibilities and accountabilities.
- Develop likely, reasonable and worst case scenarios and evaluate their potential impact, to support crisis and response planning.

Workforce

- Assess potential impact and develop options to identify and move labour with the key skills to support the P&L of the organisation.
- Proactively manage where, when and how disruption will impact the availability and effective utilisation of skills in the business.

Operations and supply chain

- Perform an operational risk assessment, consider and plan for the impact of disruption on critical business functions.
- Understand your COVID-19 supply chain risks and impacts, including third-party suppliers.

Communication strategy

- Develop a rapid communications plan and approach to build and maintain trust and reputation during the crisis for key stakeholders.
- Tailor best practice templates and communications materials such as emails, FAQs and intranet.

Focus on data

- Identify data needs and develop protocols for data extraction, preparation and analysis.
- Model the impact of scenarios on industry sector or business-level commercial performance and stress test commercial revenues against downside economic scenarios.

Customers and revenue

- Revise your sales strategy to deal with evolving customer behaviour and competitive environment (risks and opportunities).
- Prioritise actions to protect customer relationships and commercial interests.
- Model customer behavioural change.

Head office functions

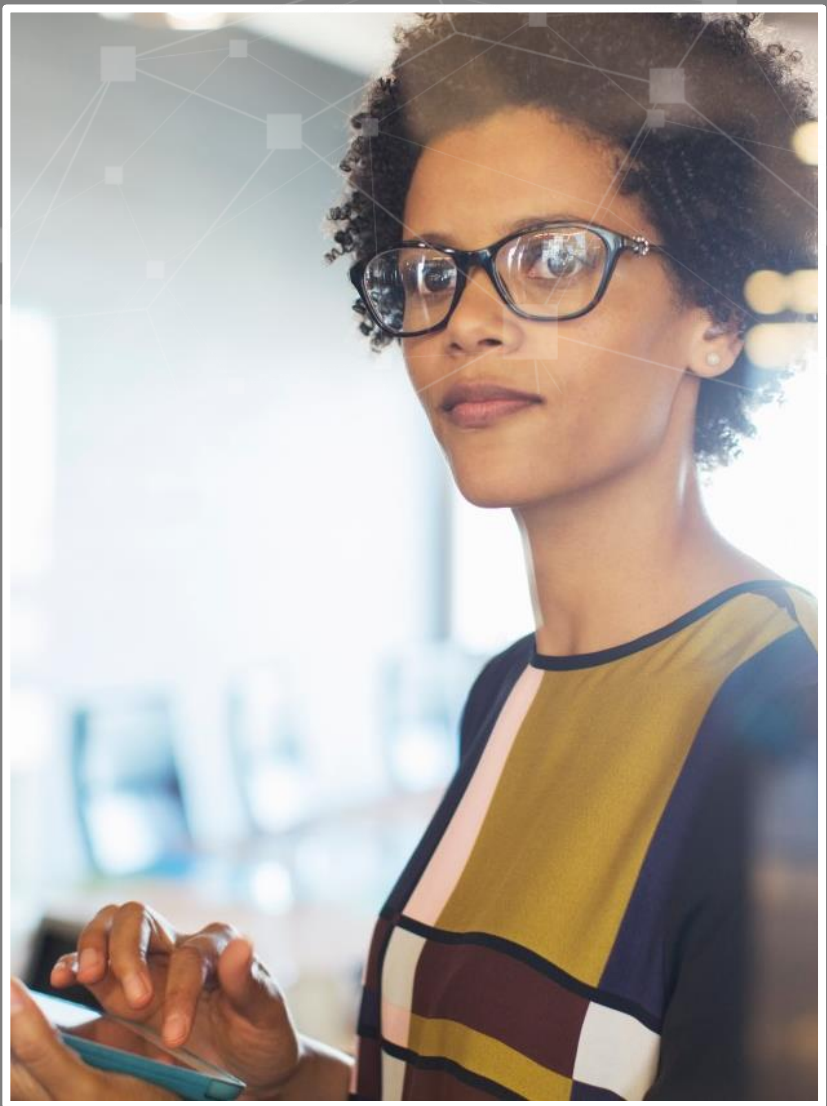
- Legal, IT, Commercial and Insurance: Review existing insurance coverage, IT infrastructure and resilience, force majeure, contract clauses.
- Finance, Treasury and Tax: Financing (private or government), restructuring and cash-flow.
- Investor Relations: Market disclosure.

Source: PwC COVID-19 Response Considerations

Key Contacts

Andrew S. Nevin, Ph.D.
Partner - West Africa
Financial Services Leader
& Chief Economist
andrew.x.nevin@pwc.com

Adedoyin Amosun
Associate Director, FS Advisory
adedoyin.amosun@pwc.com



COVID-19 and its impact on the Nigerian insurance industry

02

Impact on the Nigerian insurance industry

Risks, Challenges and Implications for the insurance sector

With most businesses in uncharted territories, there is a heightened risk of :

- A surge in health, travel and business interruptions, supply chain and event cancellation claims.
- Pressure on sales from reduced business activity.
- Less use of face-to-face channels. Web and phone traffic may surge, creating operational constraints or disruptions.
- IT and other support services may deteriorate because of internal challenges or vendor problems.

Implications for the insurance sector

- Driving interest rates even lower.
- Increasing credit risk exposures from businesses facing possible default.
- Possibility of regulators asking for extraordinary solvency tests to ensure insurers can withstand the immediate and knock-on impacts.

Coming through when it matters most

COVID-19 could be a turning point for the insurance industry by enabling insurers to demonstrate their higher purpose and value to society

Overview of how the industry has responded across geographies

We have seen in previous crises such as the Japanese tsunami in 2011, this kind of positive and decisive response from insurers can permanently reshape perceptions, cement customer loyalty and renew trust within society as a whole.

China

- A leading insurer has set up an emergency fund to help tackle the outbreak.
- Further steps include an easier and fast-tracked claims process.
- Insurer also extended assessment of inability to work, to include medical isolation, or advice of a doctor or government authority, in response to direct or probable contact with COVID-19.

Singapore

- A leading insurer has doubled the benefits for frontline healthcare workers who are hospitalised due to COVID-19, in recognition of their selfless contribution to patients.

USA

- An insurer's announcement that its customers will have access to medically advised coronavirus testing.
- intends to waive co-pays and other forms of cost sharing.

South Africa

- A leading insurer is providing cover for any illness, impairment or disability where these conditions are caused as a result of complications linked to infection by any bacteria or virus. The virus can be COVID-19 or another virus.
- This includes claims for temporary or permanent inability to work, severe illness or even death.
- A fast track claims process and waiver for any deductibles.

Kenya

- The insurance industry association has said that its members will cover coronavirus-related conditions though pandemics are usually exempted from cover.

Nigeria

- The Nigerian Insurers Association said it will support in the fight against Coronavirus through the provision of kits and insurance cover for all medical personnel and allied workers involved in giving care to COVID-19 patients.

Insurers are also bringing their technological expertise to bear, including the development by one of a smart image-reading system to help speed up diagnosis of suspected cases of COVID-19

Immediate priorities for insurers

Leveraging insight from the PwC network, we have identified immediate priorities for insurers.

Setting up your COVID-19 response: considerations (1 of 2)

Purpose-driven culture

The true purpose of an insurer in times of crisis and stress is to provide peace of mind.

Being there when it matters most for the Insured requires Insurers to devise strategies for handling this crisis from a customer and wider stakeholder perspective.

From waivers of deductibles to pre-approval of claims or setting up funds for frontline employers, insurers are demonstrating their empathy.

Active within a health ecosystem

Online health platforms can provide veritable support

While life insurance sales are down, insurers with a broader engagement in the healthcare ecosystem in areas such as online health platforms are attracting new customers. Prominent examples include Ping An and Prudential plc with their online health consultation services in Asia.

Notwithstanding the current crisis, life insurers with a well-executed health ecosystem strategy will win the long game.

Digital distribution capability

Digital customer engagement has become the new normal

While face-to-face interaction has been limited by social distancing, insurers who have built digitally assisted distribution and sales capabilities are still able to engage with customers and service their needs.

This crisis may prove to be a catalyst for product simplification and accelerating the development of direct digital channels.

Source: PwC – Insurance and COVID-19

Immediate priorities for insurers

Leveraging insight from the PwC network, we have identified immediate priorities for insurers.

