



INSTITUTE OF DIRECTORS
SOUTHERN AFRICA



African Governance Showcase 2017

Corporate governance at SIC Company Limited



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Background to the case

SIC insurance company limited (SIC) was one of the elite insurance companies listed on the Ghana Stock Exchange. Its Chief Executive Officer (CEO) was a woman who had broken through the glass ceiling! The board chair, Mrs. Felicity Acquah, was also a woman! In March 2013, SIC appointed its first female CEO in the person of Mrs. Doris Awo Nkani. Prior to her appointment as substantive CEO, she acted as CEO from 4th May 2012. Mrs. Nkani was a lawyer, marketer (Chartered Institute of Marketing, Ghana) and chartered insurer (Chartered Institute of Insurance, UK). She served as Deputy Director (Technical) at SIC from 1st September 2010. She was also the CEO of Phoenix Insurance Company Ltd, a subsidiary of the CDH Group.

Other positions she held at SIC included head of the following departments: underwriting, claims, marketing and legal. The Board was considering dismissing Mrs. Nkani in February 2015 because of allegations of financial misappropriation and the issue of a credit guarantee insurance bond that had the potential of bankrupting the company. Two top executives, the Deputy Managing Director (Finance and Administration) and the Head of Finance and Accounting were also accused of misappropriating funds to the tune of 1.1 million dollars and GHS 700,000 respectively.

Industry background

The insurance industry in Ghana had grown significantly over the past few decades. Despite the growth in the industry, insurance penetration in Ghana was relatively small compared to other countries in Africa as shown in Exhibit 1A. The average insurance penetration rate in Ghana between 2007 and 2012 was 0.80%. The industry was regulated by the National Insurance Commission (NIC). The Insurance Act, 2006 (Act 724) governed the operation of the insurance industry in Ghana. The Act in section 76 1(d) prohibited an insurer from entering into a guarantee or providing a security in connection with a loan by another person to a connected person.

The Insurance Act also required insurance companies to register to underwrite either life or non-life businesses but not both. After the passage of the Act the industry witnessed an influx of companies in the non-life market as well as the life markets as shown in Exhibit 1B. A risk-based framework was introduced in 2010 by the NIC to replace the compliance-based approach geared towards empowering insurance companies to effectively and efficiently manage risks and enhance stability of the insurance market. Minimum capital requirements were increased from US\$ 1million in 2006 to US\$5 million in 2010.

History of SIC

SIC Insurance Company Ltd. was the largest general insurance company in Ghana. SIC commenced business in 1962 but traced its roots to the year 1955 when the Gold Coast Insurance Company was established. It was listed on the Ghana Stock Exchange on the 25th of January, 2008. It had an

asset size of GHS 151.81 million and GHS 175.39 million in 2013 and 2014 respectively (see Exhibit 2) The company reported gross insurance premiums of GHS 98.2 and GHS 115.7 million for the years 2013 and 2014 respectively.

The company incurred claims of about GHS 20,787,537 and GHS 32,344,609 in 2013 and 2014 respectively. Its capitalization was GHS 76,301,550 and GHS 72,388,650 as at December 2013 and 2014 respectively. SIC had about 23% of the insurance industry market share (www.sic-gh.com). The policies offered by SIC Insurance were in six main categories, namely, marine, motor, accident, travel, aviation, and oil and gas.

The objectives of SIC were to achieve total customer satisfaction and loyalty, maximize shareholder value, create a satisfied workforce and be a good corporate citizen.

The values of the company were trust, relationship, professionalism, respect and sense of urgency. SIC carried out regular corporate social responsibility activities. The main goal of these activities in order of importance were: to give back to society and to improve the image/reputation of the firm.

The story of the Credit Guarantee Bond

In March 2013, SIC issued a credit guarantee insurance bond worth GHS 19,303,800 in favor of Ivory Finance. Ivory Finance was one of the Savings and Loans companies in Ghana. The bond was to enable a client of Ivory Finance, ITAL Construct International acquire a loan from Ivory Finance and was a subsidiary of the CDH Group. ITAL was a real estate company wholly owned by Ghanaians which was in the business of providing affordable housing and rental services. The loan taken by ITAL was intended to be used to finance a \$200 million Government of Ghana contract to provide affordable housing units to accommodate public servants.

The contract required ITAL to provide about 4,120 housing units across all the regions of Ghana. This project was to be partly financed by Barclays, UK and the UK government's Export Credit Guarantee Department.

The bond was to cover the period 28th March 2013 to 27th September 2013. Ivory Finance and ITAL Construct subsequently signed the loan agreement in which SIC had insured the bond on the 10th of April 2013. The loan was a bullet loan of GHS 14 million with an interest rate of 5.5% per month from the period 11th April 2013 to 10th October 2013. According to the terms of the loan, in the event of default, a penal interest of 8% per month would be charged on the outstanding balance until the loan was fully paid. Ivory also charged a processing fee of 2% for the loan. On 1st October 2013, Ivory approached SIC arguing that the loan it gave to ITAL was in default. The amount outstanding as at 30th September, 2013 was GHS 18,963,894.13.

