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Strategies for Advancing the Growth and Development of the Nigerian Insurance Industry

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The insurance industry plays a vital role in a growing economy by indemnifying risks faced by individuals and companies. Insurance companies also contribute to the economy through it's investments and is therefore recognised worldwide as a significant player within the financial services industry.

Over time, through human inventiveness science, technology and business have monumentally advanced. However despite human creativity and initiative, the issue of risk still remains a problem. Insurance as a component of risk management is probably one of the most recognised risk mitigation tools employed universally to reduce the risk factors and is utilised as an investment vehicle to boost economies. In developed countries, the insurance industry is a necessary part of daily life and plays a major role in economic growth and development. In developing countries however, the scene is dependent on factors such as the net disposable income of individuals, religious beliefs and government policies. The growing significance of the insurance sector in the financial system can however not be ignored in many developing countries including Nigeria. The most recent US recession demonstrates that a stable insurance sector not only mobilises long term savings but also strategically directs various risk, thus mitigating their effects should they materialise.

In 2007, following hard on the heels of Nigeria's banking reforms came the equally thorough reform of the insurance industry. In 2008 Nigeria's 104 insurance companies were given till the end of February of 2008 to recapitalise to factors of over 1,000%. Many of these companies were already undercapitalised, it prompted a flurry of mergers and acquisitions which resulted in a reduction in the number of insurance companies from 104 to 71.

With a population of around 149.1 million, potentially Nigeria has the largest insurance market in the continent. But weaknesses have resulted in large insurance business being underwritten by foreign companies. The recapitalisation requirements create an environment for the domestic industry to penetrate the domestic market and also to expand into other regions. The intention of the Federal Government' plan was to create stronger insurance companies, thus improving the industry's earning capacity and shareholder interest.

Mr Chairman, I have been invited to talk about strategic advancements for the growth and development of the Nigerian Insurance Industry, starting with a quick overview of the global markets.

A. Global Insurance Markets

Table 1: Global Insurance Industry Overview

Insurance Industry Overview				
Global Insurance Industry				
	Amount	**Units**	**Year**	**Source**
Total Gross Insurance Premiums	**4.270**	**Tril. US$**	**2008**	**SwissRe**
Global Premiums as % of Global GDP	6.18	Percent	2008	IMF
Global Life Insurance Premiums	2.490	Tril. US$	2008	SwissRe
Global Non-Life Insurance Premiums	1.779	Tril. US$	2008	SwissRe
Total Direct Premium Growth, Worldwide, 2007-2008	-2.0	Percent	2008	SwissRe
Growth in Life Insurance Premiums	-3.5	Percent	2008	SwissRe
Growth in Non-Life Insurance Premiums	-0.8	Percent	2008	SwissRe
Total Insurance Growth in Emerging Markets, 2007-2008	11.1	Percent	2008	SwissRe

Source: Plunkett Research Report: 2010

Advanced economies account for the bulk of global insurance. Emerging markets account for over 85% of the world's population but generate only around 10% of premiums. Their markets are however growing at a quicker pace.

One of the recent developments in the insurance sector of emerging markets is the decision by some regulators to push for the introduction of more stringent capital requirements. Another development is the expansion of microinsurance, which extends coverage to low-income individuals. Finally, bancassurance has continued to grow in importance as a distribution channel.

In the global regions, the insurance penetration was highest in North America; this was followed closely by the penetration levels in Europe, Oceania, Africa with Latin America and the Caribbean reporting the lowest levels of penetration.

In the industrialised nations the UK was ranked first in terms of penetration reporting a record 16.5% of GDP*, with South Africa second at 16% , followed by Taiwan and Switzerland reporting penetration of 14% of GDP and 11% of GDP respectively.

In Europe, insurers are facing a storm of new and more exerting regulatory demands. Solvency II is the planned reform project of prudential standards for European insurers and is likely to require a major overhaul of risk and capital management together with new models for risk and governance management. The Solvency II framework seeks to create solvency requirements that are more aligned to the risk faced by the companies, and to establish consistent supervision across all the European member states.