Setting up your COVID-19 response: considerations (2 of 2)

Self-service enabled claims and customer service

Digital channels may improve the customer experience and speed to serve

As the number of enquiries and claims increase, insurers need a cost-effective yet customer-friendly way to handle these requests.

Directing customers to self-service channels and the automated processing of straightforward claims are proving effective.

Operational agility

Digital capabilities and maturity are evident in the ability of teams to still deliver on their mandate

Whether working remotely, managing workforce demand dynamically or bringing new products to markets quickly, a crisis like this is a good test of organisational agility.

Insurers that have invested in the development of a connected digital enterprise will most readily be able to adapt, flex and execute.

Informed and proactive capital management

Proactive scenario analysis will reduce unpleasant surprises and mitigate risks

A sharp economic downturn could have serious implications for solvency ratios. Insurers' ability to handle the impact will depend, to a large extent, on advance systematic scenario planning and capital management capabilities.

In addition, there is a need to assess asset impairment and expected credit losses and loss recognition testing models to include current market data and best-estimate assumptions.

Also, it will be expedient to reach out to regulators to flag problems and risks, and proactively shape any regulatory guidance.

Source: PwC – Insurance and COVID-19

How PwC can help

We can work alongside you to tackle the challenges you face in responding to COVID-19

Crisis response and management

- Establish a crisis response structure with established work streams, clear responsibilities and accountabilities.
- Develop likely, reasonable and worst case scenarios and evaluate their potential impact, to support crisis and response planning.

Workforce

- Assess potential impact and develop options to identify and move labour with the key skills to support the P&L of the organisation.
- Proactively manage where, when and how disruption will impact the availability and effective utilisation of skills in the business.

Operations and supply chain

- Perform an operational risk assessment, consider and plan for the impact of disruption on critical business functions.
- Understand your COVID-19 supply chain risks and impacts, including third-party suppliers.

Communication strategy

- Develop a rapid communications plan and approach to build and maintain trust and reputation during the crisis for key stakeholders.
- Tailor best practice templates and communications materials such as emails, FAQs and intranet.

Focus on data

- Identify data needs and develop protocols for data extraction, preparation and analysis.
- Model the impact of scenarios on industry sector or business-level commercial performance and stress test commercial revenues against downside economic scenarios.

Customers and revenue

- Revise your sales strategy to deal with evolving customer behaviour and competitive environment (risks and opportunities).
- Prioritise actions to protect customer relationships and commercial interests.
- Model customer behavioural change.

Head office functions

- Legal, IT, Commercial and Insurance: Review existing insurance coverage, IT infrastructure and resilience, force majeure, contract clauses.
- Finance, Treasury and Tax: Financing (private or government), restructuring and cash-flow.
- Investor Relations: Market disclosure.

Source: PwC COVID-19 Response Considerations

Key Contacts

Andrew S. Nevin, Ph.D.
Partner - West Africa
Financial Services Leader
& Chief Economist
andrew.x.nevin@pwc.com

Adedoyin Amosun
Associate Director, FS Advisory
adedoyin.amosun@pwc.com

How are financial services firms navigating COVID-19? Look at their workforce

03

How are financial services firms navigating COVID-19? Look at their workforce

As the pandemic spread this spring, financial services (FS) firms were juggling many competing priorities. What to do about risks emerging at their business partners? What should they focus on first, a rise in cybersecurity threats, or challenges in keeping operations running? How to value their portfolios, when market volatility was soaring? What about customers who may be in financial distress? Or rates near zero, when interest is linked to profitability? Which of these might have the biggest impact?

Well, we asked. It turns out FS firms were even more concerned about something else—their people.

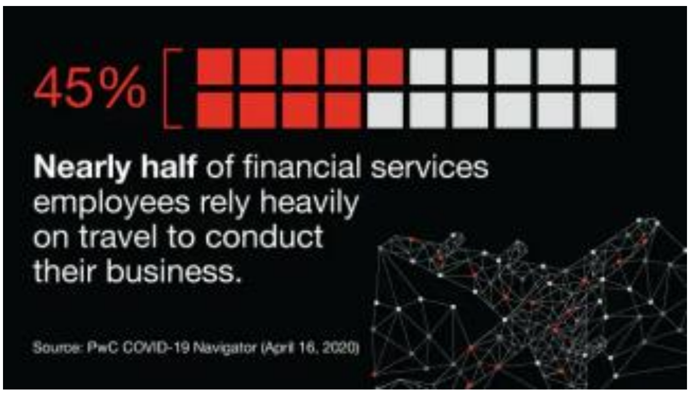
This is an industry actively protecting the health and well-being of its people and its institutions, and ultimately playing its part in protecting our economy and society.

The survey results came from COVID-19 Navigator, an online, interactive diagnostic tool we built to help organisations around the world benchmark their efforts against the virus.[1] Executives who participate receive a summary report that shows how they stack up against their peers, and some ideas on how they can address areas where they need improvement.

1 - Survey results discussed here include 213 respondents from financial services firms in the US and Mexico, as of April 16, 2020.

People deliver financial services. We asked survey takers if human interaction is necessary in delivering their products and services. For FS firms, 39% said this was true to a significant extent, and another 28% said this was true to a moderate extent. So, in an industry that has undergone intense digitisation, roughly two-thirds (67%) felt people are still a key part of the process. We've frequently observed that automation frees people up to focus on work with more value. It's no wonder firms are concerned about employee wellness initiatives.

Travel is a big part of the job. Are employees heavily reliant on travel to conduct their business? In FS, nearly half (42%) of those we asked agreed (14% said they relied on travel to a "significant extent," and 28% said to a "moderate extent"). Given the widespread restrictions on travel, that means a huge part of the workforce is scrambling to find new ways to work. This is true for investment bankers who jump on planes to close deals. But it's also true for insurance adjusters, branch managers and even some workers in data centers. Productivity will almost certainly take a hit, and this could even affect the way some key people on the team are compensated.



How are financial services firms navigating COVID-19? Look at their workforce

Work from home? Maybe. The last time FS firms (in the US) had to work remotely was after 9/11. A lot has changed since then. In FS, only 17% felt their workforce would not be able to effectively work remotely if needed (6% agreed “to a significant extent” and 11% said “to a moderate extent”). While this is far lower than other sectors—in industrial manufacturing and automotive, for example, the total figure is 67% (32% significant, 35% moderate)—many firms are already thinking about how to rewrite their crisis management playbooks.

This could mean changes to the operating model. For example, certain supervisory and compliance jobs may need to be redesigned to enable remote work. Eventually, some firms may re-evaluate their real estate footprint and look to consolidate or move physical locations. But some firms are still dealing with stabilising certain functions: shoring up infrastructure for remote workers, improving processes to onboard customers from a distance or finding tools to retrain workers quickly. (Here’s a way PwC can help: We’ve opened our Digital Fitness application to everyone, for free. We’ve already used it to train more than half our own staff on new technology and new ways of working. It now includes content about COVID-19, too.)

Avoid layoffs if you can. Among those in FS who completed the COVID-19 Navigator, roughly a quarter expect to make headcount adjustments (7% “to a significant extent” and 16% “to a moderate extent”), which is lower than in most other sectors. This is heartening, and it fits with what we’ve heard from clients. Tim Ryan, PwC’s chairman for the US and Mexico, recently called on companies to do all they can to keep people employed during this crisis. Tim reminds us that firms often have many other levers available to manage resources—and that by putting people first, we can ultimately make our economy stronger and more resilient.

Keep on operating. FS firms generally rated themselves well for preparing and responding to COVID-19 with their operations and supply chain efforts. Only 17% said they were just getting started, and 43% felt they were “on [their] way.” We think this undersells their achievements. Let’s face it: An entire industry has reconfigured itself in weeks. Calls are still being answered. Funds are still being traded—in fact, at record levels. Claims are being paid. FS firms are playing a critical role in supporting other industries who have been through rough patches, and there will be more. But unlike the crisis of 2008-9, the FS industry is proving itself to be remarkably resilient, and many view it as part of the solution.

The adrenaline rush is fading, and the next few months will be complicated. As firms start thinking about when to reopen offices, they’re addressing new human capital issues: how should they balance factors such as health and regulation? Can social distancing be maintained within the current office configuration? If a worker gets sick, how can they identify who else might have been exposed? Which functions should transition back onsite: branch staff? The contact center? Traders? How do we sequence the transition to prevent the risk of infection? How should management factor in worker preference when deciding where people work? Even though FS firms have been quite resilient with the use of remote work, can it be made more effective? We’re moving from stabilising to strategising. That’s a good sign.