On 18th October 2013, it requested SIC to fulfil its guarantee. On the 22nd of November 2013, Ivory Finance proceeded to court to recover the loan and interest granted to ITAL Construct. It sued SIC, ITAL Construct and two directors of ITAL ± namely Kwesi Baidoo and James Kwegyir-Aggrey.

According to SIC, its Managing Director, Ivory Finance and ITAL Construct agreed to settle Ivory Finance with an amount of GHS 91.90 million on the 24th of November 2014. This was entered by the parties in court on the 25th of November 2014 as consent judgement. Seven reinsurers joined SIC to guarantee the loan taken by ITAL construct. The seven insurance companies that provided reinsurance to SIC refused liability because a number of them had not been paid their premiums. They also argued that SIC misled them by indicating that it provided an advance mobilization product to ITAL instead of a credit guarantee bond. Finally, they argued that the credit guarantee bond was for a sixth month period within which no default had occurred. These events and the subsequent pressure by Ivory Finance to execute the consent judgement culminated in the situation where the Board was considering whether to dismiss or retain its CEO in February 2015.

Stock price information

SIC's stock price showed a downward trend whilst the number of shares traded showed an upward trend amidst the wrangling that was taking place in the company (see Exhibit 3).

Corporate governance and risk management at SIC

To manage its risks, SIC reinsured its risk with a number of reinsurers. These reinsurers included AON Group Ltd. (U.K), Afro-Asian Insurance Services (U.K), African Reinsurance Corp. (Nigeria), Assicurazioni Generali Trieste (UK), BEST Reinsure ± Tunis (Tunisia), Hannover Reinsurance Co. (South Africa), Marsh Ltd. (U.K) and Munich Reinsurance Co. (South Africa). SIC insured a majority of its risks outside Ghana.

In SIC, the role of the CEO was different from the Chairman of the Board of Directors. In the year 2013, the Board Chair was Mrs. Felicity Acquah. She was appointed as Board Chair in November 2013. In 2013, the Board had 8 directors out of which one was an executive director ± that is the CEO (see Exhibit 4). The Board met frequently to discuss issues concerning the company. The Board determined the remuneration of the CEO/executive directors. The non-executive directors determined their own remuneration. Furthermore, the company did not provide directors with shares or options to purchase shares. SIC Insurance did not have an employee stock ownership plan in place. The Board did not formally assess its performance neither did it assess the performance of the individual directors.

SIC had an internal audit department and its external auditors were PKF. According to the company, its internal auditors were qualified and had requisite experience. The internal auditors did not report solely to management. Indeed, they also reported to the Board. PKF provided non-audit services to SIC when the need arose. The company had more than 14,000 shareholders. The 20 largest shareholders held about 81.4% of the company's outstanding shares (see Exhibit 5). Most of these shareholders were institutional investors. The Government of Ghana played a key role in SIC, being one of its largest shareholders with a shareholding of 40%.

Issues arising from 8th Annual General Meeting (AGM)

SIC Insurance held its 8th Annual General Meeting at the College of Physicians and Surgeons on the 31st of July 2015. Some of the critical issues at the AGM were that some shareholders were critical of the Board's position to suspend the issue of credit guarantees. Also, shareholders expressed dissatisfaction about the non-payment of dividends the previous year as well as the current year. They also resisted the attempt by the directors to increase their remuneration.

Conclusion

SIC Insurance Company limited remained one of the largest insurance companies in Ghana with over 50 years of operational experience. The issuance of the credit guarantee insurance bond under the leadership of SIC's first female CEO, Mrs Nkani, which turned bad, has had a significant impact on the company's fortunes. Under the tenure of Mrs. Nkani, two of the company's top executives have been allegedly involved in financial misappropriation. These mishaps has called the company's corporate governance and risk management mechanisms into serious question. In response, the board of directors has considered firing Mrs. Nkani. The question still remains regarding the underlying causes of these costly governance mistakes and the requisite action needed to be taken to avoid any future reoccurrence.

Decision Time

You are the Chair of the Audit Committee of SIC. The board is considering axing Mrs. Nkani as well as taking legal action against her. The Board Chairman has invited you to make a presentation as to how these lapses occurred, who is to blame, and how to prevent a recurrence of such a colossal failure in the firm's corporate governance and risk management system.

APPENDICES

Exhibit 1A: Players in the Insurance Market

Category of Players	Year	
	2007	2014
Non-Life firms	18	26
Life firms	16	22
Reinsurance firms	2	3
Insurance brokerage firms	36	69
Reinsurance brokerage firms	1	1
Loss adjusters	1	1

Source: NIC (2007, 2014)

Exhibit 1B: Insurance Penetration in selected African Countries (2007-2012)

Percentage Penetration/Year							
Country	2007	2008	2009	2010	2011	2012	Average
Cote D'Ivoire	1.321	1.334	1.303	1.350	1.326	1.326	1.315
Ghana	0.905	0.922	0.934	0.992	1.035	-	0.807
Malawi	1.658	1.742	1.758	1.741	1.925	2.553	1.796
Nigeria	0.510	0.648	0.767	0.617	0.625	-	0.528
Tunisia	1.491	1.489	1.481	1.516	1.527	1.688	1.510
South Africa	13.825	14.168	14.925	12.286	11.966	12.761	13.396

