The role of insurance in inclusive growth: Nigeria diagnostic

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Collaboration

The Department for International Development (DFID) has partnered with FSDA, Cenfri and the World Bank to conduct a series of diagnostic studies into the role of insurance in development. This study is one of four diagnostics conducted in Ghana, Kenya, Nigeria and Rwanda.

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List of abbreviations

ABP	Anchor Borrowers' Programme
AML	Anti-Money Laundering
AOEIP	African Oil and Energy Insurance Pool
ARIAN	Association of Registered Insurance Agents of Nigeria
AYI	Area Yield Insurance
BVN	Bank Verification Number
CBN	Central Bank of Nigeria
CFT	Counter Financing Terrorism
CIA	Central Intelligence Agency
CPC	Consumer Protection Council
CPS	Contributory Pension Scheme
EAIPN	Energy and Allied Risks Insurance Pool of Nigeria
ERGP	Economic Recovery and Growth Plan
FGN	Federal Government of Nigeria
FMARD	Federal Ministry of Agriculture and Rural Development
FSRCC	Financial Sector Regulation Coordinating Committee
GAIP	Ghana Agricultural Insurance Pool
GDP	Gross Domestic Product
HMO	Health Maintenance Organisation
IGI	Industrial and General Insurance
KYC	Know Your Customer
MNO	Mobile Network Operator
MSME	Micro, Small and Medium Enterprises
NAIC	Nigerian Agricultural Insurance Corporation
NAICOM	National Insurance Commission
NCC	Nigerian Communications Commission
NCDMB	Nigerian Content Development and Monitoring Board
NCRIB	Nigerian Council of Registered Insurance Brokers
NDHS	National Demographic and Health Survey
NGN	Nigerian Naira
NHIA	National Health Insurance Authority

NHIS	National Health Insurance Scheme
NIA	Nigerian Insurers Association
NICON	National Insurance Corporation of Nigeria
NIRSAL	Nigeria Incentive-Based Risk Sharing System for Agricultural Lending
NOEIP	Nigerian Oil and Energy Insurance Pool
NNPC	Nigerian National Petroleum Corporation
NPNC	No Premium No Cover
NSE	Nigerian Stock Exchange
PENCOM	National Pension Commission
PFA	Pension Fund Administrator
PFC	Pension Fund Custodian
RSA	Retirement Savings Account
SEC	Securities and Exchange Commission
SME	Small and Medium-sized Enterprises
SSHIS	State Supported Health Insurance Schemes
USD	United States Dollar
USSD	Unstructured Supplementary Service Data
WHO	World Health Organisation

USD/NGN Exchange rate

The local currency in Nigeria is the Nigerian Naira (NGN). Throughout this document an exchange rate of NGN 360 per USD was used unless specified otherwise.

Executive summary

This document outlines the development path and present state of the insurance market in Nigeria to understand the current and potential role of insurance from three perspectives: (i) in building household resilience; (ii) in supporting business resilience and enterprise development; and (iii) in capital market development.

The objective of this study is to understand how insurance can contribute towards sustainable and inclusive growth in Nigeria[1]. DFID UK is developing its global approach to insurance market development, recognising the role that insurance can play in supporting sustainable development and growth. DFID has partnered with the World Bank[2], FSDA[3] and Cenfri[4] to conduct a series of diagnostics – of which this study is one – into the role of the insurance market development on the long-term economic development path of a country.

Synopsis of findings

Table 1 outlines summary indicators for Nigeria[5]:

Demographics	Population	189 million
	Population urbanised	90 million
Macroeconomic	GDP per capita	USD1,994.2
	Oil & gas as % of total exports	83% (2017 Q4)
	Inflation rate	15.7%
Financial inclusion	Banked population	38% of adults
Insurance uptake	Insurance uptake	1.9% of the adult population
Size of the insurance market	Insurance market penetration	0.3% of GDP
	Number of life insurers	27 (13 composite)
	Number of general insurers	41 (13 composite)
	Number of local reinsurers	2
	Life insurance: GWP (2016)	USD421 million
	General insurance GWP (2016)	USD629 million
Value and performance	Life insurance: average claims ratio	60%
	Life insurance average profit margin	-4%
	General insurance: average claims ratio	30%
	General insurance average profit margin	3%

Table 1: Key statistics

1 In so doing, the aim is to input to ongoing regulatory and industry initiatives to development market. This includes informing NAICOM, the NIA and the Nigerian Economic Summit Group (NESG), a platform for public-private sector cooperation on Nigeria's economic development that includes a sub-committee on insurance market development.

2 The World Bank Group is a global partnership of five institutions that are working for sustainable solutions that reduce poverty and build shared prosperity in developing countries. It is one of the world's largest sources of funding and knowledge for developing countries.

3 FSD Africa is a financial sector development programme or "FSD" based in Nairobi. It is funded by UK aid from the UK Government. FSD Africa aims to reduce poverty across sub-Saharan Africa by building financial markets that are efficient, robust and inclusive.

4 Cenfri is an independent think-tank based in Cape Town. Its mission is to support financial inclusion and financial sector development through facilitating better regulation and market provision of financial services.

5 Drawing on various sources as quoted in the main text.

A large economy with a strong diversification imperative. Nigeria is a populous country, home to one in every five Africans. The population is growing. It is also urbanising rapidly. While the formal economy is unable to absorb the growing workforce, the informal economy is buoyant, particularly driven by small-scale traders. The economy has a strong economic growth track record in recent decades, largely on the back of the oil-and-gas sector; but in the aftermath of the global oil price slump in 2014 and 2015, it experienced a recession. As the economy recovers from recession, there is a strong policy focus on diversification through the Economic Recovery and Growth Programme (ERGP), with particular emphasis on industrialisation via the SME sector as well as agricultural value chain development for food security.

The insurance sector can be an important contributor to the ERGP. Even though the financial sector, in particular the insurance sector, is not specifically mentioned as one of the focus sectors of the ERGP, the success of the strategy rides in part on the facilitative role that the financial sector plays. The insurance sector in Nigeria has the potential to contribute to three of the five priority areas: achieving agricultural and food security; ensuring energy sufficiency in power and petroleum products; and driving industrialisation by focusing on SMEs. A well-functioning insurance industry minimises the risk associated with economic activity in these sectors and enables the efficient allocation of risk in the broader economy.

Much untapped potential. Insurance penetration in Nigeria remains low and well below the African and international averages, despite some growth in recent years, and total asset size is low relative to the size of the Nigerian financial sector. This is surprising considering that Nigeria is the largest economy in Africa. The insurance market exhibits typical characteristics of a market in the second stage of development[6]:

- *Life market nascent*. The general insurance sector leads the industry in terms of gross written premiums, and life insurance is nascent beyond group life insurance.
- *Compulsory lines prominent*. Compulsory insurance, including group life, continues to be a strong driver in the market.
- *Fragmentation*. At 59 licences across a relatively small premium pool, the insurance market is fragmented. Apart from a few larger and stronger insurers, there is a large tail-end of insurers with small balance sheets and often weak business fundamentals. For many insurers, expense ratios are high and claims ratios are either too low to provide consumer value or too high to maintain profitability. Ultimately, this spills over into solvency concerns, which have been witnessed for a number of operators. To date, NAICOM has used capital requirement increases to consolidate the market, with new Tier-Based Minimum Solvency Capital requirements introduced in 2018.
- *Skills shortages*. The local economy is unable to generate sufficient skills to serve the market appropriately. There is a particular shortage of general insurance business skills, underwriting skills and actuarial skills.
- *Trust and awareness deficit*. A lack of awareness of how insurance works and low trust in insurers compound development challenges.

Despite these challenges, the opportunities remain substantial: (i) The diversification drive creates more opportunity than ever for insurance to support business growth, (ii) the

6 The stages of market development are based on a heuristic developed by Chamberlain, Camargo and Coetzee (2017) drawing on the work of Lester (2014) and USAID (2016). Insurance markets that are in stage 2 of market development are in an early growth phase. The majority of retail products are compulsory or group-based, and voluntary individual cover is mostly limited to top-end clients. A discussion on Nigeria's position on the insurance market development curve can be found in Section 4.4.

annuities market is a growing driver of the life insurance sector, and (iii) there is great untapped potential for health insurance and life insurance among employee groups and bank account holders as relatively easy-to-reach target market segments. The interest shown by foreign insurers in the Nigerian market in recent years via the acquisition of local licences is a recognition of opportunity.

Key insurance market themes

Role of insurance in individual and household resilience

Limited current impact on individual and household resilience. Less than 2% of Nigerian adults have insurance. Even for the target group that is the easiest to reach (salaried employees), insurance uptake is only 10.6%. The National Health Insurance Scheme, despite its aims for universal health coverage, serves only an estimated 1% of the population. Instead, most people rely on family and friends to cope with risk. Alternatively, they forego consumption or draw on savings, thus decreasing their resilience.

Insurance uptake often not voluntary. The most popular insurance product line is health insurance (609,000 adults). Beyond that, uptake is often compulsory. Compulsory group life and motor-vehicle insurance account for a substantive part of household insurance penetration. Voluntary, individual insurance policies are still very limited.

Reach limited to urban and high-income segments. The uptake of insurance among individuals and households is concentrated in urban areas, largely in the south and within specific target markets that are typically easier to reach. Almost half of the 1.8 million adults with insurance work as salaried employees.

Distribution challenges to reaching the mass market. Distribution is largely broker-driven, and most premium collection is done through corporate payments or payroll. Agent sales are growing, but agent distribution is limited to a few insurers that are keen to push retail insurance. Bancassurance holds much potential given the large number of banked individuals without insurance, but there have not been any significant developments so far, partly due to the recent bancassurance guidelines being perceived as restrictive.

Opportunities for enhancing individual and household resilience. The diagnostic report identifies several opportunities for the insurance market to contribute towards the resilience of individuals and households:

- ***Easy-to-reach target market.*** The formally employed market of 7.9 million individuals remains largely untapped (only 10.6% having insurance, 33% being women) and presents a ready distribution channel via employee groups. Voluntary group health presents scope to deepen the employee benefits market for the growing middle class. The annuities market is growing fast on the back of pensions market growth and is seen as a core growth area for many life insurers.
- ***Aggregator-based distribution.*** To reach individuals in rural areas and the urban mass market, distribution through aggregators that have an existing relationship with clients is essential. Mobile distribution, bancassurance and retailer distribution all hold potential. In each case, however, several barriers would need to be overcome: the trust barrier on the demand-side, a supply-side innovation-barrier and a regulatory framework largely orientated to broker distribution.