South Africa is the latest country to adopt the Solvency II as the framework for improved regulatory management. Based on the banking sector regulatory reforms, aptly called Basel II, Solvency II is scheduled to be implemented in the South African insurance industry by January 2014. Solvency II calls for transformed approaches to capital adequacy requirements and more robust risk management policies, thus creating a safer environment to conduct insurance business.

B. Impact of the macroeconomic environment on the Nigerian insurance industry.

While the Nigerian macroeconomic environment continues to display strong economic fundamentals, the insurance industry has lagged behind in the outbreak of economic growth because insurance is not considered a priority for most households and enterprises in Nigeria. Many reasons exist for the poor penetration of insurance in the Nigerian market. These range from:

1. Low income per head
2. Inflation
3. Absence of a positive insurance culture and low level of insurance awareness.
4. Mismanagement of insurance claims resulting in increased fraudulent claims.
5. High levels of crimes particularly in the areas of vehicle theft, robberies of insured property, banks and goods in transit. These factors increase the volumes of claims and thereby threaten the financial stability of insurance companies.
6. General lack of skilled resources.

These above factors have especially created an impediment for the growth of the Life insurance sector which traditionally has the greatest potential for growth in an insurance market. Poor infrastructural development and low confidence in the Nigerian insurance market has also contributed to the underdevelopment of the non – life insurance sector.

Over and above that the loose regulatory framework resulted in an increase of industry players and hence a fragmentation of the market players. However this situation was sanitised in 2005 when the Federal Government announced plans to recapitalise the insurance and re - insurance industry which was eventually implemented in 2008.

The directive from the Federal Government on energy insurance, which mandates domestic retention of 45% of all associated risks, also represents an attempt by the Government to support the insurance industry's growth.

C. The State of the Nigerian Insurance Industry

The insurance industry principally contributes to growth and economic stability by underwriting measurable risks and protecting against any unforeseen events through claims payment. As the Geneva Association puts it, ‘ Insurance actually plays a more fundamental role in the workings of a modern society being a necessary precondition for many activities that would not take place were it not for insurance ‘.

Contribution to GDP

The Nigerian Insurance Industry’s contribution to the economy, measured by the ratio Gross Premium (GP) to GDP, is 0.71%[1] . General Insurance Business contributes a greater portion of this percentage than Life Insurance business although Life is the greater source of long term investible funds. One of the reasons for this result is that the disposable income of the greater populace is low. The absence of an insurance culture and low level of insurance knowledge and awareness also contributes to the low uptake of insurance products. Presently only between 10% - 15% of the insurable population is insured compared to between 45% - 60% in most developing countries. With the recapitalisation initiatives from the government, there is an opportunity to cultivate a positive insurance culture to reach the desired potential of the Nigerian Insurance Industry.

Employment and Taxes

The insurance industry is a major contributor to the economy by providing employment and government revenue through various taxes. The industry is a credible employer and in 2006 the industry had directly employed over 20 000 people but because of the uniqueness of the industry, specialists skills such as actuaries, claims adjusters and insurance underwriters are required. This continues to be an underdeveloped area for the Nigerian insurance industry, together with a lack of consumer education have retarded the growth and development of the insurance sector.

Insurer’s as Investors

In exchange for risk mitigation, insurers collect premiums from clients which are utilised as investment capital back into the economy. In addition, the industry is able to drive economic development through its ability to generate long term funds via accumulated premiums of life assurance. The insurance industry is a key player in the Nigerian capital market and by end of 2008; the industry had holdings of over N30 Billion in stocks and bonds. Aided by the recapitalisation process, the level of participation by the insurance industry in capital markets increased appreciably. The recapitalisation also led to foreign direct investment (FDI) into Nigeria with many companies benefiting from such inflow.

Density and Penetration

Insurance density represents the premium per capita of a nation. In 2006, Nigeria had a total insurance density of USD5.3mil, while in 2008 this figure improved to USD7mil.

Although Nigeria is the most populous nation in Africa, most insurers’ lack the underwriting capacity to fund Nigeria’s, crucial economic sectors such as the oil and gas industry. Nigeria is currently ranked 87th in terms of insurance penetration as a percentage of GDP down from 84th for the period 2004 -2007[2].

