The Centre for Financial Regulation & Inclusion

Opportunities for insurance inclusion in Nigeria

Exploring potential in the Nigerian insurance market using data from the EFInA Access to Finance in Nigeria 2010 survey

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1. Introduction

The Nigerian insurance market, like that of so many other countries around the world, has a long way to go in serving the needs of the lay man. Indeed, insurance is currently still very much for the elite and the formally employed. Despite compulsory 3rd party vehicle insurance and the fact that group life insurance is compulsory to those employees whose companies have a pension plan, less than 1% of adults have insurance.

The focus in recent years has been on microfinance, banking the unbanked, branchless banking and mobile payments, however there is a growing emphasis internationally on microinsurance and the role it can play in expanding the insurance sector.

What is microinsurance? Microinsurance is defined by the International Association of Insurance Supervisors (IAIS) and international Microinsurance Network (MIN) Joint Working Group on Microinsurance (2007)[1] as "insurance accessed by the low-income market". In this simple phrase lies a wealth of meaning:

- Microinsurance is, in the first instance, **insurance**. That means that it is provided according to generally accepted insurance practices. Hence it is not social welfare or social assistance, but a complementary market solution. As such, it needs to be viable for insurance companies and must be funded by premiums.
- For microinsurance to be **accessed by** the low-income market, it needs to be affordable and appropriate to the target market's needs and within convenient reach of them. This means that, though similar to conventional insurance, microinsurance often has unique product features in line with the income and other realities of the target market. Furthermore, it requires innovative approaches to distribution so as to cost-effectively reach masses of people that may not be formally employed or have a bank account. As such, "microinsurance is not just a scaled down version of regular insurance; the product and processes need to be completely reengineered to meet the characteristics and preferences of the low-income market." [2]
- Lastly, microinsurance needs to be accessible to the **low-income market**. The question of what can be regarded as "low-income" is core to the microinsurance concept. What is "low-income" will essentially differ from country to country and is not necessarily limited to one national or international poverty line cut-off. In the case of Nigeria, as in many if not most other developing countries where the majority of the population can be considered poor, there is a convincing argument not to regard microinsurance as "microbusiness". Where the bulk of the population is poor, microinsurance is a mainstream rather than peripheral topic. The microinsurance challenge is to expand the insurance market beyond the currently very limited reach i.e. the upper class and formally employed market, to the middle market and, eventually, down the income spectrum to the poor[3]. Indeed, the future growth of the insurance industry may be largely driven by microinsurance. Microinsurance is, in many ways, the innovation incubator for the insurance industry.

[1] IAIS-MIN JWGMI (formerly known as IAIS-CGAP JWGMI), 2007. Issues in the regulation and supervision of microinsurance. Available at: www.iaisweb.org
[2] Duru, N. 2011. Challenges of Micro-insurance Service Delivery and Implementation. *Business World:* 35, June 8, quoting Craig Churchill, ILO Microinsurance Innovation Facility.
[3] It also recognises that some part of the population will be simply too poor to afford insurance premiums and will remain the social protection responsibility of the state.

But is microinsurance viable in Nigeria? What is the current reach of the market and what is the potential for expanding the client base? What are the challenges and where will the first-mover opportunities be?

This document sets out to answer these questions by specifically considering the insights rendered by the EFInA Access to Finance in Nigeria 2010 survey[4] (henceforth referred to as the EFInA *A2F survey*).

Enhancing Financial Innovation & Access (EFInA) is a financial sector development organization that promotes financial inclusion in Nigeria. EFInA's vision is to be the leader in facilitating the emergence of an all-inclusive and growth-promoting financial system. EFInA is funded by the UK's Department for International Development (DFID) and Bill & Melinda Gates Foundation. The EFInA A2F survey is a nationally representative survey on the demand for and usage of a range of financial products (both formal and informal) by the adult population (18 years and over) in Nigeria[5]. The EFInA A2F survey is based on the FinScope survey methodology (www.finscope.co.za); the National Bureau of Statistics (NBS) was responsible for designing the sample using the national master sample frame, producing a list of sample households, and weighting the data set to the total adult population. The first survey was conducted in 2008 and the sample size achieved was 21 100 adults. A follow-up survey was completed in 2010 and the sample size achieved was 22 569 adults.

Methodology. We analysed all sections of the EFInA A2F survey questionnaire relevant to insurance. We applied a basic methodology of tabulations[6] and cross-tabulations[7] (weighted up to the total adult population) to gain insight into the profiles of the potential client base. No statistical regression analysis was done. The rest of the document is structured as follows:

- **Section 2** provides an overview of the Nigerian environment context, in terms of the population profile and the general economic context, as gleaned from the EFInA A2F survey. It also provides information on the insurance market. These contextual elements form the backdrop to the rest of the analysis and are essential to understanding the picture emerging from the survey
- **Section 3** outlines current insurance usage. It also outlines the profile of those with insurance.
- To better understand the bridge between the insured and uninsured market, **Section 4** highlights why insurance penetration is so low, the risk experienced and coping strategies employed by the unserved market, and the potential channels for reaching the unserved market.
- The document culminates in **Section 5**, which concludes on the opportunities for expanding the reach of the insurance market in Nigeria. It segments the population in order to better understand where the opportunities for enhanced insurance penetration lie.

[4] We explored the Nigeria 2008 survey, but due to data limitations discussed at the end of this section it was decided to focus on 2010.
[5] http://www.efina.org.ng/access_finance.html
[6] A frequency distribution table is simply a listing of all observed values for a given variable and the number of observations that fall under each of these values. To create a frequency distribution table in STATA the tabulate command is used.
[7] Cross tabulations are used to compare how two variables correspond with one another; a cross tab displays the distribution of one variable 'across' the categories of a second variable.

Note on limitations regarding the data

We wish to note a few data limitations that might affect the accuracy of the analysis. The three most significant concerns are:

- Firstly, the **relatively small sample size of the insured** makes disaggregated usage analysis problematic. Because only 1% of adults have insurance and many of the individual insurance lines have usage below 0.1%, it means that the weighted total population numbers for such disaggregated usage numbers are based on a small number of actual respondents, which can results in skews in the analysis.
- A second concern relates to the **income data**. Typically, insurers are interested in a client's total monthly income, or some indicator of the consistency of a client's income to gauge market opportunity. The dataset does not provide an accurate picture of the income distribution as 33% of the respondents either refused to answer the income question or indicated that they do not know. Therefore all calculations or cross-tabulations that use income data will only apply to 67% of the adult population. A way of overcoming this limitation would be to use the LSM variable (living standards measurement – a composite measurement considering asset ownership, amongst others) as an alternative or proxy for income. In other country analyses, we have correlated income to LSM, on the basis of which an LSM range was identified, that could be considered "low-income" and that would ensure that the full sample is covered. However, it is difficult to determine LSM using the 2010 dataset. Therefore we were unable to determine the exact income levels of all respondents in our segmentation exercise, which would have added much insight to the analysis.
- Lastly, it is also difficult to **compare results between 2008 and 2010** with regards to insurance usage. The most important reason is the fact that, in 2008, the questionnaire distinguished between "have it now and use it" and "have it now but don't use it" when asking respondents about their insurance usage. In the 2010 survey, this distinction, which we expect caused some confusion in the previous round, was removed in favour of a simple "yes" or "no" answer. This makes it difficult to compare insurance usage between the two years. Furthermore, the various insurance sub-categories listed differed between 2008 and 2010. This makes it difficult to compare usage between specific types of insurance as well as between groups such as non-life (short-term) and life (long-term).

2. Context[8]

The insurance market, like any other market, is intricately linked to the socio-economic, demographic and macroeconomic context within which it operates. Trying to understand market trends and opportunities without an appreciation of the environment that shapes it will be a futile exercise. Similarly, in unpacking the demand-side insights rendered by the survey it is important to understand the supply-side context and challenges in response to the demand realities. The rest of this section considers the population profile, general economic context and market conditions in turn.

[8] Unless otherwise stated, the EFInA Access to Finance in Nigeria Survey 2010 is the source for all figures quoted.

2.1. Population profile[9]

Nigeria is the most populous nation in Africa, and the eighth-most populous country in the world. According to projections for 2009, based on the 2006 census, Nigeria's population stands at 149.3 million and is estimated to be growing by around 3.2% per year (Oxford Business Group[10], 2010: 14 & 206).

The A2F survey data reveals that Nigeria's population is overwhelmingly (69.5%) rural and approximately equally distributed between male (51.2%) and female (48.8%). More than half of the adult population is below the age of 34. In general, young people are associated with relatively low income and consequently low buying power.

Since more than 30% of respondents in the EFInA A2F survey either refused to reveal their incomes or reported that they are uncertain of their income, it is difficult to determine average income levels of the Nigerian population or an accurate income distribution. However, among those who answered the income question, 34.4% earn less than N6,000 (about $39[11]) per month and a further 21.5% between N6,001 and N20,000 (about $130). Indeed, the singled biggest income band is the N6,001 to N13,000 one. The higher end of the income spectrum[12], where current insurance reach is concentrated, is very small:

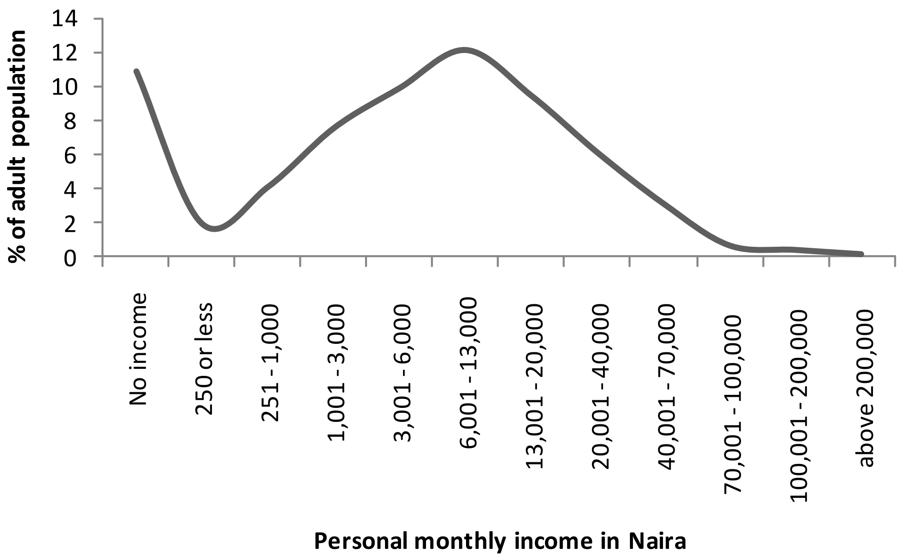

Figure 1: Income distribution of the Nigerian population

2.2. General economic context

In 2009, Nigeria's nominal GDP was $173 billion (World Bank "Nigeria at a Glance", 2011[13]), making it the 44th largest economy in the world, second only to South Africa in Sub-Saharan Africa (World Bank World Development Indicators Database, 2010). Nigeria has been achieving year-on-year GDP growth of more than 5% since 1999 and the World Bank projects

[9] According to the EFInA A2F survey, 99.04% of the adult population is uninsured, the uninsured market consequently display basically the same trends as the population profile.
[10] Oxford Business Group, 2010. *The Report: Nigeria 2010*.
[11] Using an exchange rate of N154.135/US$1 as obtained from www.oanda.com on 30 May 2011.
[12] Not defined according to any specific income cut-off, but merely indicating the position on the income spectrum where most of those with insurance are concentrated.
[13] http://devdata.worldbank.org/AAG/nga_aag.pdf

a 7.4% annual average growth between 2009 and 2013; yet poverty is still a major problem. According to the UN, more than 70% of the Nigerian population survive on less than a dollar a day (Oxford Business Group, 2010: 48).