- *Takaful insurance.* Sharia-compliant insurance products hold potential to increase the penetration of insurance to northern parts of the country, but indications are that reach is still limited, largely due to distribution constraints in serving the northern regions and the limited availability of individuals that can serve on the requisite Shariah boards.
- *Microinsurance.* Microinsurance is regarded as an opportunity for innovation, but overall market interest is lacklustre – understandably so, given the constraints in serving even the upper end of the retail market. Claims ratios are low. Regulatory restrictions that have held back the development of mobile money and the use of airtime to pay premiums prevent scale via mobile insurance distribution.

Role of insurance in business resilience and enterprise development

Insurance contribution to business resilience mainly via extractive industry. To date, the role of the insurance sector in economic growth has been primarily through sustaining activity in the extractive industries, particularly oil and gas.

Bulk of the risk not carried domestically. Local content legislation requires the bulk of oil-and-gas risks to be carried domestically, and this is has resulted in the formation of insurance consortia, often with numerous insurers. However, reports suggest that, while keeping some premiums onshore, the local content requirements are not succeeding in bolstering the domestic industry and may, in fact, introduce systemic risks through the concentration of risk that it introduces[7]. Anecdotally, there are reports of smaller consortia members that are unable to honour claims. Ultimately, limited balance sheets and capacity constraints mean that the majority of premiums are reinsured and, eventually, most risks are carried abroad.

Insurance able to serve as an enabler for SME industrialisation, but current role limited. Only a small proportion of non-corporate business can be classified as small or medium-sized. The majority of enterprises operate at the micro-level. Demand-side data also shows that SMEs are mostly situated in rural areas. Their informality and location make it difficult for formal insurers to serve them. One potential avenue is via credit providers. Upscaling the SME sector depends on the SMEs' ability to access credit for working capital. Approximately one-third of SMEs cited this as a main constraint to their business development. Insurance, as a risk management tool, can be an important enabler of access to credit by reducing the risk of lending to SMEs for credit providers. This would require meso-level insurance distributed via credit providers, but indicators are that the bancassurance guidelines pose challenges to bank-based distribution especially in rural areas.

Pervasive insurable risks in agriculture. Agriculture is particularly important to the diversification drive in Nigeria. It supports the livelihoods of many Nigerians, yet it is unable to meet domestic food security needs. Agriculture in Nigeria is prone to natural shocks arising from weather-related and biological risks. These shocks often have devastating effects on yields and disrupt the entire value chain from input suppliers to ultimate food processors. Risk mitigation through insurance provision in agriculture has been limited to date, largely provided by the state-owned NAIC. The market has only recently been made more accessible to private-sector participation, and private innovation has so far been limited.

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7 See, for example: https://www.businessdayonline.com/companies/insurance/article/bad-risk-management-attempt-oil-gas-business-nigeria/

Opportunities for enterprise development. The diagnostic report identifies the following opportunities for insurance to contribute to business resilience and enterprise development:

- *Access to credit for MSMEs*. Insurance, as a risk management tool, can be an important enabler of access to credit by reducing the risk of lending to SMEs for credit providers. In particular, meso-level insurance distributed via credit providers presents an opportunity, but indicators are that the bancassurance guidelines pose challenges, especially in rural areas.
- *Public–private partnership in agro value chains.* The fragmented nature of smallholder farmers means that, for agricultural insurance to reach scale, distribution needs to be anchored to a central off-taker, lender or processor. Government-driven schemes such as the NIRSAL and ABP enable value chain development, credit expansion and guarantees through public–private partnerships, but indications are that much efficiency gains can be had in public-driven initiatives.
- *Introduction and expansion of index-based products.* Coordination between NAIC, NIRSAL and private insurance and reinsurance companies saw the development and launch of area yield insurance in Nigeria, and weather index insurance is also planned. However, the feasibility and scalability of index-based insurance in Nigeria is constrained by low access to capital, inadequate technical skills and limited good-quality data.

Role in intermediation of capital

Intermediation role of insurers constrained by small balance sheets. The insurance sector holds only 2.5% of financial sector assets. The relatively small premium pools and short-term nature of the liabilities constrain the ability of insurers to play a significant intermediation role as aggregator of premiums. The poor performance of the insurance industry is further reflected in the poor performance of the share prices of insurers. Consequently, insurers have struggled to raise capital on the public capital market, which has inhibited their ability to efficiently manage large risks in the economy.

Larger role for pensions sector. All in all, the insurance sector by itself plays a limited role in economic growth via its institutional investor role in the intermediation of capital. However, when also considering the role of the pensions sector more broadly, this role expands greatly. The pensions market, as long-term savings pool, has a strong regulatory structure, an asset base approximately seven times bigger than the insurance industry, reaches many millions more clients and is an important source of domestic credit to the government (by investing in T-bills and government bonds), at least part of which is channelled into infrastructure investment.

Opportunities for capital market development. Though the insurance sector is not a major driver of capital market development, the report identifies the following long-term opportunities for insurance markets to support capital market development:

- *Annuity market a growing source of investable funds*. The annuities market is the direct linkage between the insurance and pensions sector.[8] From 2013 to 2016, pension fund assets increased by more than 50%. Therefore, the annuities market represents a significant growth opportunity for life insurance that, in turn, helps to build the longer-

[8] A Contributory Pension Scheme (CPS) requires employers and employees to contribute to an employee's retirement; and at retirement, the accumulated savings of retirees can be utilised either in a Programmed Withdrawal or a Retirement Annuity.

term investment allocation role of the insurance sector. However, capitalising on the annuities opportunity requires advanced skills and capabilities.

- ***Development of appropriate and suitable long-term investment instruments.*** For more of the potential role of insurance and pensions in intermediating investments for growth to be realised, viable longer-term investment instruments must be developed that can effectively compete with government debt.

From challenge to opportunity

As many of the challenges listed above are structural, change will not happen overnight. Regulation and market reforms are needed to consolidate the market, address business model constraints, build technical skills and put the industry on a growth trajectory towards Stage 3 of insurance market development.

The table below highlights the cross-cutting imperatives to unlock opportunities for market development. Should the insurance sector come to its own in fulfilling these business and household roles, it will simultaneously grow its role as institutional investor into the economy.

Imperatives	
Improving market fundamentals	Mergers or exit of unsustainable insurers is required to limit the erosion of public trust by poor market performance and to build the capacity required to underwrite large industrial risks. Raising capital requirements, in itself, will not be sufficient to achieve this objective without better enforcement and a broader move to embed a risk-based approach to governance and greater professionalism in the market.
Improving value in the compulsory insurance market	Greater cross-agency collaboration is required to improve enforcement of compulsory insurance. Even more so, efficient consumer redress systems and increased claims ratios are necessary to enhance awareness of insurance and ensure better value for consumers.
Broader distribution options	Agent and aggregator-based distribution is required to unlock the retail insurance market opportunities. The Microinsurance Guidelines already broaden the intermediation space beyond brokers and agents. An equivalent regulatory dispensation is needed in the market at large for the development of alternative distribution channels.
Dealing with unintended regulatory consequences	Government is already coordinating around some of the bottlenecks to mobile distribution. However, more needs to be done to achieve results and drive market development. Bancassurance regulation is perceived as too restrictive, product-approval processes are experienced as slow and inefficient, and indications are that microinsurance regulations do not create enough incentives to be taken up at scale. It is important to find a speedy resolution that will help to kick-start momentum in the market.

Skills transfer	The technical skills gap creates an imperative for a concerted skills development initiative to improve the ability of the insurance sector to cover risks appropriately. This includes underwriting skills, actuarial and cost management skills, alongside capacity in product design and delivery.
Revisiting implications of local content requirements	The ability of the local insurance industry to safely and sufficiently carry risks in the oil-and-gas sector is compromised by small balance sheets. The negative economic impact of insurance failure is greater than the upside of keeping premiums on-shore. The local content regulation is already being circumvented to a large extent via global reinsurance. This indicates that the local industry recognises its own inability to carry the risk and asks for a reconsideration of how best to achieve local industry development policy objectives.
Anchor inclusive insurance approach in broader insurance sector development imperative	A number of stakeholders, including NAICOM and NIA, are working to promote inclusive insurance. While the opportunities for microinsurance are large, so are the challenges. Unlocking these opportunities requires a strong and innovative insurance market. The analysis shows that it is important to anchor the inclusive insurance focus in a broader understanding of the drivers and constraints to insurance market development.

Table 2. Imperatives

Source: Author's own

1. Introduction

This study investigates the role of insurance in contributing to sustainable and inclusive growth in Nigeria.

Insurance for growth. Traditionally, the focus of insurance diagnostic research within the development sphere[9] has been on building a more inclusive insurance market to, ultimately, enhance the resilience of lower-income households to shocks, thereby increasing welfare. Even though individual and household resilience is an important facet of the contribution of insurance to society, this study also considers the impact of the insurance sector on economic activity and growth more broadly.

Four insurance market diagnostic studies to inform DFID[10] approach to insurance market development. In recognition of the role insurance can play to support sustainable development and growth, the UK Department for International Development (DFID) is developing its global approach to insurance market development. DFID has partnered with the World Bank[11], FSDA[12] and Cenfri[13] to conduct a series of four country diagnostic studies[14] into the role that insurance market development has on the long-term economic development path of a country. These four country case studies – of which this study is one – will form part of a broader synthesis process to highlight the key issues in insurance market development in sub-Saharan Africa. In addition to informing a global and regional agenda, each study is designed to highlight opportunities and challenges at a local level to policymakers, regulators and market stakeholders.