Exhibit 2A: Some Financial Extracts from SIC (Ghana Cedis)

	2013	2014	2015
Turnover (Gross Premium)	98,181,730.00	115,702,732.00	115,702,732.00
Net Profits	594,657.00	8,303,403.00	9,498,923.00
Total Assets	151,810,616.00	175,392,971.00	208,439,884.00
Value of credit guarantee	19,303,800.00	19,303,800.00	19,303,800.00
Claims incurred	20,787,537	32,344,609	39,747,032
Value of guarantee to turnover	20%	17%	17%
Value of guarantee to assets	13%	11%	9%
Value of guarantee to profits	3,246%	-	203%
Claims incurred to value of credit guarantee	1.08	1.68	2.06

Exhibit 2B: Pictorial Representation of Guarantee to Turnover and Assets

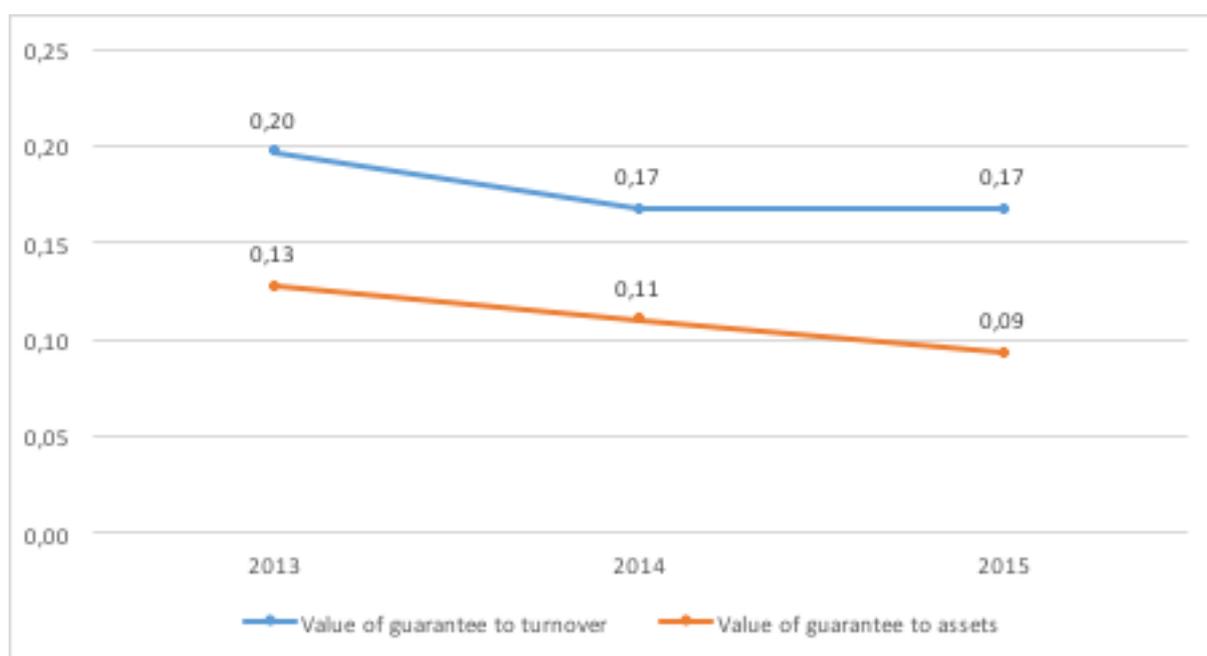


Exhibit 3: Stock Price and Trading Volume Data

Exhibit 3A: Stock Price Data

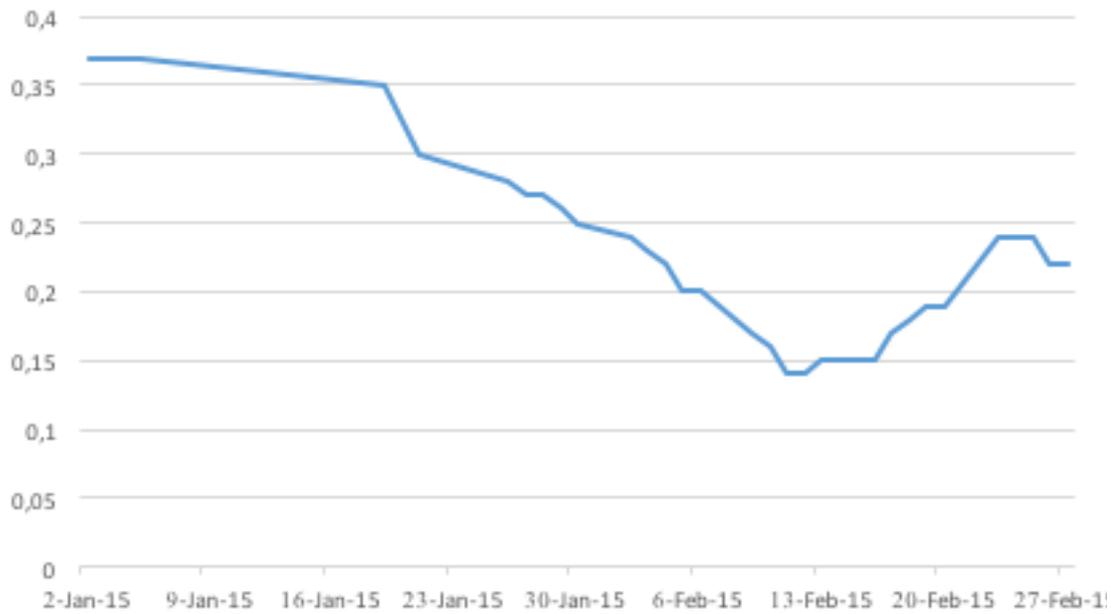


Exhibit 3B: Trading Volume Data

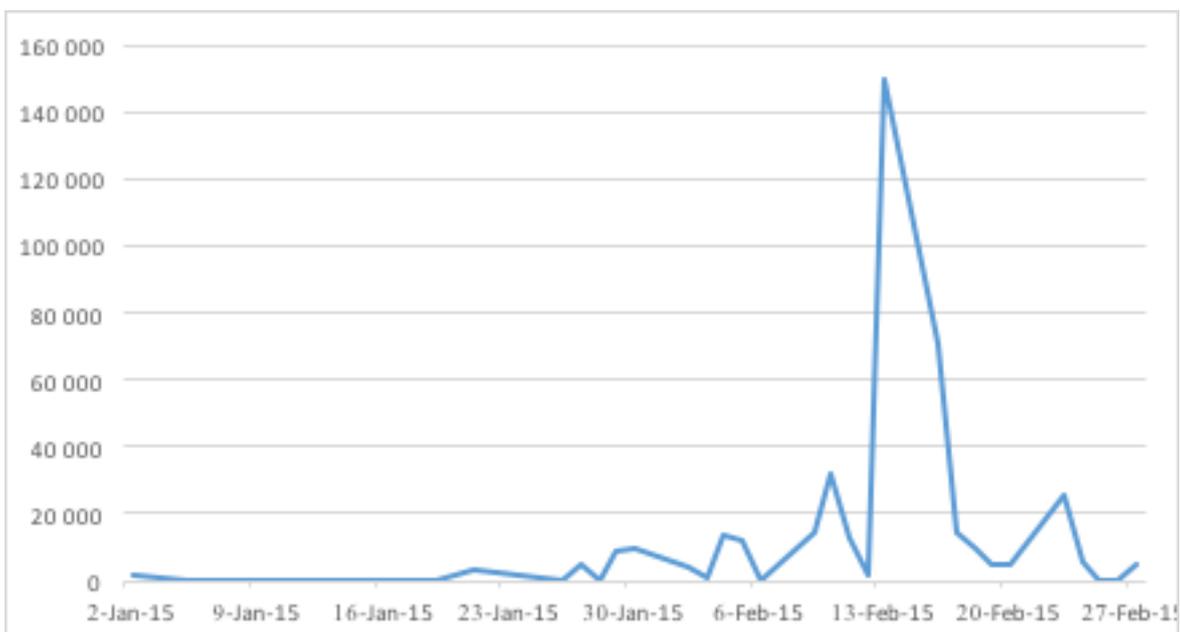


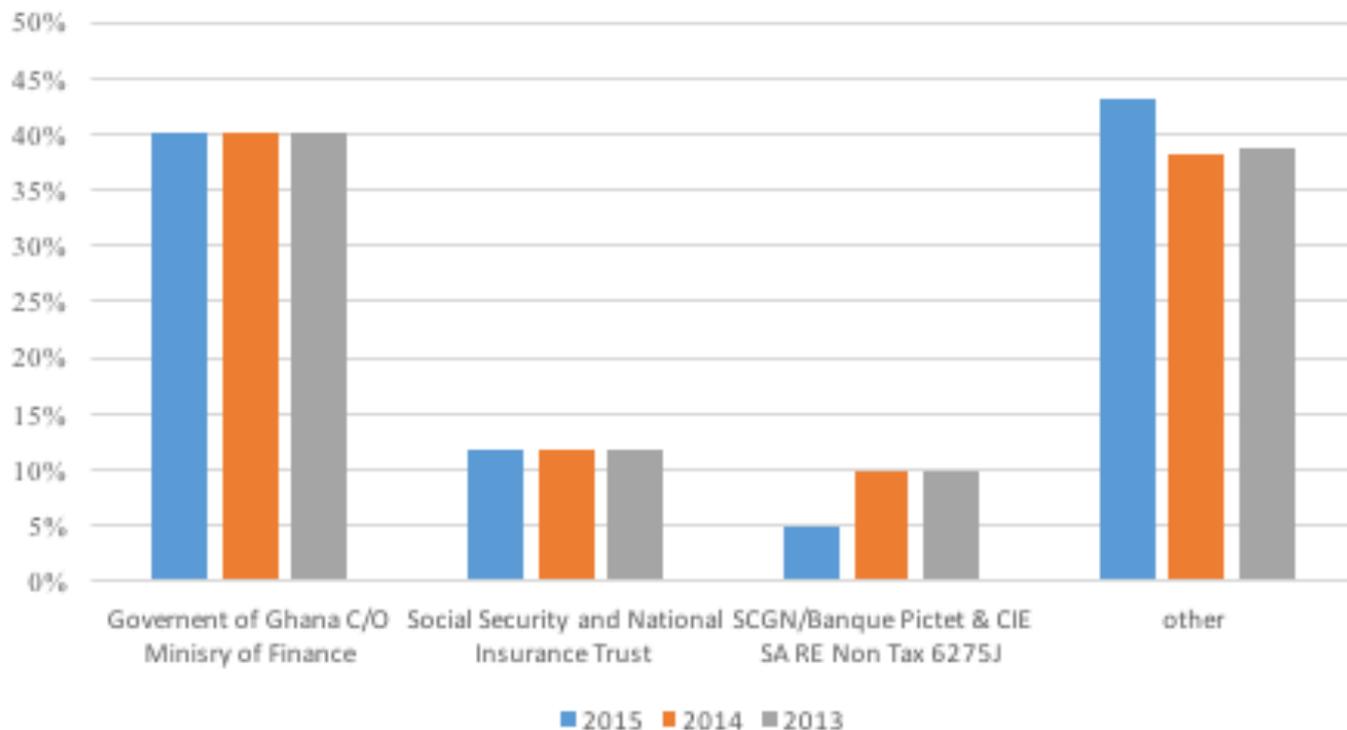
Exhibit 4: Board of Directors

Year: 2013	
Name	Position
Mrs. Felicity Acquah	Chairperson
Mrs. Doris Awo Nkani	Managing director
Mr. Justice Benjamin Okai Tetteh	Non-executive Director
Mr. Robert Afflah Sackey	Non-executive Director
Dr. Sydney Yayah Laryea	Non-executive Director
Ms. Nancy Dakwa Ampofo	Non-executive Director
Mr. Fiifi Gyabra-Forson	Non-executive Director
Mr. Ato Pobee Ampiah	Non-executive Director

Year: 2014	
Name	Position
Mr. Mike Allen Hammah	Chairperson
Dr. Sydney Yahah Laryea	Non-executive Director
Mr. Justice Benjamin Okai Tetteh	Non-executive Director
Mr Ato Pobee Ampiah	Non-executive Director