So what can FS executives learn from this? The way you handle this situation can pay dividends for years. Every day is an opportunity to start over and approach the situation with empathy. Employees may be on edge, worried about their health and that of their loved ones. Many are changing the way they work. They may not have all the tools they need. They could be concerned about job security. They’re trying to address their clients’ needs with grace and professionalism, even as a water gun battle breaks out on camera behind them. Let’s keep looking for ways to help our people stay healthy and productive. We’ll all be better off as a result.

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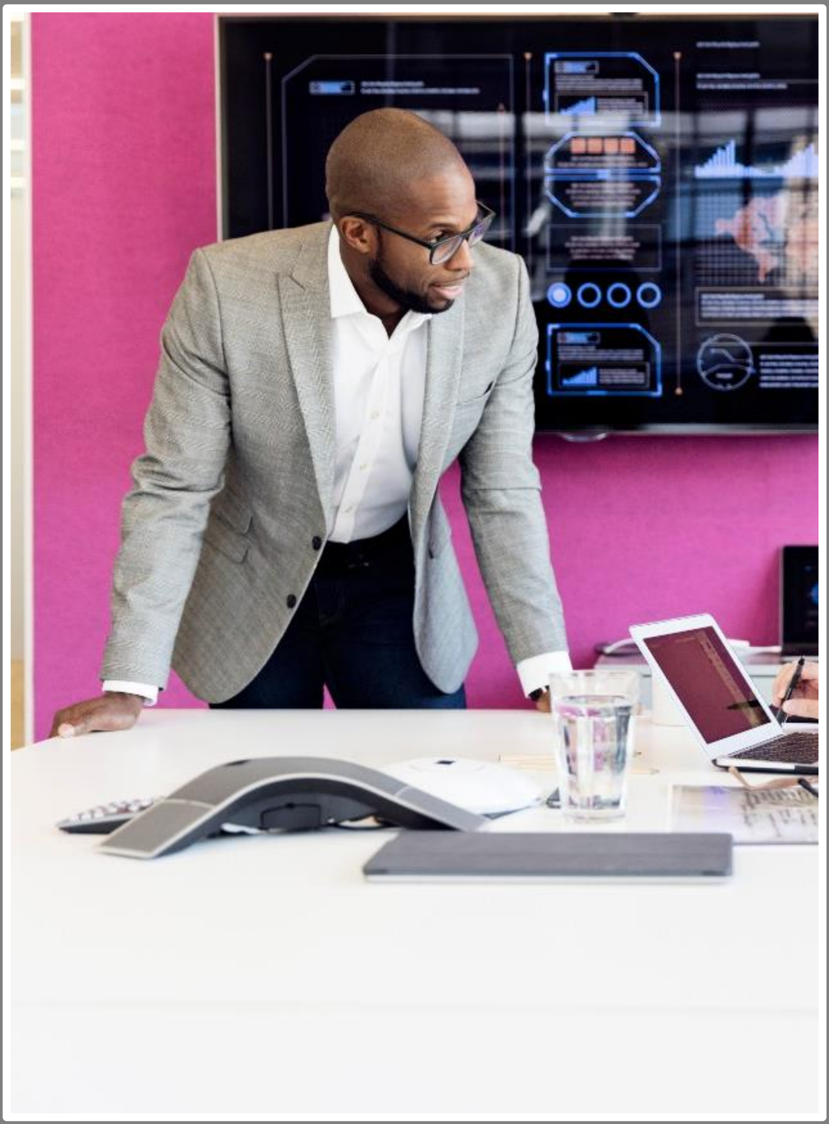
Bhushan Sethi
Principal, Joint Global Leader,
People and Organisation, PwC US

Julien Courbe
Financial Services Advisory Leader,
PwC US

Julia Lamm
Partner, Financial Services
People & Organisation, PwC US



Extending due diligence beyond finance and tax

04

Extending due diligence beyond finance and tax

Introduction

Due diligence is typically commissioned during proposed divestments from and investments in a business. This is applicable to transactions across all sectors and industries. Given the recent changes in the world economy (impact of COVID-19), recapitalisation requirements of players within the Nigerian insurance industry as mandated by its regulator – National Insurance Commission ("NAICOM"); and several trends within the financial services and other key sectors, we expect a number of deals across various industries. This article seeks to provide guidance to proposed investors and shareholders' looking to divest from their businesses.

Due diligence reviews include, but are not limited to the following – financial, tax, commercial, human resources, operational, information technology, forensics etc. However, it appears that most investors usually focus on the financial and tax aspects of businesses whilst neglecting other aspects. Depending on the objectives of the proposed investment and/or divestment, this might be appropriate. However, it is advisable for investors to consider both external and internal factors before investing in any business.

There are several benefits when a comprehensive due diligence review is carried out on a business. It provides:

- An overview of the key aspects of a company's business operations – This attempt to eliminate the risk of unknown surprises;
- Guidance for price negotiations – Insight into risks and opportunities for consideration in the valuation model;
- Information for negotiations with buyers or sellers;
- Insight into the key upsides and vulnerabilities to the business plan;
- Insight into the quality of management – This mostly applies to private-equity firms, where the target's management team will be responsible for the business going forward;
- Insight into potential tax exposures and opportunities for tax efficiency;
- Inputs for planning the transition and post-merger integration (where required) etc.

Below shows the characteristics, benefits etc. of conducting other forms of due diligence (asides financial and tax).

Human Resources ("HR") Due Diligence

Involves understanding the culture of an organisation, roles, capabilities and attitudes of its people. The main focus of HR due diligence is to verify that the target's culture is compatible enough with the acquirer's to allow for the building of necessary bridges between the two organisations; including assessing which top executives should be retained, by what means, and how to manage the reaction of the rank and file.

Too often, deal makers simply ignore, defer, or underestimate the significance of people issues in mergers and acquisitions. The most obvious consequence of making a deal without conducting human due diligence is a significant loss of talent right after the deal's announcement. Less obvious is the problem of long-term attrition. HR due diligence can help acquirers avoid numerous problems related to its workforce, as it uncovers capability gaps, points of friction and differences in decision making. Most importantly, they can make the critical people decisions—who stays, who goes, who runs the combined business, what to do with the rank etc.
Human due diligence lays the groundwork for smooth integration. Done early enough, it also helps investors and organisations decide whether to embrace or end a deal and/or determine the price they are willing to pay.

Four main areas to be covered by HR Due Diligence:

Extending due diligence beyond finance and tax

Commercial Due Diligence ("CDD")

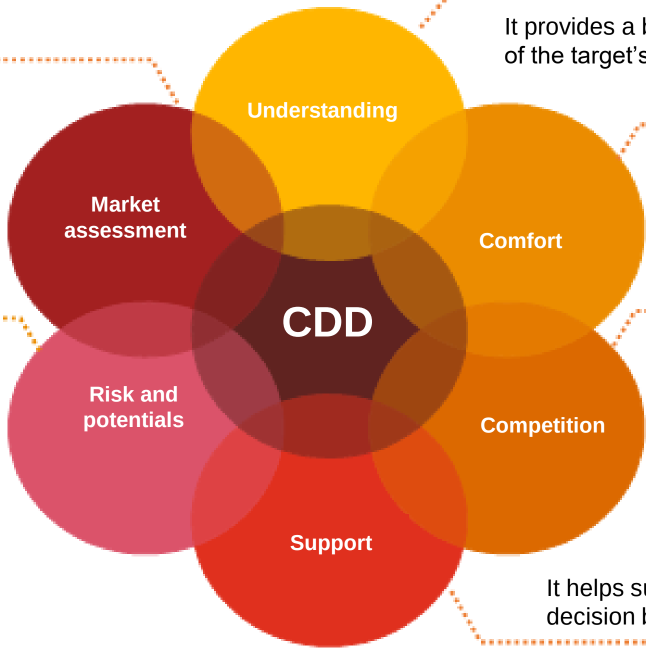
This involves a comprehensive review of a company's business plan in the context of projected market conditions and the industry/competition, in order to identify risk(s), opportunities and future value creation potential for the business.

Whilst financial due diligence is centered around the financial health of a company and historical performance, commercial due diligence focuses on its internal and external environment and value generation potential.