Consolidation

The objective of the Federal Government's directive for the increase in capitalisation of the insurance and re- insurance markets was to too enable the industry to make a more meaningful contribution to the economy. Further recapitalisation would enable the insurance companies to play a more robust role in both the local and international insurance markets.

Bancassurance

Bancassurance is the distribution of insurance products through a banks distribution channel. The implications of the bancassurance model for Nigeria are monumental. Penetration of low insurance products in countries with a vast low income sector has proven to be problematic. Bancassurance offers insurer's the ability to reach their clients through the already established customer base of the banks. Recapitalisation and consolidation increased the level of banks participation in the insurance industry. Banks also increased investment in insurance companies.

Local Content Policy

Local Content development is an initiative of the Nigerian Government to help develop local capacity building in the Nigerian Oil & Gas Industry. While 90% of the nation's foreign earning come from crude oil sales , Nigerians however have very little share of the oil and gas business in terms of servicing the industry. This policy has serious implications for the insurance industry. The Federal Government through NAICOM set local retention targets for energy insurance. It is expected that the new policies will impact the local insurance industry positively and hence increase its rate of growth.

D. Key Success Factors

Regulatory Environment

Compulsory life insurance as specified by the Pension Reform Act of 2004 will ensure a stronger performance in the Life Insurance Sector. Life Insurance is probably the most profitable business line in the industry because of its relatively low incidence of claims, it's steady income streams and it's importance as a provider of long term funds. Implementation of policies that support life assurance will therefore translate to the development of the industry over the long term. In August 2008, NAICOM introduced the Market Development and Restructuring Initiative (MDRI). The MDRI objectives include building confidence in the insurance market while growing the nation's insurance premium volume, density and contribution to GDP.

Cost Control

Intense competition from insurer's to acquire business often tends to drive commissions. However this operating cost especially in the non – life sector could be better controlled and minimised through regulation. This will go a long way in determining the industry's profitability and survival of individual insurance companies.

Good Underwriting Practice

The recapitalisation will determine long term retention for insurer's but the ultimate test will be the efficiency of underwriting and the ability of insurer's to manage their investments.

Experience and Talent Management

A strong, stable, experienced management team is critical to the success of insurance business. This is because insurance is relatively technical and requires qualified resources in underwriting and investment management.

Managed Broker Relations

Direct insurance selling is not yet a fashionable insurance trend in Nigeria as compared to other African countries like South Africa and Botswana. The insurance market in Nigeria is dominated by brokers. The ability of insurers to maintain strong relationships with brokers remains a key success factor. While insurance companies need to have a good record of claims payments, brokers need to be confident of competitive premium quotations and the level of commission received from insurers.

Strong Financial Condition & Claims Payment Ability

The ability to pay claims efficiently is a huge reputation factor for an insurance company. An insurer who hopes to attract customers must therefore have a reputation of paying its clients claims as and when due. At the same time insurers must also have a strong financial condition in order to take on additional business.

Effective use of Information Technology

A great portion of insurance business is distributed through the use of a broker whose IT systems are either unlinked to the insurance company or who does not posses an IT system. Therefore a huge part of the insurance processing is still done manually. As a consequence decisions regarding processing of claims usually take a longer time than is reasonably necessary.

Rising Household Income

Equitable income distribution in the economy remains a critical factor in the development of the sector, as it will greatly influence the ability of people to take on policies.

E. Strengths, Weaknesses, Opportunities and Threats.

STRENGHTS

Multiple Distribution Outlets

Bancassurance in Nigeria is one of the major factors facilitating the growth of non – life insurance. With the poor consumer confidence and lack of consumer education about insurance products, the banks prove to be an appropriate platform to distribute insurance products to an existing client base at point of purchase. Banks also make use of existing IT platforms for the collection of premiums and management of claims.

Given the vast client base of most banks, the trend has had significant expansionary effects on insurance as more clients have therefore been introduced to insurance products by this means.

Strong Capital Base

It cannot be stressed enough that the Federal Government's recapitalisation initiative was a major strong point for the industry. The result is reduced fragmentation of insurance companies, more consolidation of companies with stronger underwriting and retention capacity and investment capital. However the full impact of recapitalisation has not yet materialised.