Mr. Fiifi Gyabra-Forson	Non-executive Director
Mr. Robert Afflah Sackey	Non-executive Director
Ms. Nancy DakwaAmpofo	Non-executive Director
Mr. Daniel Ofori	Non-executive Director

Year 2015	
Name	Position
Mr. Mike Allen Hammah	Chairperson
Dr. Sydney Yayah Laryea	Non-Executive Director
Mr. Justice Benjamin Okai Tetteh	Non-Executive Director
Mr. Ato Pobee Ampiah	Non-Executive Director
Mr. Fiifi Gyabra-Forson	Non-Executive Director
Mr. Daniel Ofori	Non-Executive Director
Mr. Robert Afflah Sackey	Non-Execuive Director

Exhibit 5: Shareholding Structure of SIC in 2013, 2014 and 2015



List of abbreviations

AGM: Annual General Meeting

NIC: National Insurance Commission

Glossary

- ▶ **Insurance penetration:** A rate that indicates the level of development of the insurance sector in a country measured as the ratio of premium underwritten to gross domestic product in a given year.
- ▶ **Credit guarantee:** A form of insurance that protects the creditor from losses that arises in the event that the debtor does not meet his/her loan obligations.
- ▶ **Advance mobilization product:** A guarantee given out to contractors only when the principal wishes to advance an amount of money to the contractor to mobilize resources to work on a project.
- ▶ **Reinsurance:** The practice of insurers transferring portions of its risk to other parties by an agreement to reduce the probability of paying a large obligation resulting from an insurance claim.

Teaching Notes

Synopsis