The positive economic growth experience coupled with persistent poverty signifies a country characterised by a thriving oil economy and high-income elite on the one hand, but still rudimentary development on the other hand. Indeed, though Nigeria is one of Africa's top oil producers, it still ranks as a low-income economy according to the World Bank classification (Oxford Business Group, 2010: 14).

The economic situation is mirrored in the level of financial inclusion. The EFInA A2F survey showed that 7 out of 10 Nigerian adults remain unbanked. Furthermore, one out of five Nigerian adults cannot read or write.

Another important feature of the Nigerian economy is the thriving informal economy. According to a US State Department report, the informal economy accounts for as much as 75% of all economic activity (Oxford Business Group, 2010: 37). A recent Economist article[14] alleges that employment in industry has shrunk by 90% over the past decade. As shown in Figure 2, only 16.1% of adults are in full-time employment:

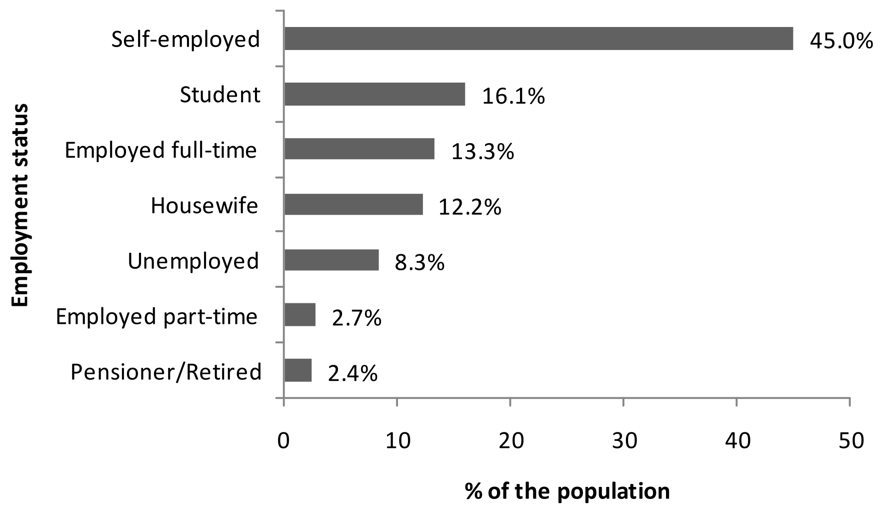

Figure 2: Employment status

Only 12.6% of adults list their main source of income as salaries or wages.

2.3. Insurance market context[15]

The backdrop to the current structure of the insurance industry is the consolidation exercise engineered by the regulator, NAICOM, between 2005 and 2007. Non-life insurance dominates, with only seven specialised life insurers, compared to 22 non-life and 20 composite underwriters. Non-life insurance accounts for 84% of premiums. Motor insurance has been the dominant source of premiums for more than five years.

[14] 26th May 2011 edition.

[15] This section draws on the 2008 report Cenfri prepared as input to EFInA's 3 year strategy as well as two recent conversations with insurance companies in Nigeria and the Oxford Business Group 2010 report on Nigeria.

Currently, the insurance sector contributes a mere 0.72% to GDP, much lower than the African average of 3.3% and the global average of 7% (Swiss Re, 2010[16]). Nevertheless, according to the Nigeria Insurers' Association, Nigeria is the 30th fastest growing insurance market in the world and the sixth largest market in Africa. The insurance industry is quite profitable, with a sustained average profit of around 25%. This has been driven by low claims (better known as underwriting losses) relative to premiums. From a customer's perspective, a low claims ratio is not beneficial, as the claims ratio presents the percentage of premium paid back to customers. One reason often cited for the low claims ratio is the onerous administrative process. Management/administrative and marketing expenses are disproportionately high and well exceed claims ratios – contrary to international best practice. This leads to low consumer value, which in turn undermines trust in the industry.

The Nigerian insurance sector is largely focused on corporate businesses, especially the oil and gas industry. The retail insurance market is limited with a key barrier to the expansion of this market, being a lack of trust. A number of insurance policies are also mandatory. Since 1987, the government has made 16 products mandatory, including third party motor, health care indemnity, group life, builders' liability and occupiers' liability. Yet enforcement of compulsory insurance is a big challenge.

Of concern is the high incidence of fake compulsory insurance, such as third party motor vehicle insurance. These products are sold by companies that have not officially registered as insurance companies and therefore will not make any insurance pay-out. In essence, they only sell the insurance certificate so that motorists can show their certificates and are not liable for fines. Earlier research (World Bank, 2008[17]) estimated that 60-80% of all motor vehicle insurance policies were provided in this way and recent industry conversations and press articles[18] suggest that the practice is still rife[19].

Seemingly comfortable in the corporate niche, the insurance market has generally been relatively slow to innovate and to meet the challenges of expanding the market to the low income segment. In addition, the large-scale roll-out of insurance products is complicated by the absence of a well-established payment infrastructure. Most premiums are collected on an annual basis and collecting premiums in cash is reportedly the single biggest challenge facing the retail insurance market. Due to the challenges of cash collection (most notably getting customers to make cash premium payments on a regular basis), insurers typically have a preference for direct debit collection. In Nigeria, however, direct debits through the banking sector are not feasible at scale, since only 30% of the population are banked. In the past there were also issues around clearing between banks. Overcoming the need for cash collections and finding efficient and reliable electronic ways of premium collection will be a prerequisite to microinsurance taking off in Nigeria.

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[16] Swiss Re, 2010. Sigma report #2: World insurance in 2009. Available at: http://media.swissre.com/documents/sigma2_2010_en.pdf

[17] World Bank, 2008. Nigeria Access to Finance diagnostic. Presentation to the FSS2020 Insurance Implementation Committee.

[18] See, for example: http://businessworldng.com/web/articles/1909/1/90-of-Third-Party-Insurance-Certificates-in-Nigeria-are-Fake--Naicom/Page1.html

[19] In a recent newspaper article, the Commissioner for Insurance, Mr Fola Daniel, stated that there has been a rise in the number of victims permanently disabled or killed in hit and run accidents by uninsured drivers. Under the National Insurance Commission Act, 1997, the security and development fund has been established; this fund will be used to compensate innocent victims.

3. Current insurance usage

According to the EFInA A2F survey 2010, the insurance sector serves less than 1% of the adult population:

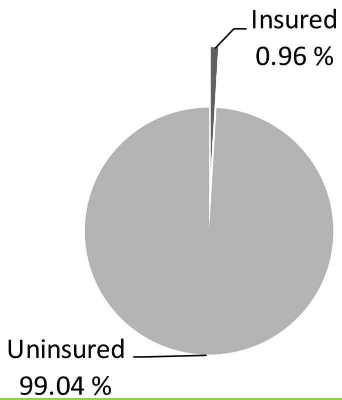

Figure 3: Insurance usage as a percentage of the adult population

This figure is extremely low. For example: 10% of adults own a car and, though vehicle insurance is compulsory, less than 1% of adults have vehicle insurance. Does it perhaps mean that the survey underreports true usage? It may be that people do not know that they have insurance (this is a common problem with the reporting of credit life insurance in demand-side survey data), do not regard for example compulsory 3rd party motor insurance as "insurance", or simply do not comply with the requirements. Scheme business for formal sector employees is also unlikely to be picked up in the survey data. Nevertheless, it is safe to assume from industry conversations that actual insurance penetration will still be well below 5% of the adult population.

As shown in Figure 4, Short Term (non-life) insurance usage accounts for nearly 80% of the insured market in Nigeria, with long-term (life) insurance used by 33% of those insured[20]:

[20] Note that these figures add up to more than 100% as the insurance usage question was a multiple mention answer. Therefore some people will have both life and non-life insurance and will be counted in both.