Why Nigeria? The Nigerian economy is the largest in Africa, and Nigeria is home to approximately 20% of people in sub-Saharan Africa. The country is recovering from a recent economic recession, which has created a strong impetus for economic diversification. Effective risk transfer is important to stimulate productivity and investment in the economy. Moreover, via the intermediation function, the insurance sector has scope to indirectly spur investment and growth. Yet, the insurance sector is relatively undeveloped. Insurance penetration as a percentage of GDP is low in regional and global terms and given the size of the economy. The uptake of insurance products is very limited, reaching less than 2% of adults. This indicates substantial scope for growth of the insurance industry and, with that, its role in society. Given the prominence of the Nigerian economy in the region, the

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9 See, for example the series of Access to Insurance Diagnostics available at: https://a2ii.org/en/knowledge-centre/country-diagnostics

10 The Department for International Development (DFID) leads the UK's work to end extreme poverty. It is tackling the global challenges of our time including poverty and disease, mass migration, insecurity and conflict, with the aim to build a safer, healthier, more prosperous world for people in developing countries and in the UK too.

11 The World Bank Group is a global partnership of five institutions working for sustainable solutions that reduce poverty and build shared prosperity in developing countries. It is one of the world's largest sources of funding and knowledge for developing countries.

12 FSD Africa is a financial sector development programme or 'FSD' based in Nairobi. It is funded by UK aid from the UK Government. FSD Africa aims to reduce poverty across sub-Saharan Africa by building financial markets that are efficient, robust and inclusive.

13 Cenfri is an independent think tank based in Cape Town. Cenfri's mission is to support financial inclusion and financial sector development through facilitating better regulation and market provision of financial services.

14 Rolled out in Ghana, Kenya, Nigeria and Rwanda.

management of risks in the Nigerian economy is also important for the development of Western Africa more broadly.

Scope

Multiple links between insurance and growth. The impact of the insurance market on inclusive and sustainable growth occurs via a number of different pathways. It is therefore important to understand what the linkages between insurance and economic growth are. The insurance-for-growth transmission mechanisms, as illustrated in Figure 1 below, graphically represent the linkages through which the insurance sector impacts economic growth and poverty reduction as it emerges from the literature:

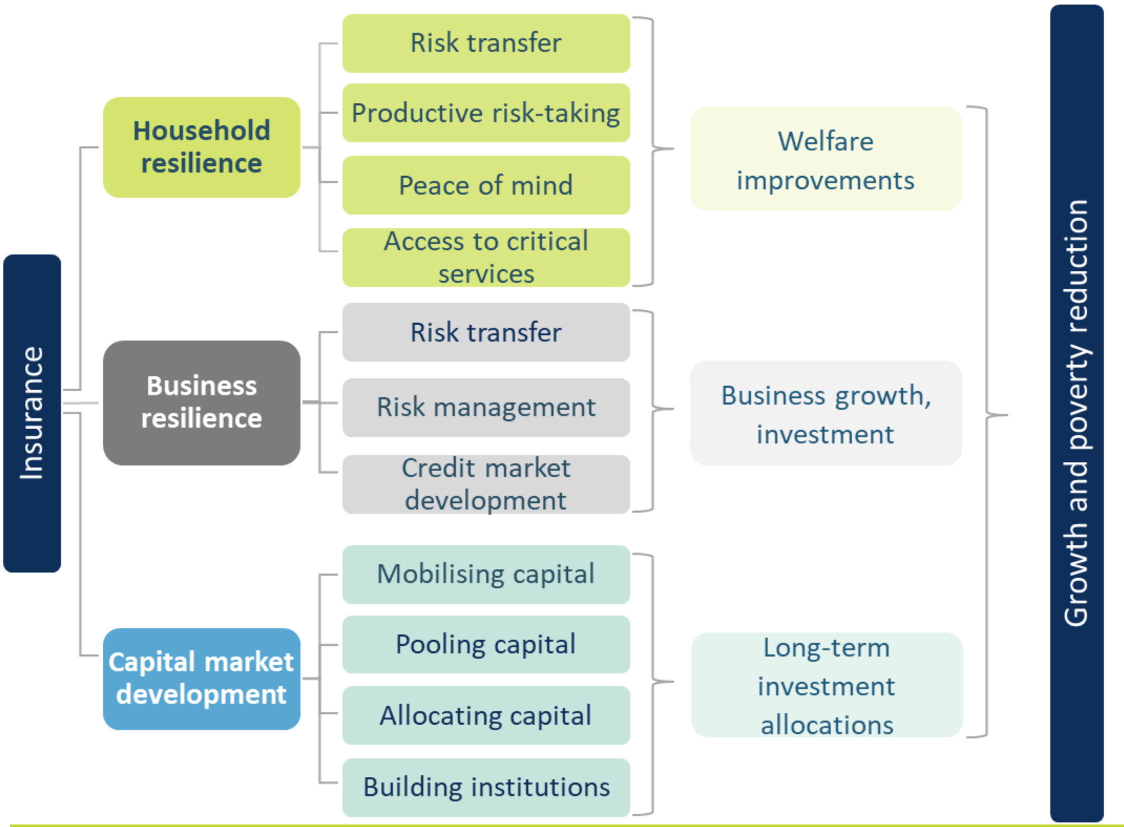

Figure 1: Insurance-for-growth transmission mechanisms

Source*: Adapted from Chamberlain, Coetzee and Camargo, 2017*

Three focus areas. The three main transmission channels identified in **Figure 1** form the focus areas for this study:

- *Improve individual and household resilience.* Insurance can contribute directly to individual welfare by providing a mechanism for households to build resilience in the face of financial shocks and by ensuring peace of mind even if no risk events occur. It enables households to take productive risks to invest and grow their incomes. Insurance also plays an indirect role by enabling households to access other services, such as credit, but also health and education.
- *Improve business resilience and productivity*. Insurance can contribute to business development in at least three ways:

    - ***Risk transfer to enable entrepreneurship and trade.*** Entrepreneurs can transfer the financial impact of a risk occurring from their own account to the insurance industry, which may bolster their survival rate. Insurance also covers risks related to cross-border trade, which facilitates exports, imports and enables foreign investment.
    - ***Risk management to mitigate risk and enable more efficient resource allocation.*** Enterprises can use the tools and techniques created by insurers to develop risk management plans and mitigation strategies to prevent risks from occurring. Moreover, insurers may oblige enterprises to put such plans and strategies in place before they agree to cover certain risks, which incentivises enterprises to change their behaviour and to adopt better risk management practices.
    - ***Access to credit and financing.*** Insurance helps ensure the availability of many forms of business lending, mortgages, project finance and leasing. Insurance reduces the risk of borrower default or provides alternatives to collateral to reduce lender risk, which allows for more credit to be extended on better terms. Insurance markets are skilled at the pricing of risk, and their exposure-identification and exposure-mitigation skills and tools may enhance credit providers' ability to lend on terms that are commercially viable.

- ***Support capital market development.*** The insurance sector can play an important role in the deepening and efficiency of capital markets to support growth objectives. Four main channels were considered:

    - ***Mobilising capital.*** The insurance sector can mobilise capital through premium collection and pensions. It can also mobilise capital by enabling business investment referred to above.
    - ***Pooling capital for efficiency and diversification.*** Insurers are able to pool savings from numerous small investors and, in the process, accumulate significant investable funds. Larger funds are more efficient to manage and invest, and they allow greater diversification of investments.
    - ***Allocating capital to more productive opportunities.*** Insurers can allocate capital more effectively to productive opportunities than individual investors by investing over longer time-horizons, building professional skills and data to manage assets and identify opportunities for investment, by transacting at scale with greater efficiency and by reducing the unproductive contingency capital investors need to hold as a precautionary measure for potential risks.
    - ***Building institutions for governance and investor confidence.*** Institutional investors, including insurers, grow the professional investment industry. A strong professional investment industry, in turn, can advocate for reforms in governance, auditing and accounting practices. Such institution building is critical for investment decisions and domestic and global business confidence.

Insurance markets develop at various tempos and at different trajectories. To explore the various roles of insurance in growth and development, it is also important to understand the nature and development of the insurance market itself. Insurance market development follows a unique path in every country. Typically, however, four stages of insurance market development are observed. Each stage is roughly correlated with economic development, with countries at lower levels of GDP per capita typically resorting in an earlier stage of development[15]:

- *Stage 1: Establishment and corporate assets.* Corporate asset insurance dominates, such as in large extractive industries. Insurance contracts in the market cover mostly short-term liabilities, which are annually renewable. Investment portfolios of insurers typically consist of real estate and bank deposits.
- *Stage 2: Early growth and compulsory.* Compulsory retail, credit insurance and some group-based retail products emerge. As economic welfare increases, the increase in number of cars on the road often sees the introduction of compulsory motor third party liability insurance. The development of the formal credit market drives the need for credit insurance, and group-based employee benefit products start to gain traction. Risk cover is still mostly short term. There is limited diversification in investment portfolios of insurers, which still mainly consists of real estate and bank deposits with some allocations to shorter-term government securities.
- *Stage 3: Retail expansion.* Generally, limited individual retail sales still exist in the market, but voluntary sales and life insurance are starting to take off as consumers become more aware of the value of insurance offers. Furthermore, as the middle class grows, income levels can support insurance purchases. The uptake of longer-term insurance contracts emerges as the popularity of life insurance and contractual savings increases. The investment portfolios of insurers become more diversified, with greater allocations to government securities. Substantial allocations to real estate and bank deposits remain.
- *Stage 4: Diversified retail*. Stage 4 sees the development of a diversified retail insurance market across income segments, distributed through group and individual sales, with an increasing contribution by voluntary sales. The market share of domestic insurers improves, and niche insurance products emerge. Investment portfolios become more diverse. Competitive allocations across equity, corporate bonds and government bonds result in efficient and diversified investment portfolios.