In February 2015, SIC Insurance was considering axing its CEO, Mrs. Doris Awo Nkani in relation to a credit guarantee bond that had been issued to ITAL Construct in favour of Ivory Finance. In March 2013, SIC issued the credit guarantee bond to ITAL Construct for a six-month period from 28th March 2013 to 27th September 2013. Ivory Finance and ITAL Construct subsequently signed the loan agreement in which SIC had issued the bond on the 10th of April 2013 for a six ±month duration, 11th April 2013 to 10th October 2013. ITAL defaulted and Ivory Finance called on SIC to redeem its credit guarantee bond.

Due to the failure of SIC and ITAL to honour their obligation, Ivory Finance proceeded to court on the 22nd of November 2013. In November 2014, the parties agreed on an amount of GHS 91.90 million as the amount to be paid to Ivory Finance through a consent judgement. This event culminated in the situation where in February 2015, the Board was considering whether it should dismiss or retain Mrs. Nkani.

Objectives of the case

This case study will help students of corporate governance assess the corporate governance of a financial institution benchmarking against codes of corporate governance such as the Security and Exchanges Commission's (2010) guidelines on best practices in corporate governance document in Ghana. It will help students to discuss the effect of corporate governance (board structures) on firm performance. The case demonstrates that board structures themselves may not guarantee good corporate governance. The case can also be used to teach and illustrate the various theories and philosophies of corporate governance.