Improved regulatory environment

Previously Nigerian insurers were faced with having to lose energy insurance to foreign insurance companies, mostly due to the nature of the oil and gas assets which were denominated in foreign currency. The local content policy of the oil industry will serve to protect the local insurers from marginalisation in energy insurance and reduce the capital drain from the country.

WEAKNESSES

Low Life Assurance Funds

In countries like South Africa the emergence of bancassurance resulted in the growth of both life and non – life business. In Nigeria however the bancassurance model has contributed to the growth of non – life business while neglecting the opportunities available to the distribution of life products. This is a set–back for the country because life assurance is ultimately more profitable than non- life because of it's lower incidence of claims. It therefore represents the industry's major growth driver in most economies.

Capacity

Underwriting capacity in African markets is generally problematic especially in underwriting specialist risk such as marine, aviation and energy. These risks are capital intensive and often African countries do not possess the retention capacity to underwrite the risk completely. Despite the recapitalisation initiatives capacity still remains a problem.

OPPORTUNITIES

Macroeconomic stability

Stable interest rates, exchange rates and inflation rates will likely make life policy investments more attractive to the investing public. Flat inflation rates are likely to keep policy holders more comfortable and confident because they will normally anticipate their investment (policy) growing at a faster rate than inflation.

Credit Insurance

Credit Insurance is the latest trend in the banking and the retail sector. In South Africa the retail industry has picked up on the insurance opportunities which accompany a credit transaction. Similarly banks too have acknowledged that it is possible to mitigate the risk of the loan book by granting loans to consumers without collateral but with an adequate insurance policy to cover the risk of default. This is certainly a new area of development for the industry.

Compulsory Insurance

According to the National Insurance Commission (NAICOM) from the period 1945 to 2008 compliance with compulsory insurance remained below 5.0%. From 1st January 2010 NAICOM introduced six new categories of compulsory insurance under the Market Development Restructuring Initiative (MDRI) taking the list of Compulsory insurance to 16 products. Six of these Compulsory Products generate about 55% of industry premium income.[3] It is clear that compulsory insurance has a role to play in expanding the market but can also be utilised as a vehicle to improve consumer education.

Consolidation

Consolidation should encourage the development of innovative insurance products especially in the area of microninsurance and banacssurane. However the full impact of consolidation have not yet materialised in the Nigerian insurance market.

Microinsurance

According to the Conference Interafricaine des Marches D'Assurance (CIMA), microinsurance is a big hope for Africa[4]. Microinsurance has tremendous potential for low income households to manage financial risk, for insurer's to expand their markets and for governments to rely on privately run insurance firms. In the past three years microinsurance has grown three fold in Africa. However experience shows that this development lies predominantly in the credit sector and is often compulsory.

The central bank of Nigeria has licensed over 800 micro- finance banks which provide credit facilities to the informal sector. This sector holds a lot of business opportunities for insurers as they can provide insurance cover to these small investors at very low rates.

THREATS

Economic Slowdown

The insurance industry is very susceptible to changes in the macroeconomic environment. In South Africa business lines like credit insurance which is an area for greater development of the insurance industry reported slow performance during the period of the economic recession. The success of insurance companies and financial institutions as a whole therefore depends on the ability of macroeconomic indices to remain stable.

High Expenses and declining margins

Non – life insurance business is traditionally associated with high acquisition cost, especially in regions like Nigeria which is dominated by the broker market, and low profit margins. Typically the larger players grow at a faster rate than the smaller players because the larger players are often able to spread their cost over a wider premium. Thus a market with high expenses is not conducive for the survival of the smaller players.

Shortage of trained personnel in the industry

Human Capital deficiency remains a problem for the financial services industry. Insurers face mounting skills shortages but investment in training and development trails behind other financial sectors. Few skilled personnel are attracted and committed to the growth and development of the industry because of uncompetitive rates of remuneration across the industry.