Some of the main benefits of conducting commercial due diligence include:

It provides a buyer with an in depth understanding of the target's position pre-negotiation

It provides an assessment of the external market and how this may affect the company's ability to achieve its forecast result



It can be used by the acquirer to provide additional comfort and assurance to potential lenders about the target's business

It helps to identify key risk areas in the company's valuation and recognize unrealized growth potential

It helps determine the competitive positioning of the company and business model, compare to other key competitors

It helps support investment theses and decision by investors

Beyond quick wins in structuring the merger and acquisition deal, the CDD process also focuses on value creation or synergy opportunities that have a measurable impact in the near future and turns deals into successful businesses.

Operations Due Diligence ("ODD")

The core emphasis of Operational Due Diligence is to provide insight into the current operational performance of a company, while identifying operational risks across the different functions that can adversely impact or drive down enterprise value.

Typical questions/concerns addressed during an operational due diligence review include:

- Can the company's performance be sustained and/or increased based on assessment of market trends, competitive dynamics and customer spend projections?
- How do we mitigate downside earnings risk and what are the potential upside opportunities?
- How do we drive transformational earnings improvement? What are the earnings run rate impact?
- How do we integrate the acquired business, eliminate redundancies and develop KPIs to meet strategic objectives etc.

Extending due diligence beyond finance and tax

Information Technology ("IT") Due Diligence

IT is a top cost center usually consuming significant amount of administrative expenses budget in most firms. This seems to be embedded in everything a company does and provides insights that speaks to the Company's level of efficiency and innovation. Technology can hinder sales and lower a company's output if not set up or managed properly.

IT due diligence focuses on understanding the overall IT landscape at an organisational and operational level, including specifying a clear and comprehensive picture of the Total Cost of Ownership (TCO) of a company's IT infrastructure and components. It helps the acquirer to conduct a better valuation of the target by providing insights into the following key areas:

- Potential synergies/integration, security concerns;
- IT infrastructure and components, including data centers, security, network, telecom, end-user services, service desk and support, etc;
- IT spends, inclusive of all operating expenses and capital expenditure, both historical and forward projections in comparison with industry benchmarks.

IT due diligence is increasingly becoming a key factor in enabling post deal business development initiatives, successful integration and separation programs; and it's essential in ensuring better valuation, identifying and mitigating risks which could impact the transaction or post-transaction integration.

Integrity Due Diligence ("IDD")

A company's brand could be damaged from acquiring a target with a damaged reputation or involved in criminal activities. Hence, it is important for an acquirer to conduct IDD on its target and management team before entering a business arrangement.

IDD helps to evaluate the integrity, reputation (*including fraud and other unethical/criminal behavior, creditworthiness, business affiliations, political relationships and litigations*) and business track record of a target and its owner(s), in order to ensure the acquirer's reputation, finances etc. are adequately protected.

Conclusion

Due diligence is central to the deal process and the main purpose is to help key stakeholders make decisions during every transaction. Although there are several challenges encountered when performing due diligence reviews in emerging markets, the benefits outweigh the cost, risk and drawbacks.

The focus for due diligence should not be entirely on the finance and tax aspects, but should cover every aspect of the business operation, both internal (*Management, People, Organisation, Technology etc.*) and external (*Political, Social, Economic, Legal, Competitions etc.*), as it provides decision-makers with a deeper understanding of the business, its risks and opportunities.

You need a due diligence review to make sure you get the maximum return on your deal, by providing the insights you need to make an informed investment decision.

Key Contact

Kunle Amida
Partner, Deals Advisory,
kunle.amida@pwc.com

Tax Function Imperatives for CFOs Post COVID-19

Tax Function Imperatives for CFOs Post COVID-19

Introduction

The COVID-19 pandemic has resulted in a drastic decline in the export earnings and public revenue of commodity-dependent countries, like Nigeria, due to the decline in the global price of crude oil or closure of mining activities.

The decline in public revenue has compelled the Federal Republic of Nigeria (FGN) to Fasttrack the diversification and structural transformation out of oil revenue to fund government expenditure which it had already embarked on in the aftermath of the 2016 recession.

In a bid to accelerate its tax collection efforts, the FGN has employed a couple of strategies which have in-turn increased the compliance obligations on the already burdened finance and tax functions, especially in the Banking and Financial Services industry.

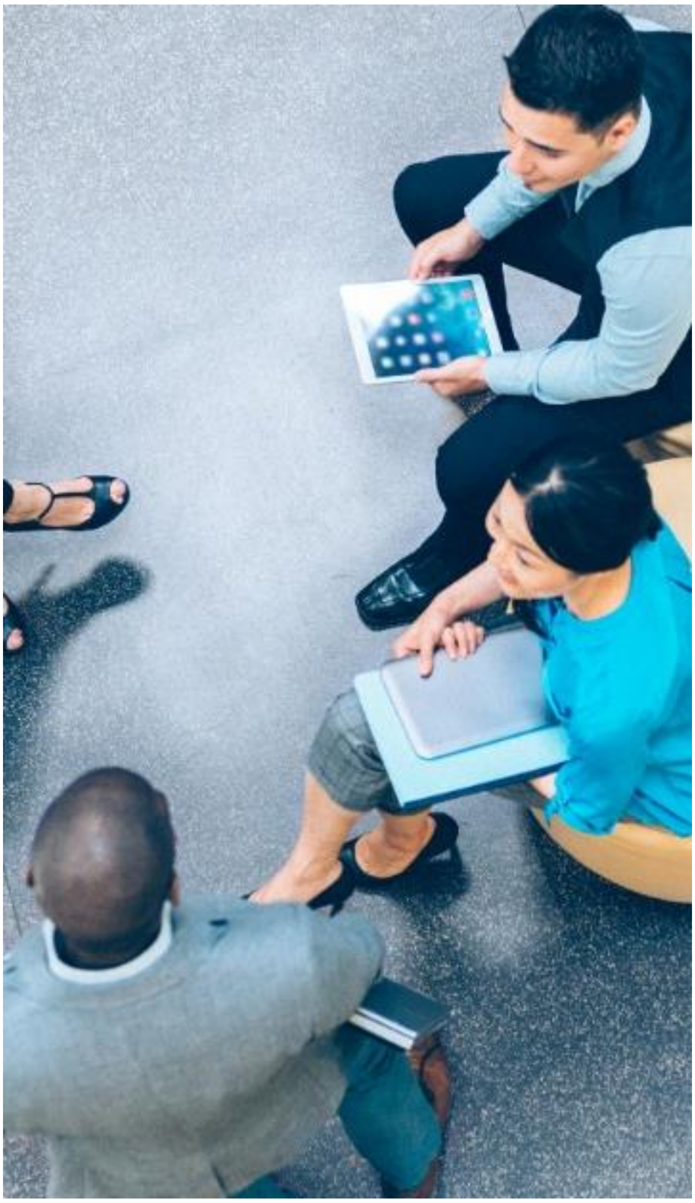
The "New normal"

COVID-19 has disrupted the way organisations work, making them think differently, and be more agile in a cost-conscious environment in the short term in order to meet the already increasing tax obligations.

The reality is that the changes that most finance and tax departments were forced to make in the short term, will be the "new normal" in the medium to long term. For finance and tax leaders, this means shifting to Tax Operating Models (TOM) that deliver immediate cost savings while strengthening planning, increasing efficiencies, optimising data, making better use of technology, and upskilling people.

While, no two companies are the same, tax leaders in large and medium sized organisations face these common challenges:

- Would working with an outside provider be better? Aside from concerns about the disruption a transition could cause, tax leaders are asking about how to choose the right firm, what tasks it could handle, how an outside provider would work with its people – and, of course, how much it will cost vs the value derived from the service providers.
- How do you balance cost and performance? Everyone needs to cut costs; but how can you do so without disrupting core compliance and reporting functions?
- How do you manage data more effectively? People spend a lot of time preparing data for tax-specific consumption. Gathering the right data and presenting them in the format that solves a tax problem takes a lot of time because so much of that is done manually, outside the ERP system.
- How can technology help? Freeing up people's time, automating routine tasks, and improving visibility are important; but so is avoiding significant costs and the need to upgrade every few years.
- What will happen to my people? With pressure to cut costs and work differently, tax leaders are reviewing available resources based on skills that are actually needed.



Tax Function Imperatives for CFOs Post COVID-19

Tax function imperatives

There are clear imperatives that we believe can help CFOs and Heads of finance pivot their tax functions to high-performing tax functions that are not only cost effective but are able to enhance value and limit disruption to the compliance process and reporting process.