Figure 2 depicts these stages visually, plotting the level of insurance penetration, which is used as a proxy for market maturity, against the level of economic development:

[15] These stages are not universal, but rather form a heuristic of common identifiable characteristics that is a useful frame of reference. Not all countries will neatly fit into a single stage. The stages are based on the work of Lester (2014) and USAID (2016) as analysed in Chamberlain, Coetzee and Camargo (2017). For a detailed discussion on insurance market development and drivers of insurance market development, see: https://cenfri.org/publications/role-inclusive-insurance-markets-economic-growth-poverty-reduction/

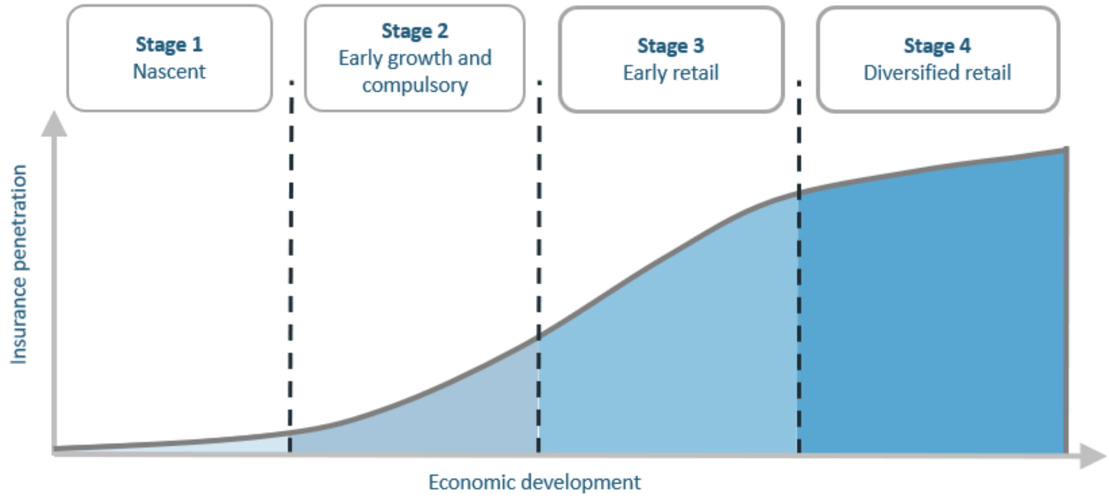

Figure 2. Stages of insurance market development

Source: adapted from Chamberlain, Coetzee & Camargo (2017)

Comprehensive scope to map market development features. The ability of the insurance market to contribute towards economic growth varies depending on its stage of development. As the insurance market develops, so does its ability to affect economic activity. The study thus focuses on mapping the key features of the insurance market, including the landscape of providers and their performance, to position the market in the development stages framework. Given the interplay between the stage and the economic environment, the study considers the context drivers of market development, as well as the policy, legislative and regulatory framework that sets the parameters for market participation.

Research approach

The study was informed by extensive country consultation[16], as well as desktop research and review of available data. The research followed a market systems (M4P) approach, which assesses contextual and institutional factors, demand, supply and regulation to shed light on barriers and opportunities for insurance market development to strengthen sustainable development.

The draft research findings were shared with in-country stakeholders at a stakeholder workshop hosted on 17 September 2018.

Structure

This document is structured as follows:

- **Section 2** outlines the economic and social context in which the Nigerian insurance market is located.
- **Section 3** analyses the policy, legislative and regulatory framework and how the incentives it creates affect market development.

[16] The country mission from 12 to 23 March 2018 provided a primary source of information. In total, more than 60 stakeholders were consulted across government departments, industry associations, industry players, brokers, investment managers, development organisations and research organisations. See the bibliography for details.

- **Section 4** takes a closer look at the historic evolution of the insurance market, the key market features and the challenges faced by market operators.
- **Section 5** provides an in-depth discussion on the role of insurance to manage individual and household risks.
- **Section 6** considers to role of insurance to support enterprise development and risk management.
- **Section 7** discusses the role of insurance to support capital development.
- **Section 8** concludes on the main opportunities and imperatives for insurance market development in Nigeria to expand its current role in contributing to inclusive economic growth.

2. Context drivers of market development

Key insights:

- Nigeria has a large economy and a large, growing and rapidly urbanising population.
- A high level of diversity across ethnic, religious and economic lines perpetuates regional disparities to result in risk of violent terrorism, conflict and vandalism.
- Nigeria is the largest oil producer in Africa. This has brought many economic benefits, but has also made the economy – and government finances – vulnerable to oil price fluctuations.
- The rapid decline of oil prices and the subsequent recession of 2016 have triggered the need for economic policy reform as outlined by the 2017–2020 Economic Recovery and Growth Plan (ERGP).
- Agriculture and the "self-starter" economy of Micro, Small and Medium-sized Enterprises (MSMEs) are key tools for achieving the ERGP goals, but both sectors are facing severe constraints.
- The financial system, notably the strong banking sector, is essential in advancing economic development.

The insurance sector forms part of a broader economic and social context that shapes market outcomes, demand-side realities and the functioning of the financial sector. This section provides detail on the key contextual drivers of insurance market development across the macroeconomic, socio-economic and policy context, followed by an overview of the financial-sector landscape as backdrop to the insurance analysis to follow in the rest of the report.

2.1. Overview

Table 3 provides a snapshot of Nigeria at the hand of key economic, demographic and socio-economic indicators. Key insights from the table are discussed below.

	2014	2015	2016	2017
Demography				
Population (m)	177	181	186	189
Population growth rate (annual %)	2.7	2.6	2.6	2.6
Urban population (% of total)	46.9	47.8	48.6	50.2
Economy				
GDP growth rate (%)	6.3	2.7	-1.6	0.82
GDP per capita, current prices (USD)	3268.4	2763.2	2207.9	1994.2
Unemployment (% of total labour force)	4.6	4.3	7.1	

	2014	2015	2016	2017
Youth unemployment (% national estimate)[17]	8.1	7.7	12.4	
Current account balance (% GDP)	0.16	-3.3	0.7	2.5
Monetary policy				
Inflation, consumer prices (annual %)	8.1	9.0	15.7	
Prime lending Rate (12m average %)	16.5	16.8	16.9	17.6
Quoted exchange rate (NGN/USD annual period)	163.7	196.5	256.1	331.8
Fiscal policy				
Fiscal balance (% of GDP)	-2.1	-3.5	3.9	-5.5
General government gross debt (% of GDP)	13.1	16.0	19.6	23.4
Education and health				
Mean years of schooling (years)	5.9	6		
Life expectancy at birth (years)	52.5	53	53.4	
ICT				
Mobile cellular subscriptions (per 100 people)	78.7	83.2	83	
Smartphone ownership (% of adult cell phone owners)	30	28	48	

Table 3. Key macro and socio-economic variables

Source: World Bank Development Indicators (2018), International Monetary Fund World Economic Outlook 2018 database (2018), Pew Research Centre (2016), United Nations Development Programme (2016), Central Bank of Nigeria (2018), Oanda.com

A populous and rapidly urbanising country. In 2017, Nigeria had nearly 190 million citizens. Its urban population is expanding at an annual rate of 4.3%, and in 2016 it constituted over 50% of the total population. This urban growth rate is nearly twice the population growth rate of 2.6% in the same year.

Strong historic growth. Nigeria has a good economic growth track record. In 2014, GDP grew at 6% and Nigeria reached the status of the largest economy in Africa[18]. Although initially driven by the strength of its agrarian society, economic growth in Nigeria has, since the 1970s, been directly supported by the discovery and production of oil. Between 1981 and 2015, industry contributed nearly 39% on average to real GDP, with oil production as primary contributor. The agricultural sector contributed on average approximately 20% to real GDP over this period, while 41% was added by the service sector.

Severe knock-on effects from recent recession. The price of Brent crude oil fell rapidly from a high price index of 203.8 in mid-2014 to 89.2 in 2015 and an all-time low of 56 in 2016. This decline triggered a recession in 2016, following a contraction in GDP growth from 6.3% in 2014 to -1.6% in 2016[19]. The effects have been severe[20]:

17 Youth unemployment, as defined by the World Bank, refers to the share of the labour force ages 15 to 24 without work but available for and seeking employment.

18 Following the rebasing of its GDP the previous year.

19 This contraction reflected the reduction of Industry real GDP growth rate from a high of 6.76% in 2014 to -8.85% in 2016.

20 The sources for this information are as per the table above.

- Exports as a percentage of total trade fell from 68.9% in 2014 to only 49.2% in 2016, following a 64% drop in oil-and-gas revenue over this time to NGN1,439 billion. There was a 3.3% deficit on the current account in 2015, improving to a 0.7% surplus in 2016.
- The Naira devalued from an average of NGN164 per USD in 2014 to NGN331 per USD in 2017.
- This precipitated a rise in inflation from 9.1% to 15.7% between 2015 and 2016.
- The rising inflation necessitated the application of contractionary monetary policy. The prime lending rate rose from a twelve-month average of 16.9% in 2016 to an average of 17.6% in 2017.
- Federal revenue experienced a nominal decline of 47% to NGN2,902 billion by 2016, and the fiscal deficit reached -3.9% of GDP. Foreign exchange reserves declined by 8% to USD25.8 billion in 2016, and overall public debt rose to USD63.7 billion. Despite efforts by the government to improve the health of the public finances, the fiscal deficit deepened to -5.5% of GDP in 2017. General government gross debt also rose to 23.4% of GDP in the same year.

Economy on the rebound, but per capita income remaining on a steady decline. In 2017, the Nigerian economy returned to positive GDP growth of 0.8%, and the current account reached a surplus of 2.5% of GDP, supported by the steady weakening of the NGN/USD exchange rate. However, the economic recovery has failed to translate intro improved levels of GDP per capita, which have remained on a downward trend since 2014. While this trend is partly explained by the outpacing of economic growth by population growth, it suggests the failure of the current structure of the economy to generate inclusive growth that trickles down to the population at large. Growing youth unemployment, from 7.7% in 2015 to 12.4% in 2016, confirms this finding**.**

Weak human development indicators persisting. Nigeria performs poorly in selected human development indicators, ranking 157th out of 189 countries (UNDP, 2016). In 2015, the estimated average number of years in school attended amounted to six years. Life expectancy is estimated at 53 years of age. According to the 2013 National Demographic and Health Survey (NDHS), 37% of children under five years are stunted, 18% wasted and 29% underweight. The under-five mortality rate was estimated at 108.8 per 1,000 live births and the incidence of malaria at a little over 380 per 1,000 individuals in 2015 (WHO, 2017).

Rising digital inclusion. As indicated in Table 3, there were 83 mobile cellular subscriptions per 100 individuals in 2016. This is up from 79 mobile cellular subscriptions per 100 individuals two years earlier. Smartphone penetration grew from 28% in 2015 to nearly 50% of the adult population in 2016.