Poor Image and Low Awareness

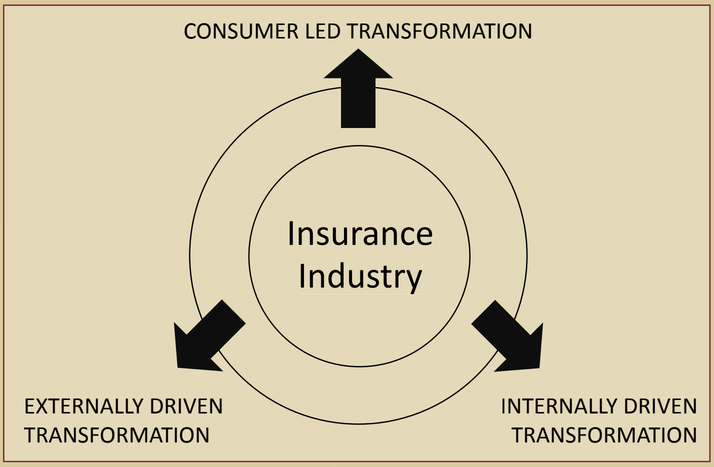
The public perception of the insurance industry in Nigeria is still very poor. Most companies have a track record of poor claims management and maladministration of claims. A large portion of the populace do not buy insurance because their awareness of insurance is poor and it is hoped that NAICOM's MDRI initiative will introduce aspects of consumer education especially while promoting the microinsurance sector.

F. The Way Forward

Following consolidation industry experts believed that the insurance industry would be the next growth sector. However the performance of the sector thus far is below par. Going forward the industry needs to undergo a transformation in order to deliver on it's promise to be the next growth sector.

While many strategies exist for the growth and development of an industry, I have chosen three relevant transformation scenarios which, if employed have a strong probability of advancing the growth and development of the Nigerian insurance industry.

Diagram 1: Strategic Transformation Model



Scenario One: Consumer Led Transformation Strategy

Off the approximately 149.1 million populace only 51 million Nigerians make up the Nigerian working population. It is assumed that the balance is employed through the informal sector or is unemployed. If at least 1/3 of the balance is employed through the informal sector then it is safe to deduce that penetration has only reached 50% of the desired potential. In 2008 Gross premium per worker was reported as USD24.3 mil with Gross Premium per capital as USD8.3 mil.[5] These figures reflect a vast penetration opportunity for the insurance sector through the introduction of microinsurance, improved bancassurance and the innovation of new and existing products.

This transformation will be lead by sophisticated consumers who are exposed to developed markets. These customers are demanding of a more personal approach, along with a comprehensive range of banking, insurance and asset management products and services.

Initiatives to improve consumer education will be a key strategic success factor. Analysts have reported that the Nigerian insurance market exhibits low awareness and consumer confidence[6]. In a country where only between 10% -15% of the population are insured, it stands to reason that a wealth of opportunity exist for expanding the insurance industry as well as improving consumer education in the area of financial literacy .

Recently the South African Insurance Association (SAIA) was granted funding from the International Labour Organisation (ILO) and the Financial Education Fund (FEF) in support of Financial Sector Consumer Education Projects. These projects are aimed at improving the financial literacy of consumers in the low income target market through the use of schools; radio, television and alternative media methods with the view to embed consumer confidence in this sector. Experience from South Africa shows the following key successes in terms of consumer education in the financial sector:

1. Improved awareness of financial products and concepts.
2. Greater awareness of availability and relevancy of micro – type products for the lower income earners.
3. Improved education of insurance as a benefit rather than a cost.
4. By way of before and after surveys conducted on the South African Insurance market, the results have shown that there is improved brand awareness for the industry and consumer confidence has increased.

Scenario Two: Externally Driven Transformation

Recapitalisation and low local market capacity are ingredients for foreign direct investment. International insurers will respond to the emerging opportunities in the Nigerian insurance industry and the traditional entry strategy for the global players will be to focus on areas where the local players have been traditionally weak.

International companies are likely to focus on the following:

a) Retail sector
b) Development of innovative products
c) Development of alternative service delivery channels
d) Competitive pricing

Externally driven transformation will undoubtedly result in an entry of more global players. This is not a threat to the Nigerian insurance industry. Protected by the local content policy which will ensure retention of local premium, the Nigerian insurance industry is likely to benefit by the attraction of international players into the market for the following reasons:

a) International companies have deeper pockets providing the local market with greater capacity and more investment potential.
b) While the development of human capital is a global problem, international players are likely to introduce more expertise into the market.
c) International companies provide access to larger distribution networks.
d) With the growing problem of inability to attract and retain quality skills, the international company can provide solutions to attract quality skills. This is an area where local regulators have the opportunity to implement relevant skills development policies which will ensure skills transfer thus developing a local talent pool to fill the existing skills gap.