1. Determine your Target Operating Model (TOM)

The tax process and compliance obligations of an entity in the financial services sector have exponentially increased due to the rapid changes in the tax landscape brought about by local and international regulatory requirements.

We expect that many companies will need to review their TOM for each process and then select the future target operating model from options available, which include Inhouse, co-source, outsource to fully tax managed services.

The spectrum detailed below represents the operating models various organisations are using and the benefits they are realizing.

Internal → External

	In-house (HQ-centric)	In-house (Leverage SSC/CoE)	Co-source (Third party service provider)	Outsource (Third party service provider)	Managed services (Third party service provider)
Key features	• Most tax activities performed internally by tax and/or dedicated finance personnel • Requires investments in skilled talent with requisite industry and technical experience	• Leverage finance/other function shared centers for repeatable compliance and reporting activities • Tax-focused centers of excellence handle complex tax functions, such as transfer pricing	• Collaborate with external resources on certain activities within the tax life cycle • Leverage outside expertise on specific tax technical areas	• Fully leverage service providers for certain activities within the tax life cycle • Outsource strategic components of the tax function	• Comprehensively delivers tax needs across the full tax department • Services delivered by former in-house tax departments (GE, Berkshire Hathaway)
Key benefits	• Leverage technologies and other tools/skills from people in other areas of the business • Obtain legacy knowledge of the business and existing relationships with other internal functions	• Reduce in-house tax department to critical or highly sensitive areas • Centralize and streamline performance of routine (SSC) or high-value (CoE) activities • Leverage existing platforms or infrastructure to cut costs	• Retain in-house tax staff to manage providers and other high-value internal tax activities and projects • Access external technology and experience for certain functional areas • Implement technology or leverage existing platforms for in-house functions	• Allow internal resources to perform higher value activities (e.g., planning) • Reduce significant risks associated with global tax compliance • Access external technology and expertise	• Realize cost savings by consolidating tax expenditures to one dedicated service provider • Retained strategic tax functions are forward-focused, reducing risk and driving value across the business

2. Define your data requirements

The tax function has become one of the largest consumers of data within an organisation not only data from the systems that records financial data, but also data from other systems that record non-financial data brought about by increased compliance and reporting obligations.

In particular, the appetite for data by the tax function of Nigerian Financial institutions have increased exponentially due to the new global regulations around transparency and collaboration among tax authorities such as Foreign Account Tax Compliance Act (FATCA), and Automatic Exchange of Information between countries such as Country-by-Country reports (CbCR) and Common Reporting Standards(CRS).

On the other hand, most of the tax functions rely on time-consuming manual processes, labor-intensive data collection, other functional areas within the organisation, and inefficient review processes. This increases delays, risk, cost, and limits the tax department from providing strategic value.

These challenges call for an organisation to employ standardised and automated tax data management architecture “one version of the truth” for consistent use throughout all processes in the end-to-end tax life cycle.

The advancement in tax data management and analytics technologies over the years can put tax functions in the driving seat. The reality is that the tools are often being used elsewhere in the business but at the exclusion of the tax function.

The roadmap to best in class tax data architecture can be achieved by ensuring that the overall design will contain the following hallmarks:

- Automated - Data extraction, validation, and preparation is automated to identify reconciling items immediately, reducing manual intervention;
- Collaborative - Review, and information sharing between company and service provider can be tracked, automated, and centralized in a single portal, reducing iteration by email;
- Recyclable - Adjusted source data is provided in a format that facilitates automated push into standardized workpapers to prepare tax-specific calculations, reducing further need for manual intervention; and
- Informative - Dashboards and analytics provide drill-down insights to facilitate a risk-based review of information historically contained in separate PDF documents for federal and state income tax returns.

We expect that each organisation will evaluate its maturity level in the tax data management continuum and evaluate the investment it needs to enable it to reach its future TOM. Whatever the goal, the new challenges call for technology investments and automation to drive efficiency and lower compliance costs.

3. Determine the technology investments

Automation may or may not be a subject you are entirely comfortable talking about right now. But it should be. Not because it is a fascinating trend, but because it will help transform your Tax Function, allowing it to perform at the next level and beyond. The potential benefits could help shift the perception of Tax from a purely compliance-focused function, to one that also has enhanced capabilities and a proactive mindset

The tax technology landscape range from 'Low code' or self-service tools that can enable teams to address data challenges on their own and eliminate repetitive tasks so called "small automation" to more advanced tools that requires stronger collaboration with the IT department and are designed for business users to take advantage of robotic process automation, AI, and optimise tax processes; so called "big automation".

It's easy to jump to technology tools, but that's often the last piece of the puzzle. Focus should be on Small automation as it normally translates to fast implementation of flexible and adaptable technologies not easily accomplished by enterprise systems.

What can small automation tools do?

- Transfer data automatically
- Evaluate large data sets
- Display a variety of data points and measures
- Enable collaboration with data sharing
- Access data in a centralized location
- Create ad hoc reports and queries
- Mimic repeatable human behaviour

Basically ANYTHING mechanical or rules based (even if rules are 'fuzzy')

The roadmap/plan for small automation involves these critical steps:

- Perform an initial scan of current Tax pain points:
- Assess and select a short list of processes suitable for automation; and
- Develop prioritised roadmap and project plan.

4. Optimise your team

Rapid advancements in technology and digital places new demands on tax professionals. The old ways of working are no longer effective in supporting the Tax function.

People are at the core of any technology/digital transformation. On the other hand, it is impossible to hire all the skills that are needed to manage today's tax complexity. Reskilling the Tax workforce—that possesses valuable tax and institutional knowledge—is important.

Based on our own experience of upskilling our people under the theme "Your Tomorrow", we have come to learn that in order to create new digital business leaders, there is a need to evaluate digital aptitude, understand how they learn and what they want and provide customized training, and report activity.

In today's environment, Tax professionals need new technology/digital skill sets. Head of finance or tax functions must first define how digital upskilling aligns with Tax and business objectives and what drives a successful workforce. In collaboration with Human Capital, implement and continuously monitor key performance indicators (KPIs) focused on tax talent and technology.

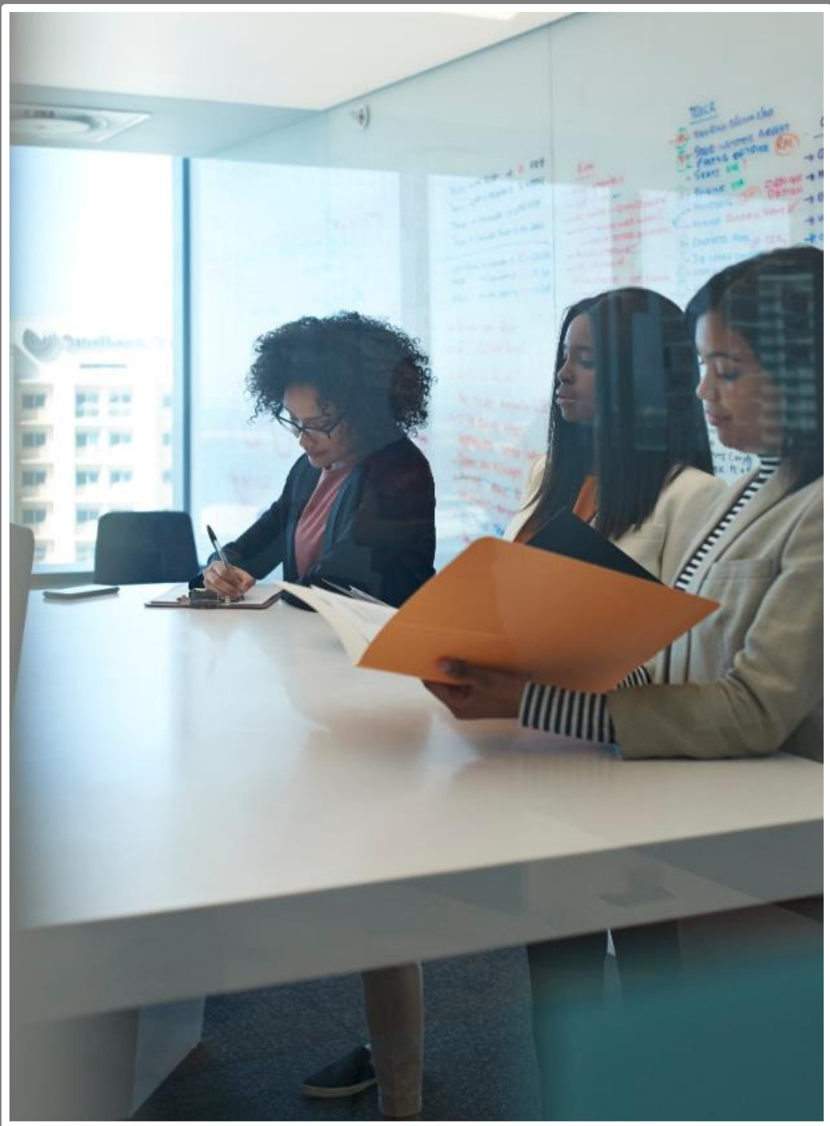
Have you heard of PwC Digital Fitness Assessment (DFA) mobile app? It is an interactive solution that leverages leading edge technology to evaluate digital aptitude, provide customized training, and report activity in dashboard format. The DFA app is now available for other organisations to use in their approach to workforce upskilling and has been adopted by businesses in all industry sectors to support broader organisation strategy.