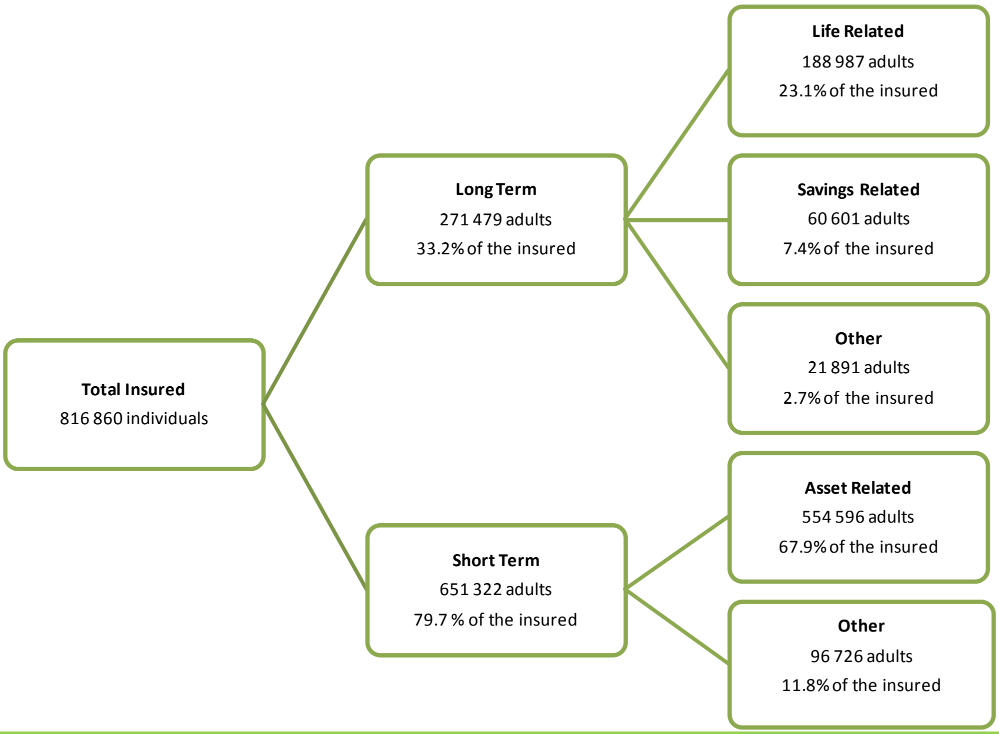

Figure 4: Insurance usage tree

The following diagrams provide a more detailed breakdown of short-term (non-life) and long-term (life) usage respectively. Note that, because the insurance usage of many of the sub-categories is so low in absolute terms and the extrapolation to the adult population was based on the responses of only a few survey respondents, we found it most meaningful to present the insurance product breakdown according to the percentage of all those with insurance who have a particular type of insurance, rather than as percentage of all adults with that type of insurance:

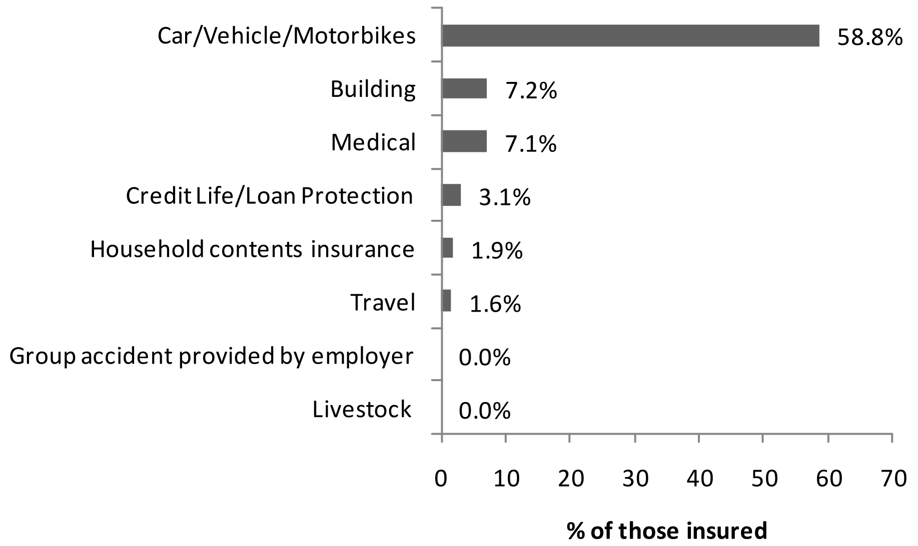

Figure 5: Short term insurance usage[21]

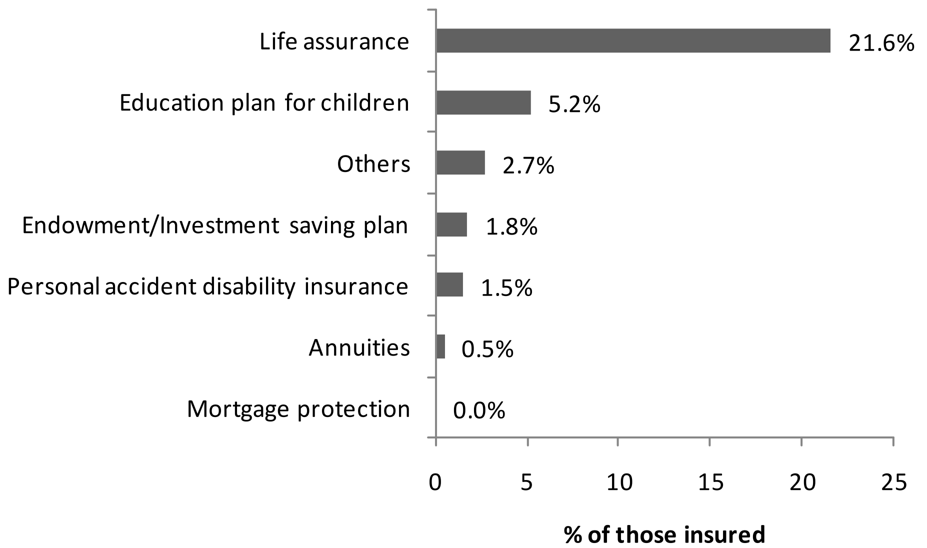

Figure 6: Long term insurance usage

The two figures above indicate that motor insurance is the most popular insurance product. According to the Oxford Business Group (2010: 136), motor insurance has accounted for the majority of premiums for the past five years. Yet, as pointed out above, motor insurance usage is still only a fraction of total motor ownership. This presents a significant untapped opportunity, not only for better enforcement of compulsory third party vehicle insurance, but also for comprehensive auto insurance.

It is interesting to note that the EFInA A2F data shows that there was a drop in insurance usage from 2008 (1.19%) to 2010 (0.96%). Considering the data limitations as discussed in

[21] Note that credit life insurance was included under the category "short-term" in the questionnaire. Normally, credit life insurance would be regarded as a life insurance category rather than grouped with non-life.

Section 1, it is difficult to conclude on whether there was an actual decrease and if so, what the reasons were.

3.1. Profile of those with insurance

The following table summarises some key features of the insured market:

Age group	**Number of adults**	**% of those insured**
18-24 years	57,518	7.0
25-34 years	162,942	19.9
35-44 years	218,863	26.8
45-54 years	185,234	22.7
55-64 years	131,208	16.1
65 years and above	61,095	7.5
Gender		
Male	658,397	**80.6**
Female	158,463	19.4
Metropolitan area		
Urban	533,070	**65.3**
Rural	283,790	34.7
Banking status		
Don't have or use a bank product	94,705	11.6
Have or use a bank product	722,155	**88.4**
Mobile phone ownership		
Yes	788,584	**96.5**
No	28,276	3.5
Employment status		
Employed full-time	349,738	**42.8**
Employed part-time	8,877	1.1
Self-employed	281,103	34.4
Unemployed	3,862	0.5
Student	21,118	2.6
Pensioner/retired	140,367	17.2
Housewife	11,795	1.4
Highest level of education		
Primary incomplete	6,729	0.8
Primary complete	53,247	6.5
Secondary incomplete	3,574	0.4
Secondary complete	136,164	16.7
University/polytechnic incomplete	117,682	**14.4**
University/polytechnic complete	337,090	**41.3**
Post university incomplete	34,179	**4.2**
Post university complete	84,724	**10.4**
Vocational training/technical college	26,196	**3.2**
None	17,275	2.1

Table 1: Profile of the insured population

As mentioned in Section 2, Nigeria's adult population is almost equally distributed between the two genders. In stark contrast, nearly 81% of the insured are male. The significant difference in insurance usage between male and female highlights the potential for gender specific products to increase insurance usage in Nigeria.

96.5% of those that are insured have a mobile phone and 88.4% of them are banked. This is in contrast with the population at large, where overall mobile phone ownership is 58.1% and only 30.0% are banked. Furthermore, as one would expect, the majority (65.3%) of the insured population resides in urban areas. According to the Oxford Business Group (2010: 135), most insurance business is conducted in the urban centres of Lagos, Abuja, Port Harcourt and Kano. Therefore insurance usage is skewed towards urban areas while the majority of the population (69.5%) is rural. Given the rural nature of the population and the inadequate infrastructure in the country, insurers will have to be innovative in their distribution channel strategies in order to scale up their businesses and reach the mass market (Oxford Business Group, 2010: 36).

Another important finding is the strong correlation between higher education levels and insurance usage. Very few adults that can't read or write or only have a primary education have insurance. Of those that have insurance, more than 70% have some form of tertiary education. This contrasts with 40.6% of the adult population who have no education or only primary education and only 18.65% who have some form of tertiary education[22]. There is also a strong correlation between employment status and insurance usage: more than 40% of the insured market is in full-time employment, which is in contrast to 13.3% for the total adult population.

4. Unlocking the uninsured market

Why is insurance penetration outlined in Section 3 so low? What can be learnt from how the low income population copes with the risks they experience? What potential touch points can be leveraged to reach the large uninsured market, most of whom live in rural areas and are not employed in the formal sector?

4.1. Drivers of low insurance usage

According to the financial inclusion theory, drivers of exclusion relate to either *usage* or *access* factors.

Box 1: Financial inclusion drivers

Financial inclusion can be defined as the ability to access and use financial services on a sustainable basis. There are a number of factors that can hinder or facilitate financial inclusion at the individual level[23]. These factors may explicitly exclude individuals from using a particular service (referred to as access barriers) or may discourage users from using a particular service even if they are not explicitly excluded (referred to as usage barriers):

- **Access** barriers include: physical proximity, affordability, eligibility, appropriate product

[22] Only 17% have *completed* some kind of tertiary education.

[23] Note that there are also some factors that impact supplier directly, including barriers to entry set by market and regulatory forces, or other factors that do not explicitly prohibit institutions to enter the low-income market, but may discourage them from doing so or increase the cost thereof. These may for example include proportionately increased regulatory costs on low-value transactions that undermine the already marginal profitability of operating in the low-income market.

features/terms and regulation. Should either of these criteria not be met, it will not be possible for the person to access the service.

- **Usage** barriers involve the exercise of judgment by individuals on the value of the product and its ability to meet their needs based on their experience and knowledge. Sometimes a person may have access, but still choose not to use financial services. Usage drivers may include: the level of financial literacy; the value proposition of the formal product; relative cost (e.g. compared to informal alternatives); the "hassle factor" (e.g. of filling out forms); and perceptions of and lack of trust in formal products and institutions.