Scenario Three: Internally Driven Transformation

It would be remiss not to pay adequate attention to the importance of internal transformation for the growth and development of the Nigerian insurance market.

Internally driven transformation will require collaborative efforts from industry stakeholders to guarantee a forward shift in the industry. Already the Federal Government and Naicom through the recapitalisation process, the local content policy and the MDRI efforts have laid the foundations for growth.

The wealth of strategic advancement will require monumental efforts from existing internal structures. Collaboration will not erode competition, as insurance companies will focus competitive efforts on the following:

i. Innovation: In addition to the traditional insurance products, Nigerian insurers need to develop other innovative insurance products to attract new clients. This is an area for the development of Microinsurance products. According to the recent report on International Microinsurance by the Munich Re Foundation only 1%-2% of lower income earners have Microinsurance in Nigeria. 8.8 million lives are covered by microinsurance in the Southern and Eastern parts of Africa while only 1.9 million lives are covered in the North, West and Central Africa. Microinsurance is usually dominated by life products with only 9.5% allocated to credit life products. These credit products which are closely linked to the retail and banking sectors have huge potential for growth. Currently South Africa is in the process of developing legislation which will regulate Microinsurance and formalise that sector of the industry. Recent stats show that an estimated 7 million people across Africa have a credit life insurance product. Arguably the greatest challenge with Microinsurance is the distribution of products. Insurers in Africa use a variety of distribution channels , ranging from traditional methods to use of microfinance institutes, mutuals , NGO's , banks and even insurance brokers. In places like South Africa alternative distribution channels are experimented, for instance, retail outlets and mobile phone providers. Microinsurance is an area with the highest probability of growth for an insurance industry in an emerging market. Another area of development in terms of innovation of products is the concept of Takaful Insurance which caters for Muslim communities. With the vast Muslim community in Nigeria this is an area which Nigeria needs to develop while in pursuit of distributing insurance products across the Nigerian region.

ii. Service Quality: Improved claims administration will serve to develop the image of the industry thus attracting more consumers to purchase insurance products. Investments in technology and transparent communications to consumers will also build consumer confidence in the industry.

iii. Value: The recapitalisation will help better pricing of insurance products. Thus creating consumer value added products which are accessible through a range of distribution channels. Value can also be generated through the investment opportunities as a result of the local content policy.

iv. Improved regulatory controls: Improved robust controls supported by global initiatives such as Solvency II will create a greater consumer and investor confidence in the industry. In South Africa the Financial Services Board which regulates the financial services industry has recently adopted the UK's version of a project aptly called 'Treating Customers Fairly '. This consumer centric project is aimed at changing the behaviours of insurance companies so that all consumer protection rights are embraced and thus not breached.

G. Conclusion

Mr Chair in conclusion, this paper touched upon the macroeconomic factors impacting the Nigerian insurance industry, the current state of the Nigerian insurance industry, the key success factors, the strengths, weaknesses, threats and opportunities and finally a significant consideration as to the way forward. Although this paper is comprehensive, there are many areas for growth and development in the Nigerian insurance industry. Short term opportunities are evident in the area of product innovation, microinsurance, bancassurance and improved image and reputation of the industry. There is an enormous amount of work yet to be done.

In closing I leave you with a passage I read recently from the book of Proverbs:

I walked by a field of a lazy person, it was covered with weeds, and it's walls were broken down. I learnt this lesson: a little extra sleep, a little more slumber, and then poverty will pounce on you like a bandit.

Proverbs 24:30-34

(Footnotes)

[1] Source: BGL Insurance Report 2010.

[2] Swiss re sigma report (2004-2007)

[3] Source: BGL Insurance Report 2010.

[4] Source: Report 5th International Microinsurance Conference 2009 : Munich Re Foundation

[5] Source : BGL Insurance Report 2010

[6] Source: Agusto & Co Industry Report 2008