Conclusion

You've already had to change how you work, and the truth is that most organisations will operate differently even after the current crisis passes. The leading tax functions we work with are using this disruption as an opportunity to examine ways to improve their performance and explore what's possible.
As you have seen, there are lots of options when it comes to tax operating models. Finding what works for you requires thoughtful consideration of the tools, processes, and skills you need to address your immediate priorities and get ready for what's ahead.

Key Contact

Timothy Siloma
Senior Manager,
Tax & Regulatory Services,
timothy.siloma@pwc.com



The Common Reporting Standard (CRS) and the implications for Nigerian Financial Institutions

06

The Common Reporting Standard (CRS) and the implications for Nigerian Financial Institutions

With budget deficits and dwindling revenues, tax authorities are taking big steps towards combating offshore tax avoidance and improving cross border tax compliance. One of the tools to help with this is The Standard for Automatic Exchange of Information, which operates as a globally coordinated approach to the disclosure of income earned by individuals and organisations.

What is the Common Reporting Standard?

The Common Reporting Standard (CRS) is a set of rules for the collection and automatic exchange of financial account information between the tax authorities of countries that have opted to make such exchanges globally, including Nigeria. The way the CRS mechanism works is that each of the collaborating countries imposes an obligation on its local Reporting Financial Institutions (RFIs) to identify and report details of financial accounts held by tax-residents of the other countries. Each country then exchanges the reported details with the countries where the accountholders are tax-resident.

Each country ends up with information of its tax-residents' financial accounts in other countries. You can think of CRS as the global version of the Foreign Account Tax Compliance Act (FATCA) – the US law that requires the sharing of US nationals' financial data with the IRS.

To join the CRS initiative, a country must first sign the Multilateral Competent Authority Agreement for the Automatic Exchange of Financial Account Information (the MCAA). The MCAA is an international framework agreement which operationalises information exchange relations already entered into by its signatories. Such relations may exist under bilateral treaties (such as double tax treaties) or multilateral treaties (such as the Convention on Mutual Administrative Assistance in Tax Matters). In August 2017, Nigeria joined the CRS initiative by signing the MCAA. In fully implementing CRS, the first step requires the introduction of the reporting and other requirements into domestic law including rules to ensure their effective implementation. On the 12th of September 2019, the Federal Inland Revenue Service (FIRS) issued the Income Tax (Common Reporting Standard) Regulations, 2019 (CRS Regulations) with an effective date of 1 July 2019.

What are the new CRS Regulations supposed to achieve?

The aim of CRS is to reduce and ultimately seek to eliminate tax evasion through the exchange of information among multiple jurisdictions by requiring financial institutions to automatically share information with their tax authorities.

The information shared provides the tax authorities with information for further investigation about whether cash or other assets have been properly disclosed and the relevant taxes paid.

Common Reporting Standard Obligations in Nigeria

The CRS Regulations issued in September 2019 impose certain annual obligations on certain financial institutions in Nigeria (so-called Reporting Financial Institutions (RFIs)), beginning from the 2019 fiscal year.

What financial institutions qualify as RFIs?

A useful approach to determining whether a financial institution qualifies as an RFI is to look at its functions rather than its name or industry classification. There are some nuances and exemptions, but the broad functions relevant for CRS purposes are depository, custodial, investment and insurance-based functions. Financial institutions that perform these functions are broadly described as follows:

- **Depository Institutions** – entities that accept deposits in the ordinary course of business – e.g. commercial banks.
- **Custodial institutions** – businesses that hold financial assets such as equity and debt instruments and other similar financial investments for customers – e.g. custodian banks/asset management companies and brokers.
- **Investment entities** – businesses that trade in money markets, provide portfolio management or other investment services, or manage financial assets or cash, on behalf of clients – e.g. asset/portfolio management companies and money market funds.
- **Insurance Companies** – insurance companies obligated to make payments under an insurance contract with a cash value or under an annuity contract. This category will generally include most life and composite insurance companies.

Certain financial institutions are categorised as Non Reporting Financial Institutions (NRFIs). NRFIs are as follows: i) Government entities, central banks and international organisations, and their pension funds. ii) Retirement funds such as Pension Fund Administrators that meet certain criteria. iii) Qualified credit card issuers. iv) Collective investment vehicles that meet certain exclusion rules. v) Trusts where any of the trustees is itself an RFI that has reported all required information regarding the trust. vi) Other low-risk financial institutions as may be designated by FIRS.

The Common Reporting Standard (CRS) and the implications for Nigerian Financial Institutions

What are the obligations for RFIs?

RFIs are obligated to perform certain due diligence processes to identify Reportable Accounts (RAs) and collect the financial account information. The RFIs must then report the collected information to the FIRS in an electronic annual information return due on 31 May of the year succeeding the year to which the information relates.

Reportable Account

A Reportable account is the Nigerian financial account of a person (an individual or entity) who is resident for tax purposes in a foreign country with which Nigeria has signed the relevant exchange of information agreement.

In determining if a Nigerian financial account is owned/controlled by a person with foreign tax residence, RFIs will be required to carry out certain due diligence process for new and existing customers (individuals or entities) which include verifying information on the accounts and carrying out self-certification.

Information to be collected under CRS

RFIs will be required to obtain certain information from the reportable accounts. Details to be collected are as follows:

- **Generally (as applicable)** – account holder's name, address, tax identification number, date and place of birth, jurisdiction of tax residence, account number, account balance, the name and identification number of the financial institution keeping the account, as well as the total amount paid or credited to the account by the financial institution.

- **For custodial accounts** – other specifically required details are the total amount of investment income received or credited to the account (e.g. interest and dividend), and the gross proceeds of any asset/investment disposal or redemption received or credited to the account.

- **For depository accounts** – another specifically required information is the total amount of interest credited to the account.

Non-compliance

To ensure the mechanism works, a broad range of penalties can be imposed on an RFI if it does not meet any of its obligations. These penalties include:

- **Failure to comply with duty/obligation imposed by the Regulations**: ₦10 million in the first instance + ₦1 million/month.

- **Failure by RFI to file information return**: ₦10 million in the first instance + ₦1 million/month**.**

- **Furnishing false or incorrect information**: ₦5 million.

- **Failure by RFI or any person to comply with the FIRS' requirement in the exercise of its powers:** ₦1million in the first instance + ₦100,000/month.

- **Failure by RFI to keep records:** ₦1 million in the first instance + ₦100,000/month.

Other than financial penalties imposed by the FIRS mentioned above, RFIs could face reputational risk for non-compliance particularly in an era where tax transparency has become the focus of media and governments. In the wake of leaks such as Panama Papers and more recently Paradise Papers, taxpayers are becoming increasingly weary of the consequences of holding bank accounts, investments and other products with non-transparent institutions. Counterparties as well do not want to do business with real or perceived non-compliant institutions to avoid any reputational risks of their own.

Implications for Financial Institutions

The COVID-19 pandemic significantly affected RFIs' ability to fully comply with the CRS obligations. After a period of lockdown, resumption to normal activity levels has not happened. As a result, businesses are still grappling with working within the guidelines imposed due to COVID-19.