2.2. Pertinent contextual themes

We have identified five contextual themes that explain and shape the market trends outlined in the rest of this report. Below, each is discussed in turn.

2.2.1. Regional and socio-economic divides fuel social unrest

A highly diverse country along geographic, ethnic, religious and economic lines. Nigeria consists of six geopolitical zones divided between the historically distinct northern (northeast [NE], northwest [NW] and north central [NC]) and southern (the southeast [SE], southwest [SW] and south-south [SS]) parts of the country. Thirty-six (36) states further cut across these geopolitical zones as representations of major ethnicities in Nigeria[21]. Half the population in Nigeria is Muslim, with Christianity and other indigenous religions respectively composing 40% and 10% of the population. The Muslim population largely resides in the north, while Christians predominate the south (Central Intelligence Agency [CIA], 2017). Southern regions are also historically wealthier than those in the north. The average poverty rate in the southern states is 12 percentage points lower than for the northern states, where the average poverty rate is 67%[22] (National Bureau of Statistics (NBS), 2012). These socioeconomic disparities translate into a higher burden of disease in the north than in the south[23].

Divisions stoking terrorism and conflict. These regional, ethnic and economic disparities have contributed to a growing trend of violent terrorism and conflict. Since 2009, terrorism and kidnappings (notably by Boko Haram) have plagued the north-eastern region. Between 2010 and 2017, approximately 49% of households in the region were affected by some form of conflict (Azad and Kaila, 2018). In the north-central, inter-communal violence between nomadic herders and farming communities is estimated to have caused at least USD16 billion worth in losses since 2016 (Dibie, 2018). In the oil-rich south-south, attacks by militants and pirates have disrupted oil-and-gas production since 2015 by vandalising key infrastructure and pipelines (NBS and World Bank, 2017; NNPC, 2015).

2.2.2. Infrastructure and service delivery constraints challenge development

Nigeria is facing severe infrastructure and service delivery constraints. Two aspects of service delivery are particularly relevant for the rest of this analysis, namely electricity (relevant to the business resilience discussion in Section 5) and health services infrastructure (relevant to the household resilience discussion in Section 5).

Poor access to electricity. The electrification rate[24] in Nigeria was approximately 61% in 2016, which reflects a national electricity deficit second only to India (World Bank, 2018). This dire state of electrification is the product of systemic capacity losses throughout the national power value chain, which resulted in less than 30% of available installed capacity being used for electricity generation between 2015 and 2017 (Federal Republic of Nigeria, 2018). Antiquated infrastructure, vandalised gas pipelines, low financing, substantial accumulated debt and low enforcement of contracts are among the key reasons reported for the electricity bottlenecks (Federal Republic of Nigeria, 2018).

Large but poorly functioning health system leading to high out-of-pocket expenses. The health sector in Nigeria consists of over 3,500 healthcare facilities, more than 70% of which are publicly owned (Akinsete, 2016). The workforce comprises nearly 600,000 healthcare workers. In 2014, this reflected 35 doctors per 100,000 individuals compared to 31 doctors

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21 With over 300 ethnic groups in existence, however, three major ethnic clans predominate and cumulatively represent two-thirds of the national population (Global Centre for Pluralism, 2017). These include the Igbo in the South-East, the Hausa-Fulani in the North and the Yoruba clan in the South West (Global Centre for Pluralism, 2017).

22 Poverty rate refers to the dollar a day poverty line utilized by the NBS. In 2010, this was equivalent to N46.2 using 2002 World Bank Purchasing Power Parity. The proportion of the population that fall below this poverty line is 59.7% in the NC, 69.1% in NE, 70.4% in the NW, 59.2% in SE, 56.1% in SS and 50.1% in SW (National Bureau of Statistics (NBS), 2012).

23 Immunisation rates are also lower in the North than in the South. Immunisation rate per region: NC: 77.0%; NE: 42.4 %; NW: 35.4 %; SE: 82.4 %; SW: 81.2 %; SS: 80.3%.

24 Percentage of the national population with access to electricity.

per 100,000 individuals in, for example, South Africa. Despite its size, however, the health sector in Nigeria suffers from disproportionate resource allocation to the urban south, with severe shortages in the north and rural areas (International Trade Administration, 2016)[25]. In 2015, government expenditure on health amounted to 0.6% of GDP. This is below both the World Health Organisation (WHO) recommended level of 4–5% of GDP and the SSA average of 1.8% of GDP (WHO, 2016). Instead, health financing is dominated by domestic private and out-of-pocket (OOP) expenditure, which constituted respectively 74% and 72% of current health expenditure in 2015.

2.2.3. Oil dependency creates diversification imperative

The cornerstone of the Nigerian economy. The oil-and-gas sector has historically been a key contributor to economic growth and development in Nigeria. In 2017, Nigeria was the largest producer of oil in Africa, producing nearly 2 million barrels per day (bpd) (NBS, 2017). It is also the third-largest refinery on the continent. Between 1981 and 2001, the oil-and-gas industry contributed more than 50% towards real GDP, and the share remained more than 20% until 2014. As a result, economic trends closely track developments in the oil-and-gas sector. The figure below maps the interplay between the Brent crude oil price and economic growth between 2007 and 2016.

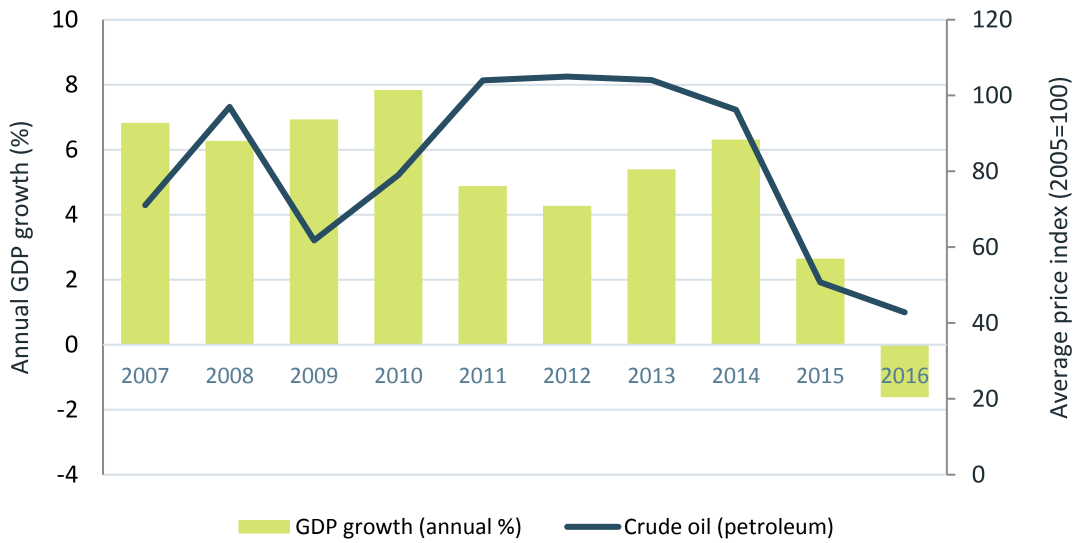

Figure 3: Brent crude oil price monthly fluctuations over time, 2010 – 2017

Source: International Monetary Fund Commodity Price database (2018)

External trade heavily concentrated in oil. In the last quarter of 2017, crude oil constituted 83% of total exports and 54% of total trade. Oil export earnings account for the bulk of foreign exchange reserves in Nigeria. The dependency of foreign reserves on this

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25 In 2014, only 15 doctors and 45 nurses were registered per hospital, with fewer than 2,000 specialist healthcare workers, such as radiographers and physiotherapists, registered overall (Okafor, 2016). Doctors and specialised infrastructure, such as laboratories, are further biased towards urban areas and wealthy southern states, despite the higher density of hospitals and burden of disease found in the North. Rising doctor emigration rates perpetuate weak specialised service delivery in Nigeria (Omoluabi, 2014).

contribution was highlighted when forex reserves declined by USD3.8 billion between 2015 and 2016 following the drop in oil prices from 2014 (Barungi, Odhiambo and Asogwa, 2017).

Long-run risks to state revenue and debt sustainability. At 6%, the tax to GDP ratio in Nigeria is relatively small compared to comparative countries in Africa (PWC, 2017)[26]. Thus, the Federal Government of Nigeria (FGN) relies on oil royalties, export earnings and petroleum profit tax to finance the federal budget (NEITI, 2017).

Figure 4 below indicates that, until 2016, oil revenue consistently constituted more than 50% of total federal collected revenue, with a high of 86% in 2007.

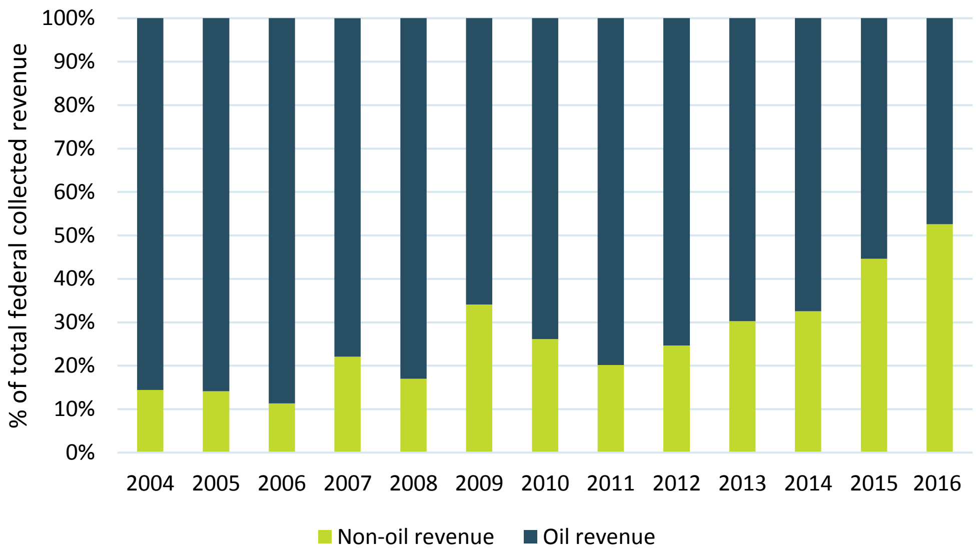

Figure 4: Oil revenue contribution to federal budget

Source: Central Bank of Nigeria (2018), World Bank Development Indicators (2018)

Recent declines in oil revenue are, however, forcing fiscal authorities to diversify revenue sources. Government is facing an ongoing challenge to raise sufficient debt to cover a mounting fiscal deficit, driven primarily by non-debt recurrent and capital expenditure[27] (IMF, 2018).