Source: Bester et al, 2008[24], drawing on earlier work by Porteous as available from www.finmark.org.za

Below we consider what insights the EFInA A2F survey data render regarding the access and usage barriers faced by Nigerians in the insurance market.

The responses to a number of survey questions shed some light on the topic:

Firstly, those with insurance were asked what were the main problems experienced with insurance companies. Though 70% of respondents did not indicate any problems, those who did experience problems cited claims-related concerns, followed by affordability concerns. These relate to potential access barriers – the features of the policy are not in line with the affordability and service expectations of clients:

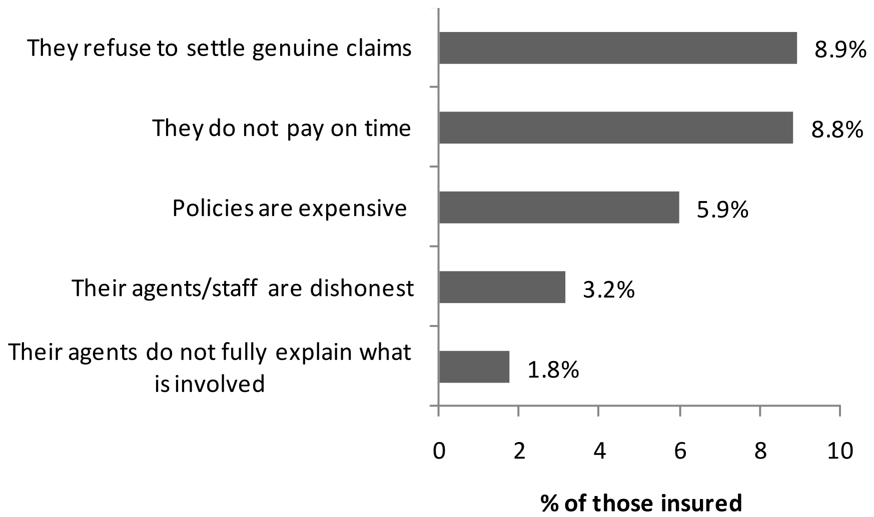

Figure 7. Problems experienced with insurance companies

Even more important are the responses of those without insurance as to why they do not have insurance. Most of these relate to usage factors, namely lack of knowledge (36% do not know the benefits of insurance, 11% do not know where to get insurance) or perceptions/lack of trust (32% do not believe in insurance and 5% believe that insurers cheat people). The only access barrier given any prominence is affordability - 34% of the uninsured stated that they cannot afford an insurance premium:

[24] Bester, H, Chamberlain, D & Hougaard, C, 2008. Making insurance markets work for the poor: microinsurance policy, regulation and supervision. Synthesis report based on five country studies commissioned by the IAIS-CGAP Joint Working Group on Microinsurance. Available at: www.access-to-insurance.org

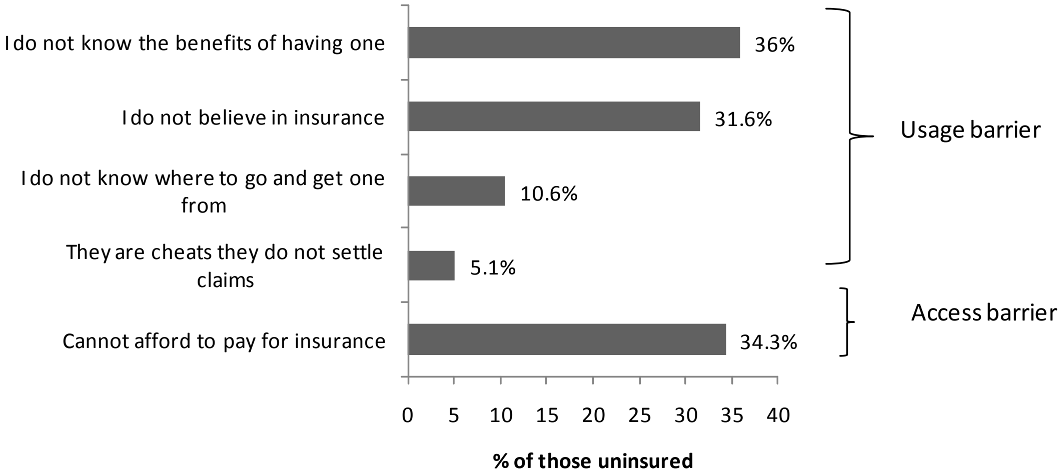

Figure 8: Reasons for not having insurance

The inadequate knowledge of insurance is confirmed by the question relating to general financial literacy:

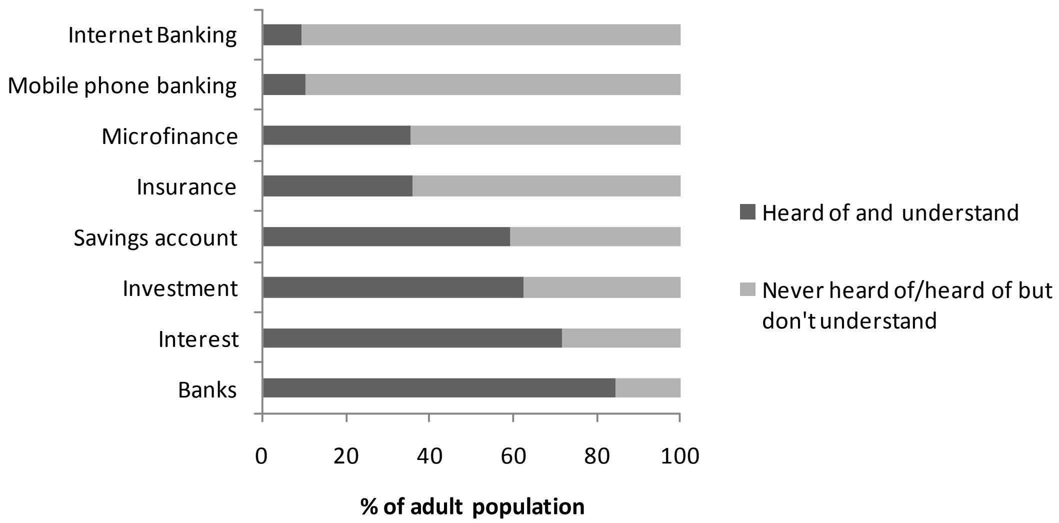

Figure 9: Financial literacy

Whereas more than 80% of adults have heard of and understand the term "bank" and more than 70% know what "interest" is, only 36% have heard and understand the term "insurance". More than 40% indicated that they have never heard of "insurance", and just over 20%, said that they have heard of it but do not understand what it means. Therefore the low levels of insurance penetration can to some extent be ascribed to a lack of knowledge. The low levels of financial literacy imply that consumer education on insurance will be a prerequisite for large-scale expansion into the low-income market.

4.2. Potential insurance needs

The survey data suggest that, despite the extremely low levels of insurance usage in Nigeria, there is a huge market potential for the insurance industry, based on the following four pillars: savings behaviour, ownership of insurable assets, risk experience and coping strategies. Below, each is unpacked in turn.

A strong savings culture. Saving is by far the biggest financial activity among Nigerians. Though intermediation through the formal financial sector is limited, 62% of adults save in some way:

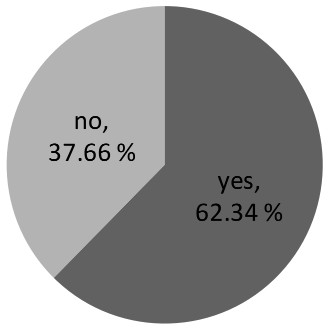

Figure 10: Proportion of the adult population currently saving

Informal associations seem to be effective and trusted: nearly a quarter of those who save belong to an informal society/savings club, while 12.6% indicated that they save with a village association. Furthermore, 45% of savers save at home.

When we consider what people commonly save for, it is apparent that many of the savings goals are for purposes that could be covered by insurance:

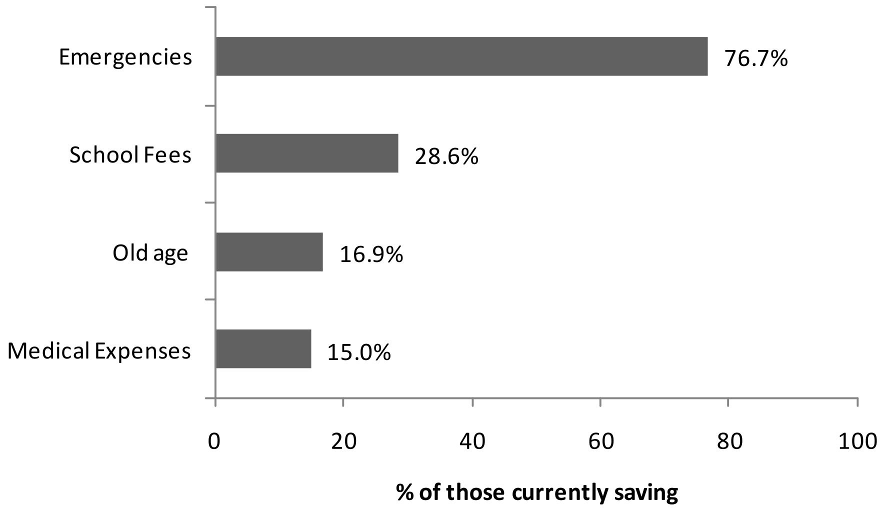

Figure 11: Proportion of savers currently saving for insurable events

By having access to the appropriate insurance products (such as health insurance and endowment products), savers would not need to use their savings for emergencies or for medical expenses. The uptake of insurance products would facilitate asset formation and wealth creation over the longer term.