Although the Federal Inland Revenue Service (FIRS) extended the deadline for compliance for FY2019 from March to September 2020, RFIs still struggled to carry out the necessary due diligence to identify necessary reportable accounts. Going forward, there are a few areas of considerations for RFIs in ensuring effective implementation for CRS:

Due Diligence Procedures: RFIs will have to ensure adequate due diligence processes are put in place for its new and existing accounts in line with the CRS implementation guidelines. Following the deadline on 30 September 2020, there will be 6 months left for these procedures to be adequately put in place before the next deadline.

Staff Training: CRS is new and sometimes complicated. Therefore, the human agents who will run the compliance systems and processes need to be trained for two reasons:

a) There are specific obligations that require human confirmation by RFIs and their staff. These cannot be properly discharged if the staff do not appreciate the rules. For example, the relationship manager in charge of a high-value individual account is required to confirm their knowledge of the accountholder's tax residence. Therefore, a full understanding of the requirements and their importance is necessary to avoid improper disclosures and consequently, penalties for the RFI.

b) An understanding of logic and considerations behind the compliance systems that staff operate also ensures that they are better equipped to sense-check the results of the compliance processes and flag any anomalies.

The Common Reporting Standard (CRS) and the implications for Nigerian Financial Institutions

Customer Sensitisation: The due diligence rules require RFIs in certain circumstances to seek confirmation from account holders and in some cases self-certification from the account holders.

RFIs will need to sensitise customers on the new requirements to ease the process of obtaining the relevant information and avoid any push backs.

Adequate Infrastructure: Financial institutions will need to (or in the absence of internal capacity, engage technology consultants) to develop systems to review their customer base. Proper reporting systems to capture the required information in the relevant format to the FIRS will also need be put in place, where this has not been achieved as a result of restrictions imposed by COVD-19. For financial institutions that have to comply with FATCA, this means that much of the technical infrastructure in place for FATCA compliance will be useful for CRS compliance with the relevant changes made.

Information security is of utmost importance due to the nature of the information being handled, therefore the relevant infrastructure put in place must be secure and have relevant accreditations where possible. This will help ensure that the financial institutions do not suffer regulatory sanctions or other financial losses that will impact their reputation and brand.

Conclusion

CRS has come to stay in Nigeria, so financial institutions must take relevant steps to ensure compliance for the foreseeable future. As financial institutions prepare for the next CRS reporting deadline of 31st May 2021, it is important to re-evaluate and consider learning points from the just concluded filing.

It is an ongoing annual compliance cost that many businesses will need to factor in, therefore having a good plan early on to get stakeholders onboard and optimise resources, will go a long way in helping financial institutions put proper structures in place and be in control of the process.

Key Contact

Tiwa Otufale
Associate Director,
Transfer Pricing,
tiwalade.otufale@pwc.com

Dealing with sophisticated phishing techniques

Dealing with sophisticated phishing techniques

The Netflix Phishing Scam

A few weeks ago, ArmorBlox, a cybersecurity company, reported a credential phishing attempt where phishing emails were sent to multiple customer inboxes with the aim of collecting personal information and payment card details. This phishing email impersonated Netflix Support, informing users of a billing problem due to a failure in verifying personal details. The email claimed that the target's subscription would be cancelled if they do not update their details within 24 hours, furthering the sense of urgency. When targets clicked the link, they were led to a fictitious Netflix website with a phishing flow that asked them to input their login credentials, billing addresses, and credit card details. Once the phishing flow was complete, targets were redirected to the real Netflix home page.

Why was the attack successful?
The report from ArmorBlox provided a comprehensive analysis of the attack flow and why it succeeded:

- The attack used a CAPTCHA page. CAPTCHA pages are usually used to prevent robots from using a website, and to confirm that a website is being accessed by an actual human being. This page served a dual purpose of giving the attack a look of legitimacy, and hiding the real page where the confidential information would be requested.
- The web pages used to harvest confidential information were hosted on existing, legitimate websites, which had been earlier hacked and modified to include the web pages. The attacker likely used this to take advantage of the reputation of these existing domains, and avoid some security systems which might filter out unknown or low-reputation domains.
- The web pages were carefully designed, to look like legitimate Netflix websites, including the right colors, logos, etc. This could create familiarity and a feeling of safety in anyone who views it.

Our Perspective

Phishing attacks have the potential to wreak havoc. Several phishing attacks have led to data breaches within prominent organisations in which millions of private user data (emails, addresses, credit-card details) have been made public. The ubiquitous nature of phishing activities across the world is a matter of concern for most organisations, as users are being targeted with business processes they are familiar with, giving room for little or no verification of the authenticity of such processes. Organisations are advised to assist their employees in recognising phishing attacks being disguised as a normal business process.

Mitigating Phishing attacks: What does this mean for you?

Malicious users can exploit poorly-designed processes to trick users into handing over information (including passwords), or making unauthorised payments. Organisations need to consider which processes could be mimicked by attackers, and how to review and improve them so phishing attacks are easier to spot and mitigate.

Furthermore, organisations need to also think about how the emails sent to suppliers and customers will be received. Questions such as "Can our recipients easily distinguish our genuine email from a phishing attack?" need to be addressed constantly as email recipients cannot be expected to look for and recognise every sign of phishing. Also, the provision of personal information cannot be used for identity verification as stolen or researched information is used by phishers to make their emails more convincing.

Dealing with sophisticated phishing techniques

Here are a couple of ideas for mitigating the impact of phishing attacks.

- Ensure that staff members are familiar with the normal ways of working for key tasks (such as how payments are made), so they are better equipped to recognise unusual requests.
- Organisations should make processes more resistant to phishing by ensuring that all important email requests are verified using a second type of communication (such as SMS message, a phone call, logging into an account, or confirmation by post or in-person. Other examples of changing processes include using a different login method, or sharing files through an access-controlled cloud account, rather than sending files as attachments.

Did you Know?

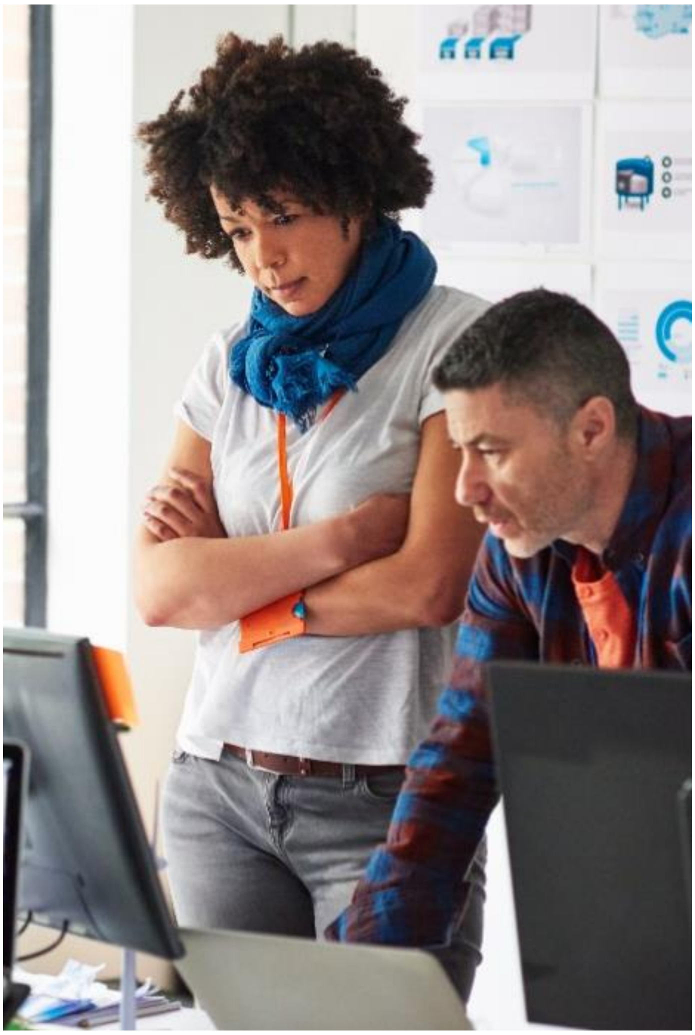
Many data breaches stem from phishing attacks.
Verizon's 2020 Data Breach Investigation Report found that phishing is one of the top threat action varieties in data breaches, with 22 percent of data breaches involving phishing.

Source:https://enterprise.verizon.com/resources/reports/dbir/2020/summary-of-findings/

5 Questions for CISOs

1. Do your people have the skill and knowledge to detect phishing?
2. How secured and knowledgeable are your vendors and customers?
3. What exactly is the risk posed to my organisation in the event of a successful cyberattack?
4. What are the top cyber threats facing companies such as ours today?
5. What is our company's response plan in the event of a successful cyberattack?