Recession creating a diversification imperative. The rapid decline of economic growth in response to oil price fluctuations (as discussed in Section 6.1.2) signalled the need for economy-wide diversification and substantive policy reform[28]. The need for diversification is central to the 2017–2020 Economic Recovery and Growth Plan (ERGP). The aims of the ERGP are to stabilise the macroeconomic environment, to diversify the economy through the

[26] The tax to GDP ratio in 2017 was 26.5% in South Africa, 16% in Ghana, and 16.9% in Kenya (BusinessLive, 2017; Ghanaweb, 2017; Omondi, 2017).

[27] Capital expenditure is crucial for power and transportation infrastructure, which received 23% and 11% of capital expenditure, respectively, in 2016 (BudgIT, 2016).

[28] Monetary policy efforts to boost near-depleted foreign exchange reserves have included the introduction of an investor and exporter FX window (IEFX), relaxed foreign exchange rules and a tighter monetary policy to curb rising inflation (IMF, 2018). The adoption of a flexible exchange rate regime has additionally assisted in narrowing the parallel market exchange rate premium for reduced reserve pressure. Fiscal authorities additionally target a reduced deficit from -5.5% of GDP in 2017, to 1.4 % of GDP in 2018. This follows consolidation efforts by government authorities to broaden and deepen the tax base, as well as to lower the expense of rising domestic debt (IMF, 2018).

development of agriculture, to promote energy efficiency, to improve transportation infrastructure and to facilitate industrialisation through small and medium-scale enterprises.

2.2.4. Agricultural value chain constraints challenge diversification efforts

Important role in the economy and livelihoods. Since 2002, the agricultural sector has consistently contributed at least 20% towards real GDP. The agricultural sector employs at least 30% of the formal workforce in Nigeria and provides a livelihood for millions of people in the informal sector (see the discussion in Section 6.2.2).

Untapped opportunities in cash and food crops alike. Nigeria lacks production capacity in key value chains and struggles to diversify its agricultural exports (Downie, 2017)[29]. Between 2009 and 2016, selected cash crops cumulatively comprised over 60% of total agricultural exports. Raw cocoa products are a particularly valuable source of income for Nigeria (PWC, 2017). Nigeria was the sixth-largest producer of cocoa in the world in 2016. However, only 30% of available cocoa was processed in Nigeria in 2016[30]. This highlights that Nigeria continues to face substantial challenges in upgrading its most valuable value chains (PWC, 2017). Food crop production is also insufficient. Nigeria has been a net food importer since the 1970s, leaving citizens exposed to steadily rising imported food inflation above the average consumer price index. Stunted agri-development and food insecurity further add to instability in areas such as the northeast (PWC, 2017; Fews Net, 2018).

Constraints and risks throughout the value chain. At the production level, farmers face challenges such as insecure land tenure, low-quality seed varieties and poor-quality fertiliser. Processing is subject to inadequate water irrigation systems (with only 1.7% of plots irrigated in 2016), limited storage facilities and low-quality control in post-harvest handling (PWC, 2017; FMARD, 2017). Additional risks to distribution include poor logistics infrastructure, weak governance and limited access to credit, with only 3.3% of intermediated loans granted to the agricultural sector in 2016 (Downie, 2017)[31].

Central to the diversification drive. There is a strong policy imperative for the development of the agricultural sector to support the economic diversification drive, as well as to achieve food security. Over the years, many policy initiatives have aimed at the development of the agricultural sector and key agricultural value chains, most recently the Anchor Borrower Scheme (see Section 6.2.2 for more detail). As noted, agricultural development is also one of the pillars of the ERGP.

2.2.5. "Self-starter" economy creates opportunity

Strong entrepreneurial spirit a vital source of economic opportunity. Nigeria has one of the largest informal economies in Africa. The informal economy was estimated to constitute more than 60% of GDP on average between 2010 and 2014 (Medina, Jonelis and Cangul, 2016). Between 2012 and 2014, nearly 60% of total job creation stemmed from the informal economy. The informal economy comprised more than 37 million MSMEs in 2013, 36 million

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[29] For example: 75% of domestic milk consumption is imported (PWC, 2016).

[30] Similarly, rice production increased from 5.5 million tonnes in 2015 to 5.8 million tonnes in 2017 (Punch, 2017), but external revenue from rice remains relatively low.

[31] The 2016–2020 Agriculture Promotion Policy, in conjunction with the ERGP, aims to address these problems with a particular focus on cash and food crops such as cocoa and rice for upgrading respectively.

of which were classified as informal microenterprises (SMEDAN, 2013). More than 50% of these microenterprises were wholesale and retail traders. The large number of microenterprises is indicative of a culture among Nigerians to grasp opportunities to overcome unemployment, supplement existing income sources or establish their own careers (Philips Consulting, 2014). This entrepreneurial spirit is a key driver of economic growth and inclusive development in Nigeria.

Several business development barriers. According to a 2013 survey conducted by the National Bureau of Statistics (NBS), six key barriers inhibit the development of informal businesses and SMEs. These include weak access to finance, poor infrastructure, obsolete technology, weak access to markets, inconsistent government policies and regressive multiple taxation (SMEDAN, 2013). These results link to a 2017 NBS survey, which ranked corruption as the third-largest problem experienced by respondents, after unemployment and high living costs.

2.3. The Nigerian financial sector

Banking sector dominates financial sector landscape. Table 4 below indicates the number of financial institutions in Nigeria as well as the asset holdings in each sector of the financial system. The banking sector accounted for nearly 80% of total financial sector assets in 2016. The pensions market holds 15.5% of total assets. The insurance market is small by comparison, accounting for less than 3% of total assets. Microfinance banks and reinsurers each hold under 1% of financial sector assets.

Financial institutions	Number of licences	Assets NGN bn	Assets USD bn	Assets as % of total assets
Commercial banks[32]	22	31,683	88	79.6
Microfinance banks[33]	978	342	0.95	0.18
Insurance[34]				
Life	27 (14)	476	1.32	1.2
General	41 (28)	516	1.43	1.3
Reinsurers[35]	2	54	0.14	0.1
Pension schemes	22	6,159	17.01	15.5
Collective investment schemes	71	224	0.62	0.6
Mobile money[36]	22	-	-	
Other non-bank financial institutions				1.8
Total financial system assets[37]		39,713	110	100

Table 4: 2016 Nigerian financial system institutions and assets

Source: Securities and Exchange Commission of Nigeria (2017), NIA (2016), CBN (2016)

32 Commercial bank assets include assets from merchant banks. This is in accordance with the reporting convention adopted by the Central Bank of Nigeria since 2001 following its adoption of Universal Banking.

33 Previously referred to as community banks until 2006.

34 There are 13 composite insurance companies which offer both life and general insurance products. Composite insurers are not reported on separately in the table to avoid double counting per insurance type. The number in brackets exclude the insurers operating under a composite licence.

35 Total assets reflect the combined asset accumulation from both life and non-life insurance products as reinsurers operate in both markets. However, as it will be seen in the provider landscape, non-life reinsurance assets significantly exceed those from life reinsurance.

36 Mobile money is a financial service and therefore cannot accumulate individual assets.

37 The construction of the national financial system replicates the methodology used by the IMF for its 2013 Financial Sector Assessment Programme in Nigeria. Total assets reflect the sum of commercial bank, insurance, pension schemes, collective

Banking sector strength the result of substantial reforms. The size and strength of the Nigerian banking sector is in large part due to a number of banking reforms that have taken place since the 1950s, as outlined in Appendix A: Context drivers of market development. The 13-point agenda for banking consolidation in 2004 had a particularly powerful effect. It saw the liquidation of 14 terminally distressed banks and the consolidation of the number of registered banks from 89 to 25. The overall resilience of the banking sector also improved through increased aggregate capital and deposit requirements (CBN, 2011).

Persistently low financial inclusion. Between 2014 and 2016, Nigeria made notable progress in improving the uptake of payment and savings accounts from 24% and 32% of adults, to 38% and 36% respectively. Uptake of pensions and insurance remained low at 5% and 2% respectively in 2016. The relatively weak uptake of mobile money by only 1% of the adult population in 2016 confirms the need and opportunity for continued efforts to widen and deepen financial market development in Nigeria[38]. Overall, financial inclusion has shown a slight decline. Financial exclusion increased from 39% in 2014 to 41% in 2016[39].

Biometric identification innovation supporting inclusion. The inclusiveness of the banking sector was supported by the implementation of the Bank Verification Number (BVN) in 2014 as a unique identifier capable of instantly verifying the identity of bank customers across the sector against a centralised biometric financial identification system. This innovation has simplified processes and costs associated with know-your-customer compliance regulation and promoted the onboarding of previously excluded individuals without physical proof of identity.

investment schemes, microfinance banks, finance companies, discount house, primary mortgage institutions, bureaux de change and asset management companies. Although excluded by the IMF in their calculations, reinsurance assets are also included in total assets to highlight their size and importance to the total financial system. Assets not reported for each specified segment is due to lack of available and unambiguous data.

38 Barriers underlying the low uptake of mobile money in Nigeria largely relate to the regulatory prohibition Mobile Network Operators (MNOs) faced until recently in gaining licence approval to provide mobile money products. Without the consent of both Nigerian Communications Commission (NCC) and the CBN, MNOs were effectively excluded from participating in the financial service market. This however changed in late 2017 with the signing of a Memorandum of Understanding (MoU) between the NCC and the CBN that allowed MNOs to offer mobile money services through the creation of a special purpose vehicle. An additional recently signed MoU between the CBN and NCC now also permits MNOs to operate in the Nigerian payments sector. Further details on the development and potential of mobile money in Nigeria can be found in Cenfri's forthcoming study entitled *Payment systems in sub-Saharan Africa Note 2: Case studies of National and Regional payment.*

39 The EFInA Access to Financial Services 2016 survey defines the financially excluded as the percentage of adults who do not have or use deposit money banks, other formal or any informal financial services. If they borrow or remit they do this through family and friends; if they save, they save at home.