High ownership of insurable assets. Despite high levels of poverty in Nigeria, Figure 12 shows that the adult population owns large numbers of insurable household durables:

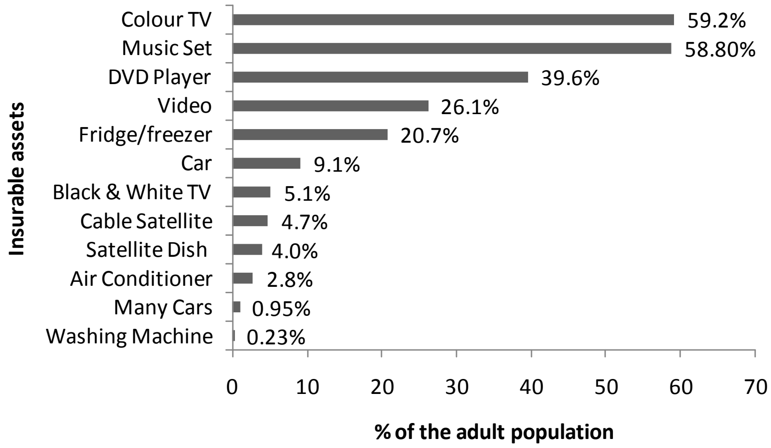

Figure 12: Insurable assets

Exposure to insurable events. Many Nigerians, though uninsured, have experienced various risks that could be covered by insurance. For example 52.1% of the adult population have experienced the death of a relative, 50.1% have experienced illness of a household member. Asset-related risks such as theft of or damage to household property or agricultural crops/livestock or car accidents have also been experienced by a significant proportion of adults. Whilst 18.7% of the adult population have experienced business failure:

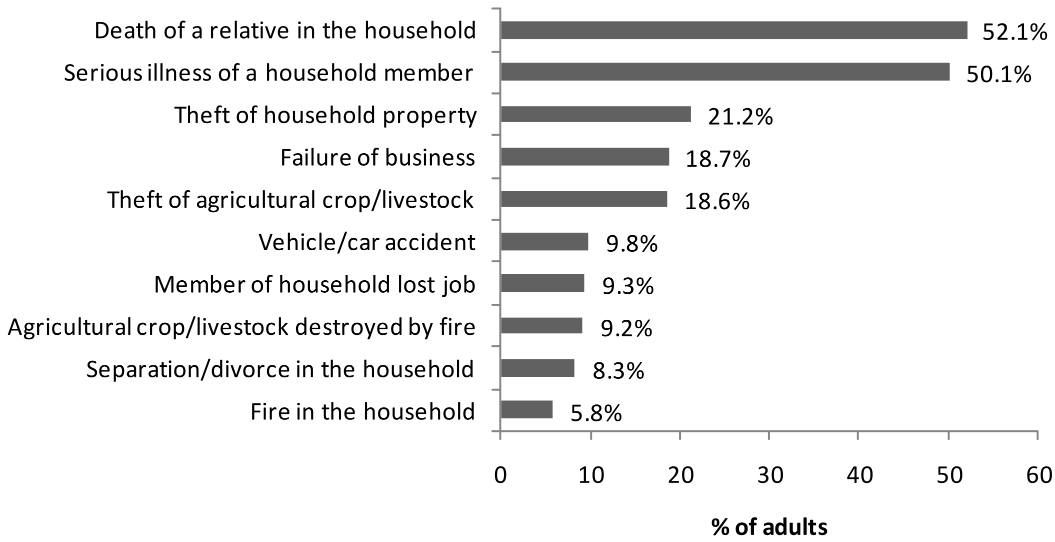

Figure 13: Exposure to insurable events

The various risks experienced by households in Nigeria indicate that there is a latent demand for both life (and medical) and asset insurance.

Suboptimal coping strategies. It is also interesting to note what coping strategies people utilise and how this differs between risk events. The following table summarises quite a lot of information. It should be read according to the different coping mechanisms employed for each insurable event:

Insurable event	Coping mechanism: Sell assets	Sell livestock	Cut down on expenses	Wait/ask for donations	Borrow money family/friend	Borrow money from employer	Borrow money from other sources	Use own savings	Used insurance policy	Did nothing	Don't know
Death of a relative in the household	1.8	2.2	3.7	10.5	9.6	0.3	4.1	24.4	0.3	49.7	3.3
Serious illness of a household member	3.3	8.0	6.1	8.4	15.7	0.6	4.9	49.0	0.2	13.6	1.7
Theft of household property	2.5	2.6	5.6	3.9	6.2	0.3	2.5	19.2	0.2	56.8	2.2
Failure of business	3.0	3.6	10.1	5.1	17.4	0.6	6.9	34.5	0.2	26.6	1.5
Theft of agricultural crop/livestock	1.3	4.3	5.6	3.7	5.5	0.2	2.8	15.9	0.2	60.4	2.2
Vehicle/car accident	3.2	4.1	3.8	5.9	9.9	0.6	5.1	41.0	0.6	26.2	4.7
Member of household lost job	1.6	1.7	15.2	4.8	8.7	0.4	5.6	16.9	0.4	46.8	4.0
Agricultural crop/livestock destroyed by	2.8	4.8	7.0	11.1	9.7	0.4	3.5	18.6	0.2	44.8	3.2
Separation/divorce in the household	0.8	1.1	1.5	1.6	1.9	0.2	1.0	5.3	0.5	78.8	7.8
Fire in the household	3.7	4.5	8.0	19.9	9.1	0.8	3.8	22.9	0.2	31.2	3.8

Table 2: Coping mechanisms - % of adults employing each strategy in response to various risk events

Focus group research in a number of countries has revealed that people tend to employ a range of coping strategies when faced by a risk event, which often has a severe financial impact. From Table 2, this also seems to be the case in Nigeria.

In Figure 14 we display the coping mechanisms used in the case of a death in the household, the most frequent event indicated, graphically. The diagram indicates that a small proportion will sell assets or livestock, some will cut down on expenses and some will simply not know what to do. The most popular coping strategies are to draw on own savings, ask for donations from friends and family, or to borrow money from friends and family. In addition, people will tend to borrow from their employers, a bank or other sources as a last resort:

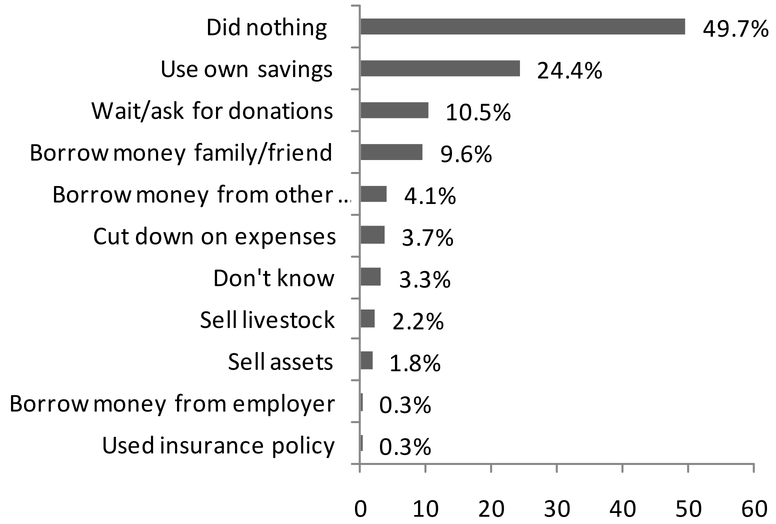

Figure 14: Coping mechanisms in the event of the death of a relative in the household

Many of these coping strategies such as selling assets, borrowing money or depleting savings can be regarded as sub-optimal coping strategies compared to insurance. Yet less than half a percent rely on insurance. This confirms the challenges in overcoming the access and usage barriers to the uptake of insurance.

4.3. Distribution channels

The previous sections have described who we want to reach and the challenges in trying to do so. This section shifts the attention to *how* to reach them. Just as low levels of awareness, a lack of understanding of the concept of insurance and distrust in insurers are the main challenges on the usage (demand) side, so distribution is the main challenge on the access (supply) side. Distribution refers to all activities (service and delivery) between the insurer and the insured. Therefore it incorporates marketing, sales, administration of policies, collection of premiums, as well as processing and payment of claims.

In the microinsurance market, it is commonly accepted that the most important distribution channel in the traditional insurance market, namely the individual broker or agent selling insurance on a one-on-one basis, will most likely not be viable. Given the low premiums needed in the microinsurance market, a broker will be unlikely to generate the scale needed to break even through traditional sales techniques. Therefore much of the focus in the microinsurance market has been on innovation around *alternative distribution channels*. These typically involve some kind of third party, called an aggregator, that provides access to an existing client or membership base (be it a church, a sports club, a market association, a savings cooperative, a utility company, a mobile network operator, a supermarket chain or a white-goods retailer) to which open group insurance can be sold. These aggregators provide "touch points" to potential customers. Often, insurance distributed through such channels would be branded according to the channel as people associate the insurance in the first instance with the aggregator rather than the underwriter.

What can the EFInA A2F survey data tell us regarding what are the potential touch points to be capitalised on in Nigeria? The survey does not track market/trade association membership or church affiliation. It does however reveal the following touch points:

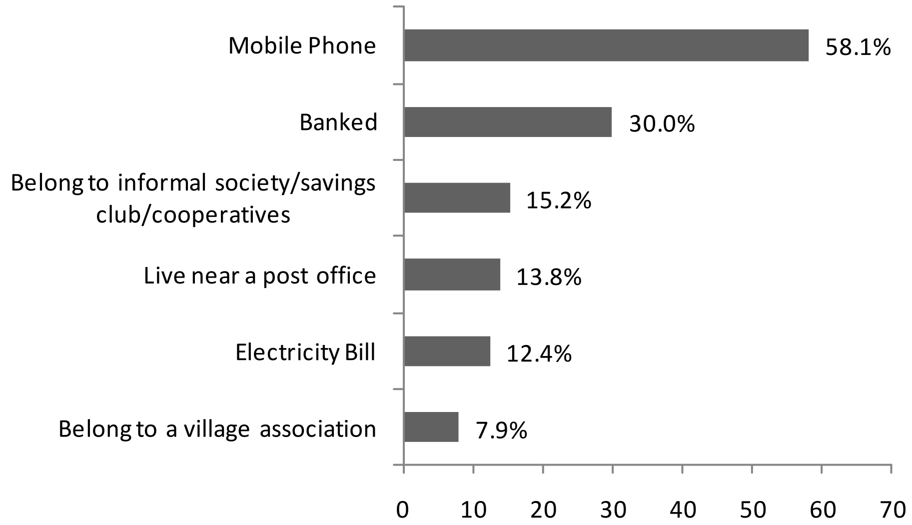

Figure 15: Potential touch points

As Figure 15 indicates, nearly 60% of Nigerian adults now own a mobile phone. Apart from being a direct distribution channel (in some countries insurance is for example sold as scratch cards through the mobile network operators' network of street-level vendors), the mobile phone can be a powerful tool for communicating with current policyholders, e.g. through SMS reminders to pay premiums or through SMS confirmations that a policy is activated. SMS can also be combined with mass media to recruit customers, for example where insurance is advertised for example on bill boards or on the television, with a short code to which the potential client can send an SMS, upon which an agent will phone him/her back.