The specific objectives of the case are to:

- ▶ Enable students apply the theories/philosophies of corporate governance in a real-world setting
- ▶ Enable students identify and discuss the nature of corporate governance in firms, in relation to internationally accepted best practices/other codes of conduct such as the SEC Guidelines in Ghana
- ▶ Demonstrate that corporate governance (board) structures in themselves do not guarantee good corporate governance

Relevant readings

Securities and Exchange Commission. (2002). Corporate Governance: Guidelines on Best Practices. Accra, Ghana: Securities and Exchange Commission of Republic of Ghana.

Tricker, R. B., & Tricker, R. I. (2015). Corporate governance: Principles, policies, and practices. Oxford University Press, USA.

SIC Insurance Company Limited. (MAY 15, 2017). About Us. Retrieved from: http://www.sicgh.com/maincat_select_corporate.cfm?prodcatID=1&CFID=87970939&CFTOKEN=9740563ef0bceccce-C5A82627-ACA34894B6EBFFCAF87C0F39&jsessionid =ac308e85542deebb15d41716407a13f5e241

Daily Guide. (January 9, 2017). SIC Insurance Explains Deal With Ivory Finance. Retrieved from <http://dailyguideafrica.com/sic-insurance-explains-deal-ivory-finance/>

News Ghana. (March 3, 2015). SIC Misled Us On Credit Guarantee Bond ± Insurance Companies. Retrieved from <https://www.newsghana.com.gh/sic-misled-us-on-credit-guarantee-bond-insurance-companies/>

Ghana Trade Portal, (July 13, 2017) SIC Case gets murkier as ITAL sues Ivory Finance, Retrieved from <http://www.ghanatrade.gov.gh/Latest-News/sic-case-gets-murkier-as-ital-sues-ivory-finance-sic-for-fraud.html>.

Classroom discussion questions

- ▶ Discuss the theories of corporate governance relevant to the case
- ▶ Discuss the corporate governance structures at SIC indicating whether they suggest good or bad corporate governance. You may make reference to the SEC Corporate Governance: Guidelines on Best Practices document for Ghana.
- ▶ How did the corporate governance structures at SIC affect its performance?
- ▶ Should the board should dismiss Mrs. Nkani?
- ▶ Should the entire board resign?

Teaching plan

Issue	Time (Minutes)
Introduction to the case/facts	10 minutes
Theories of corporate governance in relation to the case	15 minutes
Corporate governance structures at SIC	35 minutes
Should the board dismiss Mrs Nkani?	
A fish bowl approach to discuss the case in a simulated board meeting worked extremely well in class. Members of the class were selected to represent board members for the year 2015 since the board made this consideration in February 2015. A member of the class may also be asked to be a shareholder representative on the board.	30 minutes

The instructor can discuss the various theories of corporate governance in relation to the case and highlight which of the theory or theories may be at play in this case.

The dominant theory in this case is the agency theory. The agency theory states that managers are likely to take actions that are in their interest as opposed to the interests of their principals. The shareholders are the principals (shareholders of SIC) and the managers are the agents. Thus, the financial misappropriation by the Deputy Managing Director (Finance and Administration) and the Head of Finance and Accounting are clear manifestations of managers taking decisions that are in their own interests. There is evidence of shareholder activism in this case which can serve to reduce the agency problem. The extant literature has shown generally that shareholder activism enhances the long-term performance of companies.

The shareholders of SIC challenged the Board's decision to discontinue the issue of credit guarantees. They also expressed their dissatisfaction with the Board for the non-payment of dividends in the last two years. They also indicated that the director's remuneration was excessive, given the challenges that the company had encountered recently and opposed the increment in director remuneration.

In terms of the stakeholder theory, SIC as part of its objectives states how it wants its operations to benefit its major stakeholders. It states that it wants to achieve total customer satisfaction and loyalty, maximize shareholder value, create a satisfied workforce and be a good corporate citizen. This shows that SIC considers or takes into account the interest of other stakeholders apart from its shareholders when it makes decisions. SIC carries out CSR activities. For example, in terms of being a good corporate citizen, SIC undertakes CSR activities with the aim of giving back to society and improving its image.

This is in line with the stakeholder philosophies. SEC Ghana however warns that the interests of other stakeholders should not override the interest of the shareholders. In Section 67, it provides as follows 'Corporate governance practices implemented by the board should not be aimed at benefiting stakeholders at the expense of shareholders but should endeavor to increase shareholder value by monitoring and maintaining stakeholder relationships effectively and professionally. This position is sensible, since only the shareholders provide 'risk capital' to a corporation and stand to lose the most in the event of corporate failure or bankruptcy.

The instructor can highlight the various corporate governance structures in SIC and whether they indicate good or bad corporate governance. This discussion can be done in relation to a recognized benchmark. The teaching notes discusses the corporate governance structures at SIC in relation to the SEC 2010 Corporate Governance: Guidelines on Best Practices for Ghana. Instructors may want to adapt this to fit other jurisdictions.

CEO duality

The CEO of SIC is different from the Board Chairman. The CEO was Mrs. Nkani while the Board Chair was Mrs. Felicity Acquah. Most corporate governance codes recommend the separation of the role of CEO and Board Chair to avoid the concentration of power in one individual (see Section 14 ± 16 of the SEC Ghana Code). If the CEO is the same as the Board Chair, nobody may be able to effectively challenge the CEO/Board Chair.