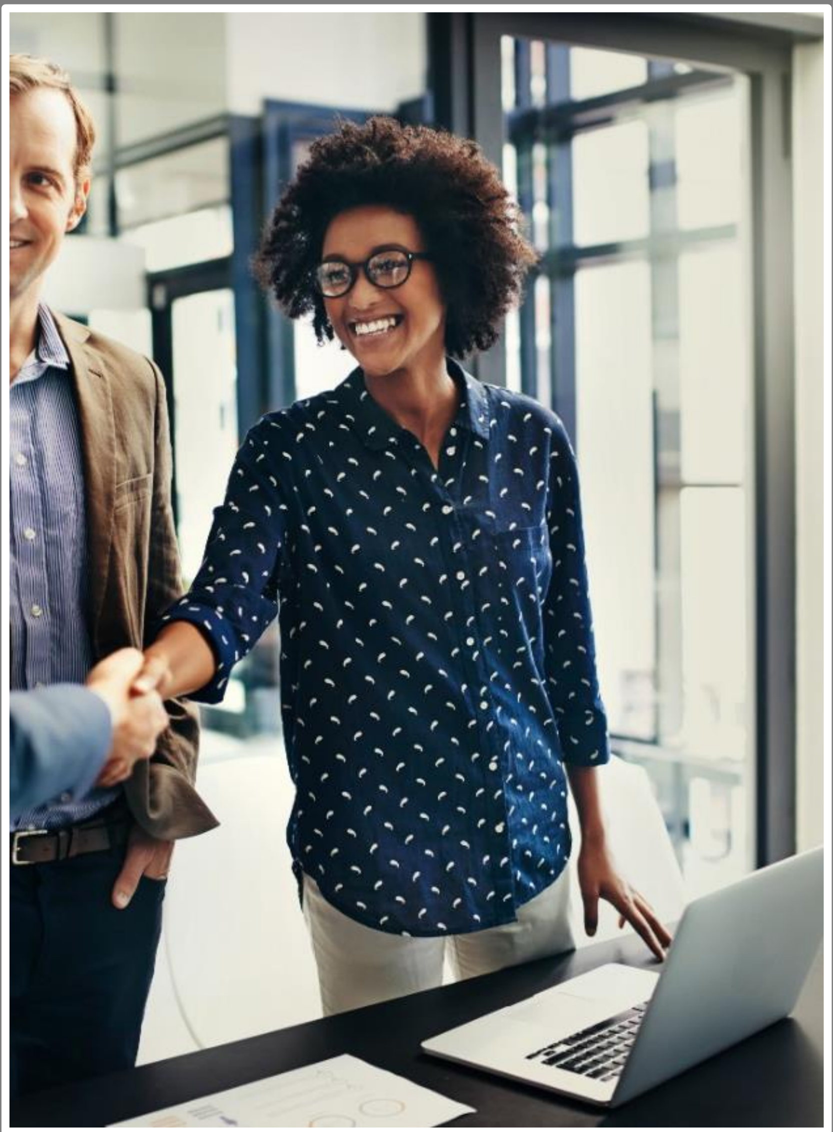
This article was adapted form PwC Nigeria's monthly cybersecurity update bulletin for September 2020 which focuses on key cyber security developments around the world with insights on lessons learnt and what your organisation needs to do to improve cyber resilience and privacy.



Key Contact

Nkiruka Aimienoho
Senior Manager,
Cybersecurity, Privacy & Resilience,
nkiruka.aimienoho@pwc.com

Wunmi Adetokunbo-Ajayi
Partner, Risk Assurance
wunmi.Adetokunbo-ajayi@pwc.com



Organisational benefits of Data governance

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Organisational benefits of Data governance

The objective of data governance is for an organisation to have greater control over its data assets. This can be achieved by planning, monitoring and enforcing adequate policies, standards and procedures over key areas of its data management lifecycle.

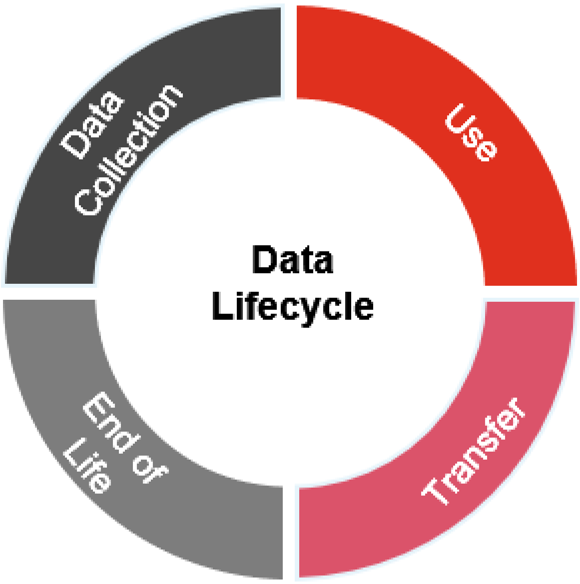
One of such key areas is the area of **data minimisation**; the collection of only what is considered necessary for the purpose of data processing.

Data Minimisation

The guiding principles for ensuring that appropriate data minimisation techniques are implemented in the data collection process have been defined in Article 2.1.1(a) of the Nigeria Data Protection Regulation (NDPR). Data minimisation implies that personal data collected should be:

- Adequate – collect only what you need and no more;
- Relevant – not excessive in relation to what is needed for the purpose of processing;
- Limited – Use data for its intended purpose only.

Key points within the data management lifecycle where data minimisation should be observed include data collection, use, transfer and end of life.



Key considerations for implementing data minimisation within each phase of the life cycle include:

Collection
What data is collected?
What channels are used to collect data?
Why is the data collected?
Where does the data reside?
Is collection monitored?
Is the collection time appropriate?

Use
Are all data fields necessary for processing?
Have you determined the minimal data that needs to be stored?
Is the data replicated across different locations?
Is the data stored with third parties?
Are access controls present, sufficient & functioning?
Are default settings set to maximum privacy for automated transfers?

Transfer
Have you identified data owners for different data classes?
Have you identified sources containing personal data?
Is data shared with other organizations or third parties?
Have you defined specific data protection requirements in your third party contracts?
Is data reviewed before transfer to third parties?

Retention and Destruction
How long does data need to be retained to fulfill the purpose for collection?
Can data be deleted prior to expiry?
Does it need to be archived or can it be deleted?
Have you defined a retention schedule for different data classes?
Do all employees observe the clean desk policy?

The Big Picture

Data minimisation should be seen as a key part of an effective data management system.

It is important for the organisation as a whole to identify and understand the different data handling points across the various business processes. Incorporating data minimisation into the data management lifecycle will assist organisations in complying with the data minimisation principle of the NDPR.

Organisations who do not implement appropriate data minimisation procedures, increase their level of exposure in the event that a breach occurs.

Additionally, data minimisation could potentially reduce the cost associated with storage as excessive data for which there is no legal basis for processing (business need) will be purged.

Key Contact

Nkiruka Aimienoho
Senior Manager,
Cybersecurity, Privacy & Resilience,
nkiruka.aimienoho@pwc.com

Contributors

Editors

Sam Abu
samuel.abu@pwc.com

Chioma Obaro
chioma.obaro@pwc.com

Ibrahim Lawal
ibrahim.lawal@pwc.com

Sylva Ifedigbo
sylva.ifedigbo@pwc.com

Yemi Akoyi
yemi.akoyi@pwc.com

Authors

PwC Nigeria

Andrew S. Nevin, Ph.D.
andrew.x.nevin@pwc.com

Adedoyin Amosun
adedoyin.amosun@pwc.com

Kunle Amida,
kunle.amida@pwc.com

Rita Ibrahim
rita.Ibrahim@pwc.com

Chikaodi Chinwuba
chikaodi.chinwuba@pwc.com

Timothy Siloma
timothy.siloma@pwc.com

Tiwa Otufale
tiwalade.otufale@pwc.com

Wunmi Adetokunbo-Ajayi
wunmi.Adetokunbo-ajayi@pwc.com

Nkiruka Aimienoho
nkiruka.aimienoho@pwc.com

PwC US

Bhushan Sethi
bhushan.sethi@pwc.com

Julien Courbe
julien.courbe@pwc.com

Julia Lamm
julia.w.lamm@pwc.com

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