Furthermore, there is much scope for the mobile phone network to be used as payments platform for premiums, especially in a country such as Nigeria where the majority of the population does not have a bank account and where direct debit payments for those who are banked can be problematic. Nigeria has seen a number of initiatives in recent years on the mobile payments front that can potentially be leveraged for insurance distribution purposes. However, significant consumer education will need to take place to establish the concept of the mobile phone as a means of conducting financial transactions, including paying insurance premiums.

Insurers can also make good use of the opportunities provided by existing platforms/infrastructure points such as the bank branches or post offices. Though less than 1% of Nigerians have insurance, 30% do have a bank account. This client base can be leveraged by insurers to market insurance through the banking channel. Furthermore, almost 14% of the population live near a post office and could therefore potentially be reached via the post office as distribution channel.

12.4% of adults indicated that they receive an electricity bill. Internationally, electricity utility companies are much sought after as potential insurance distribution partners. Not only do they have a detailed database of client information and profiles based on their electricity usage, but they already send out a monthly bill to clients to which insurance marketing material and insurance premium payments could be added. However, given the often documented electricity infrastructure challenges in Nigeria, it is unlikely that this will be a viable channel in Nigeria.

Lastly, it is noteworthy that 15.2% of Nigerian adults belong to a cooperative, savings club or savings society and a further 7.9% belong to a village association. Though the majority of these associations or clubs will not have sufficient capacity to be insurance distribution channels and will be too scattered geographically to provide a strong aggregation network, it nevertheless points to a potential aggregation channel to be explored to better understand if it is a feasible channel. This will require dedicated research of the landscape of potential aggregators in Nigeria, their likely capacity and interest in insurance distribution.

It is also interesting to note the overlaps between the potential distribution channels or “client touch points” highlighted above. The following diagram indicates the percentage of adults in total who are included in each of the three touch points, as well as the overlaps between different channels:

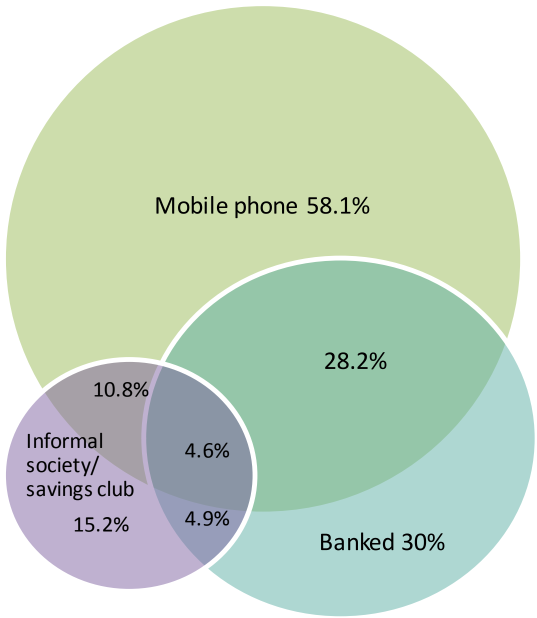

Figure16: Overlaps between touch points: mobile phone, banked and savings club/society

As Figure16 indicates, 10.8% of adults own a mobile phone and belong to a savings club, but do not have a bank account. 4.6% of adults own a mobile phone, belong to a savings club and are banked. 4.9% are banked and belong to a savings club but do not own a mobile phone and a further 28.2% have a bank account and own a mobile phone, but do not belong to a savings club. A significant proportion of each group does not overlap with the others. It would be important in the first instance to target those with the most overlaps, as that gives multiple layers of potential touch points with one customer. So, for example, in the nexus between savings clubs, banked and mobile phone, a scenario could be foreseen where the savings club is used as marketing/aggregation channel, the bank account for premium collection and the mobile phone for client communication.

If we similarly consider the overlaps between mobile phone ownership, banked status and those living close to a post office, the following picture emerges:

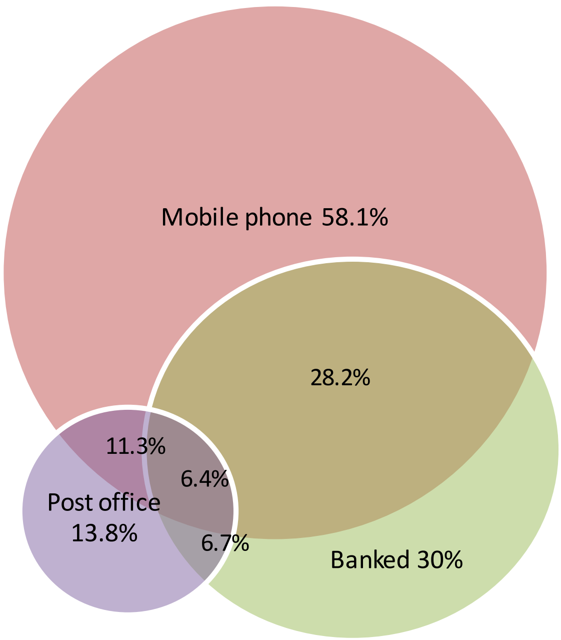

Figure 17. Overlaps between touch points: mobile phone, banked and vicinity to a post office

11.3% of adults live close to a post office and have a mobile phone and 6.7% live close to a post office and is banked, but do not own a mobile phone. 6.4% of adults live close to a post office, have a mobile phone and have a bank account – three layers of touch points.

5. Opportunities

Amidst all the challenges from both the demand and supply side, a substantial chunk of adults save, have insurable assets and experience insurable risk events. There are also a number of potential distribution channels that can be used to provide insurance services to the unserved market. All of these factors would suggest that there is huge market potential for microinsurance, especially given the scale of the Nigerian market, which consists of nearly 85 million adults.

We conclude this analysis by asking what the EFInA A2F survey data can tell us about the *nature* of the opportunities, where what pockets of individuals can be reached in which potential ways. As shown by the analysis above, the Nigerian population is far from a homogenous group. For the purpose of assessing potential, it is therefore useful to segment the population so as to better understand the features of each segment, so as to devise effective marketing strategies.

In unpacking the opportunities it is important not to lose sight of the supply-side challenges that must be overcome as a prerequisite to unlocking these opportunities. The extent of the challenge suggests that the insurance sector will not capitalise on these opportunities simply through business as usual. Product and distribution innovation is needed, as is gradual education of consumers to build awareness and trust. This will only happen if expenses are reduced and claims ratios, as well as the level of service in general, improved. On the intermediation side, insurers have to "crack the code" to two main challenges: (i) how do you reach the mass market; and (ii) how do you collect payments from them? All of this is set against the regulatory framework and it is important going forward that the regulator is part of the conversation so that a holistic solution can be found.

5.1. Defining distribution segments

In devising their marketing strategies and deciding who to target, insurers are typically concerned with (i) the regularity and consistency of a client's income; (ii) how to reach potential clients; and, especially in the Nigerian case, (iii) the collection of premiums. Bearing this in mind, it was decided to use *main source of income* as primary indicator to create easily identifiable distribution groups, further segmented according to *banking status* and *mobile phone ownership*. These parameters will form the basis for segmenting the market, upon which the features of each segment can be discussed in more detail.

Regularity and consistency of income is captured by *main source of income*[25]*,* while *banking status* gives an indication of the accessibility of income. Seeing that insurers do not have the option of the banking channel as a formal point of access to unbanked individuals, the unbanked population was furthermore segmented according to *mobile phone ownership*. With the advent of mobile money services in Nigeria, clients may be able to potentially pay insurance premiums using mobile phones.

The main source of income categories were constructed as follows[26]:

- *Salaries or wages:* Individuals earning a regular wage or salary
- *Small business income:* Income is derived from either trading goods or services or from running a business
- *Agricultural income:* Individuals earning their income from either subsistence/small scale or commercial/large scale farming
- *Money from friends or family:* Individuals who depend on friends or family for income
- *Other/irregular income:* Income can be derived from a number of sources, including rent, pension, drought relief, interest on savings or return on investments

[25] Unfortunately the EFInA A2F survey did not provide a true reflection of the total adult population's income distribution, as 33% did not know/refused to answer. Consequently, an alternative indicator for consistency of income had to be used. The EFInA A2F survey provided us with three possible proxies, namely employment status, main source of income and occupation. Each of these variables were analysed extensively and after much consideration it was decided that main source of income would provide insurers with the most valuable insights regarding consistency of income.

[26] Note that we created these categories by grouping together sub-questions in the survey questionnaire into variables that we believe represent the most meaningful categories.

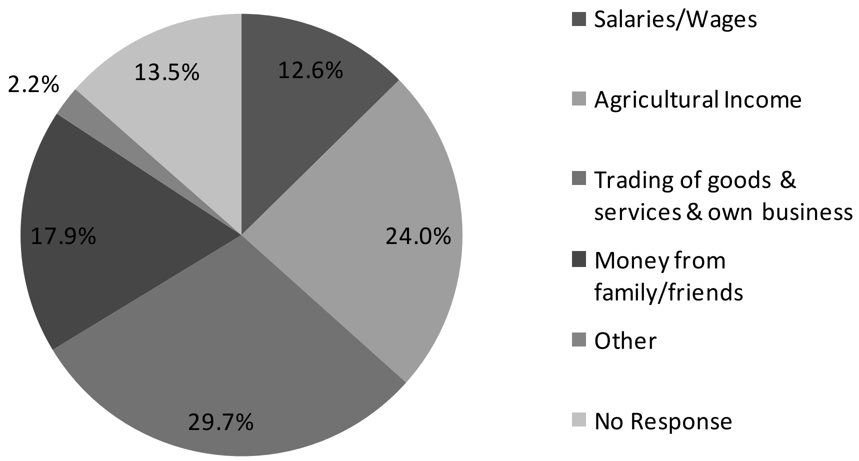

Figure 18: Main source of income – percentage of adults

As illustrated in Figure 18, the majority of Nigerian adults derive their income from small business activities (29.7%), followed by farming activities (24.0%). As mentioned, only 12.6% of the adult population sources their income from salaries or wages, while 17.9 % of the adult population depend on friends and family for their income. Considering the small proportion of adults that falls into the *other/irregular income* group (2.2%), it was decided to exclude this group from the rest of the analysis. The analysis below therefore does not account for 100% of the adult population.