Board size

The SEC Ghana considers a Board of 8-16 members to be ideal though it prescribes no specific number (Sec 5 and 6). SIC has 8 directors on its Board, meaning it meets the requirements of the SEC Code.

Board composition

SIC Insurance has just one executive director on its Board. Good corporate governance requires a good blend between executive and non-executive directors (see Section 21 of SEC Ghana Code). While non-executive directors bring fresh insight and independence to the Board, the executive directors bring to the table more in-depth knowledge of the company and its operations. Though the number of non-executive directors exceeds 1/3rd of the total board membership, SIC does not have a good blend between executive and non-executive directors.

Board meetings

The Board of SIC Insurance meets quarterly. The SEC Ghana Code provides that Boards should meet regularly and in the case of listed corporate bodies, at least six times a year (see Section 34). Thus, SIC's Board does not meet as often as is recommended in the SEC Code.

Assessing performance of the Board and individual directors

Good corporate governance requires that the performance of the entire Board be assessed frequently. Further, the performance of the individual Board members should also be assessed. The remuneration of the directors should then be tied to the performance assessment above. Obviously, SIC Insurance has no formal mechanisms for appraising the performance of the Board and individual directors. This is a weakness in the corporate governance structure of SIC.

Strong internal audit

Good corporate governance requires companies to have an internal audit department that does not report solely to the executive directors. Indeed, the internal audit unit should ultimately report to the Board (possibly through the Audit Committee of the Board). Further, the internal auditors should be qualified and have requisite experience. SIC has stated that it has a strong internal audit function but the financial misappropriation by the two directors casts doubt about this.

Independent external auditor

Good corporate governance requires that large/listed companies have an independent external auditor. For example, Section 85 of the SEC Ghana Code provides that the external auditor should be the primary source of an objective, independent and effective opinion on the financial statements of the corporate body. To maintain their objectivity and independence, external auditors should not provide non-audit services to listed companies. This however is not an absolute rule. If threats to independence can be reduced, then the auditor may provide non-audit services.

A 'Chinese wall' can be set up to reduce communication between the audit team and the team providing the non-audit service. For example, different teams may be used to provide the assurance and non-audit service. Also, the non-audit services may be provided if the income from its provision

is clearly insignificant. Finally, PKF is not part of the Top 4 audit firms. This may mean that SIC Insurance is not getting the best audit services available given its size. However, more audit firms increase the competition in the audit industry and thus ultimately should improve the audit reports issued by practicing firms.

Shareholding structure

SIC Insurance has a concentrated shareholding structure. Indeed, the 20 largest shareholders held about 81.4% of the company's shares as at the end of July 2015. These shareholders were mainly institutional investors. This means that these shareholders can effectively challenge management because they have the clout to do so. In the case of SIC Insurance, the Government of Ghana holds about 40% of the company's shares, meaning that it is in a unique position to influence the strategic decisions and direction of SIC.

Listed company

SIC Insurance was listed on the Ghana Stock Exchange in January 2008. Most corporate governance codes require more from listed companies and large public interest companies as opposed to other companies.

Remuneration policy

SIC does not offer shares or options to purchase shares to its directors or employees to align the interest of the directors and employees to that of the shareholders. For example, Section 63 of the SEC Ghana Code provides that stock options, employee share ownership schemes and other equity oriented plans should be considered as a means of linking management's interest to that of shareholders.

Thus, in a number of respects, SIC complies with the principles of good corporate governance in terms of its Board structures. In a large number of instances however, its board structures do not suggest good corporate governance.

Should the Board dismiss Mrs. Nkani?

Some students will argue that as at 1st October when Ivory Finance contacted SIC, default had not occurred as the loan was to mature on 10th October 2013. Also, some will argue that the guarantee expired on 27th September 2013 and therefore SIC was not liable in the first place. These arguments have been raised by SIC and the Case is being considered by the Ghanaian courts. Some students will argue that the entire board is to blame and the Board should resign.

Arguments in support of this include the following;

The misappropriation of funds by top executives' points to the possible weaknesses in the company's board in performing its financial oversight role effectively. The board failed to ensure that internal control systems and the internal audit department functioned well. A transaction of this size

should have probably gone to the board for approval. If it didn't, given its size, a good board should have spotted it early if it was performing its monitoring role effectively. This is because the transaction had the potential to collapse the company if the risk materialized (see Exhibit 2). The Board only considered dismissing Mrs. Nkani in February 2015, almost 17 months after the guarantee expired and Ivory had initiated court proceedings. Though, it is not evident from the Case, the Board may have been under political pressure to approve the deal or at least not oppose it. This is likely because the government may have put political pressure on the Board and CEO.

The government owned over 40% of the shares of SIC and had a vested interest in the mass affordable housing project that was to be undertaken by ITAL Construct. Thus, the Board may decide to dismiss Mrs. Nkani and use her as a scapegoat to cover its own non-performance and complicity in the deal. Given the lapses at SIC which had a negative effect on the performance and value of the company, the board or at least some of the directors should have been replaced in addition to the axing of the CEO. Ultimately, the board is responsible for the performance of a company and should be held responsible for any lapses.