For the purpose of the segmentation exercise we give each segment a name: those earning their main income from salaries or wages we term the "Nine to fives", those from agriculture the "Farmers", those who trade or have their own small businesses the "Wheelers & dealers[27]" and those who get their money from family and friends as the "Adult dependents".

As explained, the four main income source categories were furthermore segmented by *banking status* and *mobile phone ownership.* The combination of these three factors divides the adult population into twelve groups:

Total Adult Population = 84.7 million	**Total % of adults**	**Banked (% of all adults)**	**Unbanked and own a mobile phone (% adults)**	**Unbanked without a mobile phone (% adults)**
The nine to fives	*12.6*	9.9	2.0	0.7
The wheelers & dealers	*29.7*	9.6	11.1	9.0
The farmers	*24.0*	2.3	7.1	14.6
The adult dependents	*17.9*	5.0	5.7	7.2

Table 3: Segmentation by main source of income, banking status & mobile phone ownership

Key: Easy to reach | Innovative distribution | Hard to reach

The total picture emerging from the Table 3 is as follows:

[27] No negative connotation intended. We simply aim to capture their entrepreneurial spirit and the fact that these are mostly small, informal businesses in the name.

- The **Nine to fives** represent about 10.7 million adults (12.6%), of which 8.4 million are banked and 1.7 million, though not banked, still own a mobile phone.

- The **Wheelers & dealers** are the largest group, accounting for 25.2 million adults. Though being bigger in overall size, this group has a similar number of banked adults as the Nine to fives at just over 8 million. Much more of the unbanked market also do not have a mobile phone (7.6 million or 9% of adults) in this group than in the Nine to fives, though a substantial number of the unbanked Wheelers and dealers (9.4 million, 11% of adults) do own a mobile phone.

- The **Farmers** are the second-largest group, accounting for 20.3 million adults (24.0% of the adult population). However, less than 2 million of them are banked and of those Farmers who are unbanked, the majority also do not own a mobile phone (12.3 million). Though an important and big population segment, the Farmers are therefore likely to be more difficult to reach for insurance purposes than the Nine to fives and the Wheelers & dealers.

- The most difficult group to reach will be the **Adult dependents**. Though they account for more than 15 million adults, their income is likely to be low and irregular. This is confirmed by the fact that only 5.0% of them (4.3 million people) have a bank account. 4.8 million Adult dependents are unbanked but own a mobile phone and 6.1 million Adult dependents (7.2% of all adults) do not have either.

Based on the regularity of income and the likely touch points and the scope for premium collection presented by their banked and mobile phone ownership status, we group these segments into three categories from an insurance opportunity point of view:

- Those shaded in green have a regular source of income and already have a bank account. There is therefore an existing platform by which to reach them. There is also scope for regular premium collection in some way other than cash – if not through their employer or a bank, then perhaps through a mobile payments platform. We therefore deem the green blocks to be the "**easy to reach**" target market. It represents a total of about 19.5 % of adults (16.5 million people).
- Those shaded in light orange (28.2% of adults) which is equivalent to 23.9 million adults, would require "**innovative distribution**" channels, but could still be reached for insurance purposes. The banked farmers were included in this group as their income is irregular and not consistent. Nevertheless, they could be reached through e.g. a farmers' association or cooperative, so there could be some defined "easy to reach" pockets within this market. The banked Adult dependents do not have a regular or predictable source of income, but could be reached either through innovative distribution mechanisms or via those who provide for them. Similarly, we regard all those who are unbanked but own a mobile phone, with the exception of the unbanked Adult dependents, as a market potential through innovative distribution channels. However, not all o the population in these segments would be potentially viable clients. Insurers would need to identify groups of people with some existing touch points and a regular enough income stream that they could be incorporated into the insurance market through innovative products and channels.
- Those shaded in red (36.5% of adults) which is equivalent to 30.9 million adults can be considered **hard to reach**. They do not have a regular income and most of them

are unbanked and do not own a mobile phone. They should not be a first priority for insurers unless there are defined touch points (e.g. a particularly strong association with some of this market as members) that can be used as a client aggregation, distribution and premium collection channel.

These "easy to reach", "innovative distribution" and "hard to reach" opportunities are stated at a high level. The following sub-sections will aim to provide a better understanding of the profile of each of the four segments.

5.2. Key features of each segment

In the pages to follow, we describe each segment in turn. The following key descriptors have been chosen for each segment:

- **Profile**: group size, single largest age category (showing the skew of the group towards a certain age group), gender composition, geographic spread and income skew (the most prominent income category within the group). We believe each of these elements to be a meaningful indicator of opportunity for the insurance sector.

- **Likely insurance needs**: secondly, we consider the features of the group insofar as they highlight the likely insurance needs of the group. We chose two sub-categories, with a number of indicators of relevance to likely insurance needs:

    - The first sub-category focuses on **insurable asset ownership**. Besides being an indicator of potential demand for general insurance, asset ownership can also be regarded as an indicator of wealth and hence can give some indication of the likely need for life insurance. We specifically considered house ownership[28]. Furthermore we also created variables for ownership of three or more standard household durables[29] and ownership of one or more luxury household durables[30].

    - The second sub-category considers **dependence**, i.e., whether the person is responsible for children and others, to the extent that this could prompt them to take out some form of life insurance, health insurance or an education endowment product.

[28] Since the majority of houses don't even have running water or adequate sanitation facilities, house ownership does not necessarily indicate wealth. Insurers should consequently distinguish between types of houses, using main water source and type of toilet as indicators.
[29] Standard household durables include the following, fridge/freezer, video player, colour TV, music set, black & white TV, DVD player and cable satellite.
[30] Luxury household durables included washing machine, air conditioner and dishwasher.

The Nine to Fives

	Total Nine to Fives	Banked	Unbanked & own a mobile phone	Unbanked & no mobile phone
Profile				
Group size	10,710,213	8,416,161	1,691,901	602,151
% of group		78.6	15.8	5.6
Major age category	25-34 years	25-34 years	25-34 years	18-24 years
Gender spread	67.4% male	67.2% male	66.9% male	72% male
Geographic distribution	52.33% rural	50.8% urban	56.5% rural	84.6% rural
Major income category (₦)	13,001-20,000	20,000-40,001	13,001-20,000	6,000-13,001
Insurance needs				
Insurable assets				
Owns at least one car	2,403,445	2,259,616	134,757	9,072
% of group	22.4	26.8	8.0	1.5
House owner	6,121,312	4,676,982	968,247	476,083
% of group	57.2	55.6	57.2	79.1
One or more luxury household durables	1,600,941	15,26,710	71,616	2,615
% of group	14.9	18.1	4.2	0.4
Three or more standard household durables	7,746,676	6,707,578	918,206	120,892
% of group	72.3	79.7	54.3	20.1
Dependence				
Main income earner	5,889,758	4,704,399	862,264	323,095
% of group	55.0	55.9	51.0	53.7
Three or more children going to school	3,980,334	3,191,391	560,108	228,835
% of group	37.2	37.9	33.1	38.0
Remittances				
Sent money domestically in past 6 months	4,120,356	3,712,953	315,676	91,727
Sent money internationally in past 6 months	86,858	80,617	2,702	3,539
Total remitters	4,207,214	3,793,570	318,378	95,266
% of group	39.3	45.1	18.8	15.8

Table 4: Summary profile: the Nine to fives

The feature that stands out most for this group is its consistent and regular income flow. It has the highest average personal income of all the groups. Yet it is interesting to note, from an insurance distribution point of view, that 52.3% of the group live in rural areas. Age-wise, the Nine to fives are quite young. The major age bracket is the 25-34 year group. This implies that the salaries/wages for this is expected to grow as it has many young employees who are expected to stay economically active for many years to come. These Nine to fives can be seen as the “up and coming” and would be a prime target for insurance companies.

As one would expect, the majority of the Nine to fives (78.6%) is banked. The banked group is the most reliable group to sell insurance to as they already have access to a formal touch point which can potentially be used for premium collection.

Unbanked individuals with mobile phones still provide insurers with a potential opportunity provided that it is viable to use mobile phones as a point of access. With regards to the unbanked without mobile phones, it is likely that their employers will also be of an informal nature and that payroll deduction is unlikely to be viable. Insurers will therefore need to think of alternative distribution strategies.

In terms of their likely insurable assets, this group does not necessarily own more household goods of have a higher percentage home ownership than other groups. Where there is however a marked difference is in car ownership, especially among the banked Nine to fives. They would be a first priority target group for vehicle insurance.

Unsurprisingly, more than half of the Nine to fives, across all three sub-groups are the main breadwinners. About a third of each sub-group also has three or more children going to school in the household; this is remarkably similar between the four segments. Quite a substantial proportion of the Nine to fives, especially those who are banked, remit money to others. All of this confirms their position of being responsible providers and therefore a good insurance target population.

The Wheelers & dealers

	Total Wheelers & dealers	Banked	Unbanked & own a mobile phone	Unbanked & no mobile phone
Profile				
Group size	25,153,934	8,152,480	9,416,332	7,585,122
% of group		32.4	37.4	30.2
Major age category	25-34 years	25-34 years	25-34 years	25-34 years
Gender spread	52.9% female	60.1% male	50.6% female	69.9% female
Geographic distribution	60.7% rural	58.27% urban	58.14% rural	84.29% rural
Major income category (₦)	6,001-13000	13,001-20,000	6,001-13,000	3,001-6,000
Insurable needs				
Insurable assets				
Owns at least one car	2,647,227	1,832,374	665,833	149,020
% of group	10.5	22.5	7.1	2.0
House owner	14,946,213	4,135,108	5,186,876	5,624,229
% of group	59.4	50.7	55.1	74.1
One or more luxury household durables	1,364,528	1,066,114	263,126	35,288
% of group	5.4	13.1	2.8	0.5
Three or more standard household durables	12,240,975	6,332,239	4,674,447	1,234,289
% of group	48.7	77.7	49.6	16.3
Dependence				
Main income earner	10,566,010	4,187,432	4,155,607	2,222,971
% of group	42.0	51.4	44.1	29.3
Three or more children going to school	9,131,031	2,980,715	3,455,705	2,694,611
% of group	36.3	36.6	36.7	35.5

	Total Wheelers & dealers	Banked	Unbanked & own a mobile phone	Unbanked & no mobile phone
Remittances				
Sent money domestically in past 6 months	5,864,866	3,289,476	1,919,250	656,140
Sent money internationally in past 6 months	105,239	84,852	20,387	0
Total remitters	5,970,105	3,374,328	1,939,637	656,140
% of group	23.7	41.4	20.6	8.7

Table 5: Summary profile: the Wheelers & dealers

The majority of income earning Nigerians (nearly a third of the adult population) falls into the small business income category, or what we term the "Wheelers & dealers". Consequently this group offers great opportunity for insurers. The income sources of individuals in this group are relatively regular, but more inconsistent than that of the Nine to five:

- The banked individuals (32.4% of the group) offer insurers a formal point of access through their bank accounts and also have relatively higher incomes compared to the other sub-groups. They can therefore be regarded as relatively easy to reach.

- The unbanked who own mobile phones (37.4%) could potentially make premium payments using their mobile phones. We would consider them to be part of the innovative distribution group. Yet they do not necessarily have a regular income and the largest income bracket within the group is the N13,001-20,000 band. This relatively low income combined with likely inconsistency thereof and the fact that they do not have a bank account means that insurance companies have to utilise innovative distribution channels to make it feasible to reach this group. Hence they are unlikely to be a first priority unless they can be reached through some touch point or aggregator, for example a strong market or trade association that already has a strong communication channel to and collects fees from its members.

- Those without a bank account or mobile phone (30.2%) would be very hard to reach, especially given the fact that more than 80% of them live in rural areas. So insurers will have to be particularly innovative in both product design and distribution strategies.

In all cases, in light of the likely inconsistency of this group's income, insurers will have to design products that allow premium flexibility in line with the income reality of the target market.

From Table 5 it is clear that in terms of insurable assets, likely insurance needs will vary between the sub-groups of people within the Wheelers & dealers segment. More than twenty percent of the banked individuals own at least one vehicle and is therefore required by law to have third party vehicle insurance. Nearly half of the unbanked that own mobile phones have three or more household durables. About a third of each sub-group have three or more children going to school in the household. Half of those who are banked are also the main breadwinner and over 40% of the banked small business owners remit money to others. This is indicative of a situation whereby they take economic responsibility for others and may therefore find insurance a good value proposition. For those wheelers & dealers who are unbanked and even more so for the unbanked without a mobile phone, indicators suggest that they may be a less appealing target market than the banked.

The Farmers

	Total Farmers	Banked	Unbanked & own a mobile phone	Unbanked & no mobile phone
Profile				
Group size	20,311,917	1,943,850	6,023,518	12,344,549
% of group		9.6	29.7	60.8
Major age category	25-34 years	25-34 years	25-34 years	25-34 years
Gender spread	64.6% male	79% male	70% male	59.6% male
Geographic distribution	90.2% rural	77.3% rural	86% rural	94.4% rural
Major income category (₦)	6,000-13,001	6,000-13,001	6,000-13,001	6,000-13,001
Insurance needs				
Insurable assets				
Owns at least one car	395,871	169,613	169,113	57,145
% of group	1.95	8.73	2.81	0.46
House owner	16,357,279	1,477,376	4,638,696	10,241,207
% of group	80.5	76.0	77.0	83.0
One or more luxury household durables	181,145	74,380	58,483	48,282
% of group	0.9	3.8	1.0	0.4
Three or more standard household durables	3,574,468	818,558	1,639,193	1,116,717
% of group	17.6	42.1	27.2	9.0
Dependence				
Main income earner	11,401,348	1,184,045	3,614,476	6,602,827
% of group	56.1	60.9	60.0	53.5
Three or more children going to school	7,189,710	889,019	2,263,678	4,037,013
% of group	35.4	45.7	37.6	32.7
Remittances				
Sent money domestically in past 6 months	2,616,274	672,654	1,017,759	925,861
Sent money internationally in past 6 months	29,988	1,619	19,642	8,727
Total remitters	2,646,262	674,273	1,037,401	934,588
% of group	13.0	34.7	17.2	7.6

Table 6: Summary profile: the Farmers

The agricultural income group consists of nearly a quarter of the Nigerian adult population. Interestingly, many of them are still relatively young. In the agricultural sector income flows can be adversely affected by drought, flood, disease or other disasters which may mean that farmers go without substantial income for months or even years on end. This on the one hand indicates a need for insurance as income smoothing mechanism, but on the other hand poses a big challenge to regular premium collection. Added to this is the fact that smallholder farmers are likely to only generate their income at harvest time or as they sell their livestock from time to time. Therefore income is not consistent or predictable. The low level of income (the N6,000-N13,000 band was the most prominent for all farmer sub-categories) also raises affordability issues in terms of insurance premiums. What's more, 90.2% of this group reside in rural areas.

The banked (9.6%) and unbanked farmers who own mobile phones (29.7%) will be easier to reach than their unbanked and no mobile phone counterparts (60.8%); but insurers will have to be particularly innovative in reaching these two sub-groups. The un*banked & no mobile phone* sub-group is the largest farmer group (14.6% of all adults), but would be extremely hard to reach.

With the exception of house ownership, insurable asset ownership is relatively low among farmers in comparison with the other segments. This is in line with their generally low and inconsistent incomes. In each of the farmer sub-groups, more than half of the respondents indicated that they are the main income earner in the household and more than a third have three or more children going to school in the household.

Given the vast number of people who are active in the smallholder farming sector, this segment cannot be ignored in light of the challenges highlighted. Farmers, just like everybody else, have families to provide for and have insurance needs. Although agricultural insurance may be too complex or expensive to provide, farmers can still benefit from other types of insurance such as life or health. However, given the obvious distribution challenges, it may be that the only viable way of making inroads into the farming market will be through agricultural value chain producers or well established farmers' associations or cooperatives that can provide a marketing, communications and premium collection channel to groups of farmers. However, making these partnerships work may be challenging.

The Adult dependents

	Total Adult dependents	Banked	Unbanked & own a mobile phone	Unbanked & no mobile phone
Profile				
Group size	15,188,456	4,259,474	4,792,984	6,135,998
% of group		28.0	31.6	40.4
Major age category	18-24 years	18-24 years	18-24 years	18-24 years
Gender spread	63% female	50.2% male	57.5% female	76.4% female
Geographic distribution	50.32% rural	50.32% rural	58.5% rural	83.51% rural
Major income category (₦)	3,000-6,001	6000-13001	1,000-3,001	1,000-3,001
Insurance needs				
Insurable assets				
Owns at least one car	1,751,492	1,034,534	584,986	131,972
% of group	11.5	24.3	12.2	2.2
House owner	10,290,595	2,286,070	2,987,366	5,017,159
% of group	67.8	53.7	62.3	81.8
One or more luxury household durables	1,100,348	666,004	351,975	82,369
% of group	7.2	15.6	7.3	1.3
Three or more standard household durables	7,200,431	3,203,238	2,703,643	1,293,550
% of group	47.4	75.2	56.4	21.1

Dependence	Total Adult dependents	Banked	Unbanked & own a mobile phone	Unbanked & no mobile phone
Main income earner	1,243,545	364,536	422,926	456,083
% of group	8.2	8.6	8.8	7.4
Three or more children going to school	5,990,647	1,638,368	2,109,004	2,243,275
% of group	39.4	38.5	44.0	36.6
Remittances				
Sent money domestically in past 6 months	1,788,693	1,119,767	433,519	235,407
Sent money internationally in past 6 months	17,539	17,539	0	0
Total remitters	1,806,232	1,137,306	433,519	235,407
% of group	11.9	26.7	9.0	3.8

Table 7: Summary profile: the Adult dependents

Money from friends and family is the main source of income for 17.9% of the adult population. This group has the lowest average personal income of all groups and the majority of individuals in this group fall in the lowest age bracket of 18-24 years.

Despite their dependence on friends and family, this segment also has insurance needs. A quarter of the *banked* sub-group owns a car and more than three quarters own three or more insurable assets. Many of them also have dependents. In all the sub-groups more than a third of individuals have more than three children going school in the household. This means that they may find certain types of insurance (e.g. life, health or education endowments) attractive, if an innovative distribution channel can be found of marketing it to them and it may be necessary to target them initially through those who provide for them.

However, considering the small and irregular flows of income of this group, it is questionable whether these individuals will be able to afford to pay insurance premiums. With the possible exception of those adult dependents that are banked, we would regard this segment as hard to reach and not of primary interest to insurers. However, insurers may be able to identify specific groups with potential, e.g. university students in their final year – who are likely to still be dependent, but will become income earners down the line.

5.3. Conclusion

This analysis aimed to provide a snapshot of the Nigerian population based on the EFInA Access to Finance in Nigeria 2010 survey findings to gauge the potential for insurance market growth. The survey provides a wealth of information that could assist the market to better understand who their target market is, what their profile is and what innovation would be needed to reach them.

Current insurance reach is extremely low and the market is plagued by a number of challenges, many of them relating to distribution. The current reach of the insurance market is limited to the higher-income, formally employed male market and even those who are supposed to have compulsory insurance (e.g. vehicle owners) do not have it. The credit life insurance market is also underdeveloped. On the demand side, large numbers of the population are generally poor, many of them live in rural areas and financial literacy, awareness of and trust in insurance is low.

Given the low insurance penetration and myriad of challenges highlighted in this report, it may be more prudent to follow a phased approach whereby insurers focus first on expanding into the rest of the middle to higher income formally employed and banked market, then start to think of ways to reach those who are banked but not formally employed (most notably the strong entrepreneurial class), and only then to move on to segments requiring more innovative distribution channels. This means that microinsurance for the low-income market becomes a second priority over the short-term – of necessity rather than by choice. This in no way negates the need and potential value that insurance holds for the low-income market, but simply makes it a more long-term ambition.

Further, research will be required to better understand the realities of trying to reach out into the untapped mass market to form a clearer picture of opportunities and challenges and drivers of market development. Such research will need to scope the insurance market from a demand and supply perspective, as well as outline the regulatory framework and its interplay with market development.