Some students will argue that Mrs. Nkani is wholly to blame and she should be dismissed by the Board

- ▶ It may be argued that the CEO pursued the transaction at the peril of shareholders and without the approval of her Board as alleged by the Board. However, broader political factors may have been at play in her decision given that the government has a 40% stake in SIC. Further, this transaction was undertaken in the month when she was confirmed as CEO and therefore she may not have fully settled in her new role leading to this blunder. Though not clear from the case, she may have been misled by her subordinates to believe that the transaction was an advance mobilization as alleged by the reinsurers.

The consent judgement entered into between the CEO acting on behalf of SIC and Ivory Finance and ITAL consult without Board approval may have been in bad taste. Again, it doesn't look like SIC did a proper analysis before issuing the credit guarantee because it probably shouldn't have guaranteed such an expensive short-term loan which was taken to fund a long-term project. Again, SIC should have known that the payment of the loan would be comprised if ITAL did not receive payments on the housing project from the government. Also, Mrs. Nkani was a CEO of Phoenix Insurance which was a member of the CDH Group. Ivory Finance was also a member of the CDH Group and later became known as CDH Savings and Loans. It is possible that Mrs. Nkani was familiar with Ivory Finance making her more favourably disposed to the credit guarantee application.

The Board will have to implement improvements in the corporate governance of SIC. For example,

- ▶ More executive directors will need to be on the board to provide a good balance between Executive and Non-Executive Directors.
- ▶ The Board will need to improve the number of times it meets to conform with the SEC recommendations (from quarterly to bi-monthly).
- ▶ It will also need to improve its monitoring of Senior Executives by implementing stronger systems of internal control.
- ▶ It may need to restructure and resource the internal audit department to make it more effective and accountable to the Board.
- ▶ It may be in the interest of SIC to switch to one of the TOP 4 audit firms to improve the quality of its external audit. It will also be useful to change its auditors periodically to reduce the threat of familiarity that may develop between the company and its audit firm. Indeed, the NIC has directed that insurance companies in the country replace their auditors every 5 years.
- ▶ The Board needs to institute formal procedure to assess the performance of the Board and the performance of individual directors.
- ▶ The Board/shareholders need to consider giving directors and employees shares in the company or options to purchase shares.
- ▶ The Board may need to document its policy on issuing credit guarantees if this is already not in place. This should be done taking into consideration the laws governing the industry.

The instructor can highlight as concluding remarks that the corporate governance structures though on the surface appear to conform to the dictates of good corporate governance in certain respects could not prevent the meltdown that occurred at SIC. The structures were however useful in replacing the CEO and containing the resultant harm.

The structures in place at SIC suggest the presence of good corporate governance in certain respects which should lead to better firm performance. For example, the role of CEO and Board Chairman were separated. SIC had a large number of non-executive directors. Further, its board met frequently though not as much as suggested by the SEC code. Its board size was neither too small nor too large.

Given that its board structure complied with the recommendations of most corporate governance codes in a number of respects, one would have expected better financial performance from SIC. The fact that this was not the case suggests that these structures themselves do not guarantee good corporate governance. This is because corporate governance itself is affected by the relationship that exists among stakeholders in the governance system or chain. How well these corporate governance structures work is also dependent in part on the compliance with laws by participants as well as the interaction among stakeholders.

As rightly stated in the SEC corporate governance guidelines for best practice, corporate governance structures provide a useful framework of accountability and checks and balances but cannot prevent ill-conceived strategies, product failures or missed opportunities. However, these structures can help contain any harm or damage from corporate failure/shortcomings as well as help deal with persistent poor business performance, poor leadership and the erosion of trust or confidence in a business. The replacement of the CEO may have helped to contain the resultant harm from the corporate misadventures at SIC.

What happened next

- ▶ Kwei Mensah Ashidam was appointed as acting CEO after Mrs. Nkani was dismissed. He was subsequently confirmed and retired in November 2016.
- ▶ SIC sued Ivory Finance, ITAL Construct, Doris Awo Nkani, two directors of ITAL ± namely Kwesi Baidoo and James Kwegyir-Aggrey for fraud. The court ordered that the other respondents be struck out with the exception of Mrs. Nkani.
- ▶ As at March 2015 the loan had ballooned to about GHS 160,834,493.19
- ▶ The Courts ordered SIC to pay Ivory Finance an amount of GHS 19.30 million as condition for staying the consent judgement that was agreed between the parties in November 2014 pending the determination of the fraud case brought by SIC against its former MD, Ivory Finance, ITAL Construct and two directors of ITAL Construct.
- ▶ Reinsurers argued that they were not liable because they were misled by SIC into believe that the insurance was an advance mobilization through a facultative reinsurance scheme. They also argued that the insurance was for a six-month period within which no claims were made.
- ▶ Mr. Adu-Sarkodie, CEO of Ivory Finance, was approached by the Economic and Organized Crime Office (EOCO) which was purported investigating if there were any underhand dealings in the issuance of the credit guarantee bond. He was required to officially inform EOCO of any travel plans.

Disclaimer:

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