3. Regulatory framework

Key insights:

Regulatory framework:

- There are multiple financial sector regulators that operate independently from one another. A coordination structure is in place to address cross-sectoral issues. The Central Bank of Nigeria (CBN) plays a coordinating role in financial sector development matters, including the National Financial Inclusion Strategy of 2012.
- The National Insurance Commission (NAICOM) regulates the insurance industry. The insurance sector regulatory framework is comprised of the Insurance Act and multiple guidelines relating to amongst others market conduct and prudential standards.
- Minimum capital requirements are high in comparison to similar countries such as Ghana, Kenya and Rwanda.
- Recent insurance market regulatory developments include Bancassurance and Microinsurance Guidelines issued in 2017 and 2018, respectively.
- Relevant regulation issued outside of NAICOM include legislation pertaining to compulsory insurance, local content development in the oil and gas sector and national health insurance.

Regulatory issues:

- Capacity constraints and enforcement challenges pose obstacles to the adequate supervision of a large number of insurers in the market.
- New regulatory developments, while promising, contain certain restrictions that constrain the potential for unlocking market development.
- Contrary to the stated intentions, local content requirements may restrict the role of insurance in the economy.

This section outlines Nigeria's legislative and regulatory environment as well as the financial sector regulatory architecture, as backdrop to an overview of the insurance regulatory framework. It considers the regulations that govern the insurance sector directly, as well as ancillary regulation that has a bearing on the insurance sector. In conclusion, it highlights the main regulatory issues and challenges raised by stakeholders during the country mission.

3.1. Legislative framework

Hierarchy of laws set out in the Constitution. The sources of Nigerian law are the Constitution, both federal and State legislation, English common law, customary law, Islamic law and judicial precedent. All laws are subject to the Constitution, which will prevail in the event of an inconsistency. Each State has its own established legal system, but federal law will trump State law where the two laws oppose each other. Customary law in Nigeria consists of ethnic and Sharia law and is mainly restricted to family law matters. Customary law is enforced by the lowest courts in the country and is presided over by non-legally trained personnel. It is thus the formal legal system that applies to financial-sector matters.

Common law system. The legal system is modelled after the English legal system, which was transplanted during colonisation. It is a common law system with an adversarial court process, meaning that the presiding officer[40] plays an active role during court proceedings and that laws are developed by means of case outcomes, also known as judicial precedent. The jury system was abolished in 1976, which places further emphasis on the role of the presiding officer.

Access to justice constrained. Access to justice in Nigeria is relatively slow and very expensive. It takes about 447 days to enforce a commercial contract in Lagos: 40 days for service and filing, 265 days for trial and judgment, and 142 days for enforcement of judgement. In Kano, it takes about 447 days: 21 days, 365 days and 90 days for service and filing, trial and judgement and enforcement, respectively (World Bank, 2017).

Figure 5 below indicates legal costs to enforce a contract as a percentage of the claim in Lagos and Kano, compared to peer countries[41], as gauged from the World Bank Ease of Doing Business index. On average, the cost of enforcing a commercial contract in Lagos amounts to approximately 42% of the claim with attorney, court and enforcement fees comprising 25%, 12% and 5% respectively. In Kano, it costs approximately 43% of the claim (World Bank, 2017).

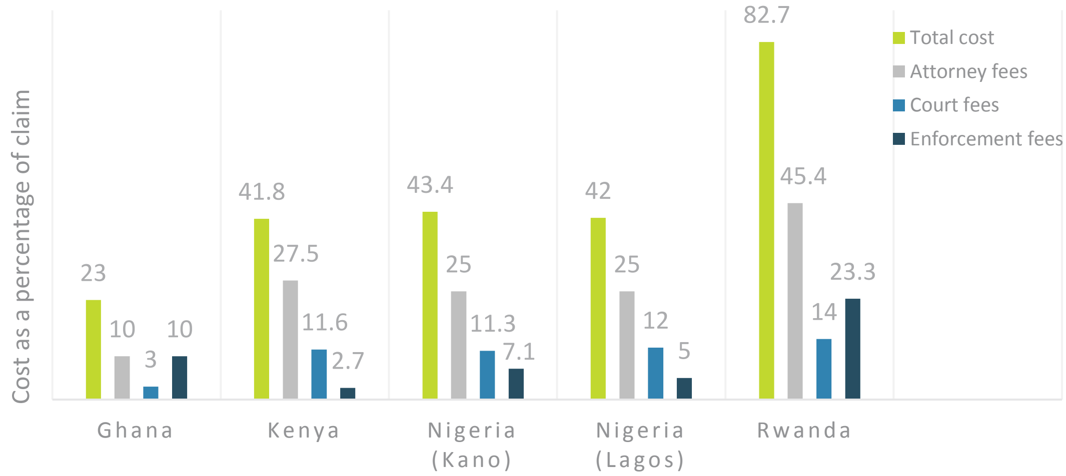

Figure 5: Cost of enforcing a commercial contract

Source: World Bank, 2018

3.2. Financial sector regulatory architecture

Central Bank of Nigeria coordinating financial-sector policy. The Federal Ministry of Finance is responsible for fiscal policy and manages the finances of the Federal Government of Nigeria, including managing, controlling and monitoring federal revenues and expenditures. The Central Bank of Nigeria (CBN) is responsible for overall control and administration of the monetary and financial sector policies of the Federal Government. As such, it coordinates *inter alia* financial inclusion policy. CBN launched a National Financial Inclusion Strategy in 2012 with the aim to reduce the exclusion rate from 46% in 2010 (down from 53% in 2008)

40 A presiding officer commonly refers to a judge or magistrate depending on which court is being referred to.

41 Countries also forming part of the insurance diagnostic series, namely: Ghana, Kenya, and Rwanda.

to 20% by 2020[42]. The development of the strategy followed a multi-stakeholder consultative process. The CBN updated the strategy in mid-2018. The revised strategy recognises that Nigeria is currently not on track meet its financial inclusion targets by 2020 and hence contains an action plan to refocus attention on identified financial inclusion priorities.

Multiple financial-sector regulators. There are four main financial sector regulators, each regulating a distinct set of financial institutions: CBN as banking regulator, the National Insurance Commission (NAICOM) as insurance regulator, the National Pension Commission (PENCOM), which regulates pension funds and the Securities and Exchange Commission (SEC) which regulates the capital markets. The fifth regulator with a bearing on the insurance market is the National Health Insurance Authority (NHIA) as supervisor of private health insurance schemes. Table 5 provides a brief overview of the mandates of these regulators, as well as the main piece of legislation that currently governs the sector they regulate.

Player	Sector	Legislation	Mandate in brief
National Insurance Commission	Insurance	Insurance Act, 2003	• Ensure the effective administration, supervision, regulation and control of insurance business in Nigeria.
Central Bank of Nigeria	Banking	Central Bank of Nigeria Act, 2007	• Ensure monetary and price stability • Issue legal tender currency • Maintain external reserves to safeguard international value of legal tender currency • Promote sound financial system in Nigeria • Act as banker and provide economic and financial advice to Federal Government • Ensure high standards of banking practice and financial stability through surveillance activities
National Pension Commission	Pensions	Pension Reform Act, 2014	• Regulate, supervise and ensure the effective administration of pension matters and retirement benefits in Nigeria • Formulate, direct and oversee the overall policy on pension matters in Nigeria
Securities and Exchange Commission	Capital market	Investments and Securities Act, 2007	• Apex regulatory authority for Nigerian capital market • Ensure the protection of investors, maintain fair, efficient and transparent market and reduction of systemic risk
National Health Insurance Authority	Health	National Health Insurance Act, 2012	• Implement, operate and manage the National Health Insurance Scheme • Register and supervise private health insurance schemes • Manage National Health Insurance Fund

Table 5. Financial-sector regulators and their mandates

[42] More specifically, the strategy aims to increase access of adult Nigerians to: payment services (from 21.6% in 2010 to 70% by 2020), savings (24% to 60%), credit (2% to 40%), insurance (1% to 40%) and pensions (5% to 40%).

Existing coordination structure. As the regulators operate independently from one another, effective coordination mechanisms are required to ensure that regulation is not fragmented across regulatory silos. Since 1999, the Financial Services Regulation Coordinating Committee (FSRCC) has been addressing issues of common concern to regulators by means of consultations and inter-agency meetings. The FSRCC is a statutory committee that comprises representatives from the following financial-service regulators: CBN, Nigeria Deposit Insurance Commission, SEC, NAICOM, Corporate Affairs Commission, Federal Ministry of Finance and PENCOM. This membership implies that it is challenging for the FSRCC to address issues that involve regulatory authorities that fall outside of the financial sector. A notable example is coordination with the Nigerian Communications Commission about mobile distribution. The CBN also facilitates cooperation across regulatory authorities through the Financial Inclusion Strategy. Stakeholder interviews suggest that the issues surrounding airtime and mobile distribution (to be discussed below and as relevant to the discussion in Section 5) are being considered in this forum.

3.3. Insurance sector regulatory framework

Multiple elements[43]*.* The insurance regulatory framework consists of the Insurance Act of 2003 (Insurance Act) as well as the following pieces of legislation and regulation issued by NAICOM:

- Nigerian Agricultural Insurance Corporation Decree, 1993
- Nigeria Reinsurance Corporation Act, 2004
- Code of Good Corporate Governance for the Insurance Industry, 2009
- Guidelines for Oil and Gas Insurance Business, 2010
- Takaful Operational Guidelines, 2013
- Market Conduct and Business Practice Guidelines for Insurance Institutions, 2015
- Prudential Guidelines for Insurers and Reinsurers, 2015
- Bancassurance Guidelines, 2017
- Microinsurance Guidelines, 2018

The following legislation and regulation from other regulatory authorities also have relevance to the insurance market:

- Motor Vehicle Third-Party Insurance Act, 1945
- Companies and Allied Matters Act, 1990
- National Health Insurance Scheme Act, 1999
- National Health Insurance Scheme Operational Guidelines, 2005
- Central Bank of Nigeria Act, 2007
- Investment and Securities Act, 2007
- Nigeria Oil and Gas Industry Content Development Act, 2010
- National Health Insurance Act, 2012

[43] There is no central platform that provides comprehensive access to insurance regulation. Regulators' websites do not always contain all relevant legislation or may not be fully up to date with regulatory changes. This list represents our best attempt, based on desktop research and the in-country consultations, to compile a full inventory of insurance-related regulation in Nigeria.

- Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Regulation, 2013
- Cybercrimes (Prohibition, Prevention Etc) Act, 2015
- Guidelines on Mobile Money Services, 2015

The following additional guidelines are currently in draft form[44]:

- Independent Agent Operational Guidelines
- Mutual Organisations, Associations, Community-based and Non-Governmental Organisations' Microinsurance Agencies Guidelines
- Guidelines on State Governments' Implementation of Compulsory Insurances
- Insurance Web Aggregators Operational Guidelines

Six functional areas of regulation. The insurance regulatory framework spans six key areas of insurance regulation, namely:

- **Institutional and corporate governance regulation**, which refers to those statutory requirements that determine the legal forms or persons that may underwrite insurance, as well as the corporate governance requirements applicable to these legal forms. The content of institutional and corporate governance regulation is generally not specific to the insurance sector but generic across sectors.
- **Product-relevant regulation**. Regulatory systems are often structured around definitions of specific products or product categories. Product regulation regulates the nature and structure of insurance products[45].
- **Prudential regulation** refers to all regulation that seeks to ensure that insurers be able to meet their contractual obligations to their clients. This is done by, for example, setting minimum entry requirements and requiring compliance with a set of prudential regulations that govern the operations of the insurer, including solvency margins, as well as the need for actuarial review.
- **Intermediation regulation** refers to the regulation of the distribution, or intermediation, of insurance products. Regulation of this kind includes requirements as to who can intermediate insurance, fit and proper requirements for intermediaries, as well as regulation of the sales process, of post-sales communication and of the level and structure of commissions paid.
- **Consumer protection regulation** comprises all regulatory requirements that relate to how insurers and intermediaries treat customers, under what conditions policies may be cancelled and what recourse mechanisms should be available to customers. Such rules are aimed at protecting clients in situations of information asymmetry and low financial literacy. Like product regulation, consumer protection regulation is usually contained in one of the other areas, notably prudential or intermediation regulation.
- **Miscellaneous** comprises all regulatory requirements that have a bearing on the insurance sector but do not fall neatly into one of the categories above.

[44] As listed on the NAICOM website.

[45] Product regulation can be distinguished from prudential and market conduct regulation in that it does not relate to the insurer or the sales/intermediation process, but to the product. Provisions relating to product regulation are usually contained within either prudential, institutional or market conduct legislation, but we highlight the product-relevant aspects separately.

Below, we consider each of these areas of regulation as they pertain to the Nigerian insurance sector. For each, we discuss the main tenets of the applicable regulation and identify key issues that arise from the stakeholder consultations.

Institutional regulation

Insurance licences restricted to limited liability companies. The Insurance Act limits insurers to limited liability companies incorporated under the Companies and Allied Matters Act, 1990 and bodies that have been established pursuant to other enactments to transact insurance or reinsurance business.

Shift away from composite insurance companies. Insurance licences are demarcated into life and general insurance business, and each insurer may only provide products that are classified under their particular licence. Composite insurance was permitted until early 2018 when NAICOM announced that no new composite insurance licences will be issued. Insurers thus need to obtain both a life and non-life licence, under separate subsidiary companies, should they want to write both life and non-life insurance.

No dedicated dispensation for reinsurers**.** Reinsurance is not defined as a class of its own. Rather, it is treated as insurance business of the class to which a policy would have belonged to, had it been issued by the reinsurer.

Allowance for takaful insurers. NAICOM issued Takaful Operational Guidelines in 2013, defining the concept of takaful insurance as “a form of [mutual] insurance that is compatible with the principle of the Sharia (Islamic Law).” Takaful insurance business is restricted to limited liability companies or subsidiaries of insurance companies and all takaful operators require a licence from NAICOM.

Microinsurance Guidelines paving the way for dedicated microinsurers. NAICOM issued Microinsurance Guidelines in 2018. Prior to the Microinsurance Guidelines, existing insurers were able to conduct microinsurance business on a trial basis under so-called ‘window operations’ (Khaliq, 2018). Now, microinsurers are to be set up as separate limited-liability companies with a licence from NAICOM. A distinction is made between unit, state and national microinsurers, with different corporate governance requirements applying to each respective category. Insurers with existing window operations must wind down their window operations for general classes by July 2019, and by January 2020 for life classes.

Product-relevant regulation

Product lines defined in regulation. Under the Insurance Act, insurance business is divided into two classes: life and general. Life insurance consists of three categories of products: individual life, group life and pension, and health. General insurance consists of eight categories: fire, general accident, motor vehicle, marine and aviation, oil and gas, engineering, bonds credit guarantee and suretyship, and miscellaneous.

Agricultural insurance provided for separately. The Nigerian Agricultural Insurance Corporation (NAIC) has been established by a law as a state-owned enterprise mandated to provide agricultural risk cover to Nigerian farmers by means of subsidised insurance premiums. Private insurers that are approved to underwrite agricultural insurance are not able to benefit from government subsidies.

Microinsurance defined qualitatively, with a maximum sum assured. Microinsurance is defined in the Guidelines as "insurance developed for low-income populations, low valued policies, micro and small-scale enterprises provided by licensed institutions, run in accordance with generally accepted insurance principles, and funded by premiums". A microinsurance licence can either be life or general, or composite. The maximum sum insured under a microinsurance policy may not exceed NGN2,000,000 (USD 5,555).

Health insurance provided by HMOs. While health insurance is included as one of the life business lines under the Insurance Act, health insurance is also covered by the National Health Insurance Scheme (NHIS) Act and the NHIS Operational Guidelines. In practice, health insurance is provided by Health Maintenance Organisations (HMOs) accredited by the NHIS, and there are limited health insurance activities among conventional insurers. Life or general insurers cannot be HMOs according to the NHIS's HMO Accreditation Guidelines, which define HMOs as "a private or public incorporated company registered by the Scheme solely to manage the provision of health services through Health Care Facilities accredited by the Scheme". However, HMOs can conduct private health insurance business.

Products required to be approved by regulator. Section 16 of the Insurance Act requires all new products to be approved by NAICOM before they may be launched. The Act requires NAICOM to inform the applicant of the outcome of the product approval application within 30 days. Despite this requirement, stakeholder interviews suggest that it is difficult to predict the length of the product approval process in practice.

Microinsurance and takaful products also requiring approval. All microinsurance products, advertisements, contract terms and conditions, and claim forms must be submitted to NAICOM for approval before being introduced to the market. In doing so, NAICOM ensures that the products meet the definition of microinsurance. Given that the definition is, apart from the sum assured limit, only stated qualitatively, the onus is on the applicant to demonstrate why its product meets the criteria for microinsurance. This was raised in the consultations as potentially leading to inconsistency. Similarly, takaful products require approval prior to takaful operator registration.

Far-reaching effects of "No premium, no cover". NAICOM released Guidelines in 2013 to enforce the no-premium-no-cover rule that was introduced by the Insurance Act in 2003. The requirement prescribes that an insurance premium is a condition precedent to a valid contract and that, accordingly, there will be no cover in respect of an insurance risk, unless the premium is paid in advance. A number of stakeholders indicated that the enforcement of the no-premium-no-cover requirement has played an important part in improving the soundness of insurance companies and in supporting the development of the market. However, combined with the fact that premiums are mostly stipulated to be annual, "no premium no cover" means that insurance premiums become lumpy payments that may be difficult for lower-income individuals to afford.

Five types of compulsory insurance. In addition to the voluntary insurance business lines as defined in the Insurance Act, there are five lines of compulsory products with uniform premiums:

- Statutory group life insurance
- Builders' liability insurance
- Occupiers' liability insurance

- Healthcare professional liability insurance
- Motor third-party insurance

The compulsory products were introduced by different pieces of legislation that fall under the scope of various government departments. Workmen's compensation insurance used to form part of this list but is now included under social security.

Prudential regulation

High minimum capital requirements. As of 2007, the minimum capital requirements have been NGN2 billion (USD5.6 million) for life insurers, NGN3 billion (USD8.3 million) for general insurers and NGN10 billion (USD27.8 million) for reinsurers.[46] In comparison, in Ghana, as of 2017, the minimum capital requirements are USD3.4 million for life and non-life insurers, and USD 8.9 million for reinsurers – significantly lower than in Nigeria. In Kenya, the minimum capital requirements are USD1.5 million for life insurers, USD3 million for general insurers and USD8 million for reinsurers (IRA, 2017). The minimum capital requirements for insurers in Rwanda are USD1.2 million (National Bank of Rwanda, 2016).

Deliberate and substantial increases. Table 6 below shows the substantial increase of capital requirements over the past 15 years:

Capital requirements				
	Life	**Non-life**	**Composite**	**Reinsurance**
Pre-2003	NGN20m (USD155,000)*	NGN70m (USD542,000)*		NGN150m (USD1.2m)*
2003 – 2007	NGN150m (USD 1.2m)*	NGN200m (USD1.5m)*	NGN350m (USD2.7m)*	NGN350m (USD2.7m)*
Post-2007	NGN2b (USD15.9m)**	NGN3b (USD23.8m)**	NGN5b (USD39.7m)**	NGN10b (US79.5m)**

** using 2003 average exchange rate of USD1 = NGN129.22*

*** using 2007 average exchange rate of USD 1 = NGN 125.808*

Table 6. Capital requirements of insurers

Source: Africa Practice, 2015

Transitioning to a risk-based solvency framework. NAICOM announced in 2016 that it intends to move towards a regime of risk-based capital. International experience suggests

[46] The USD equivalent has been calculated using an average exchange rate of USD 1 = NGN 360 for 2018. Note that this rate differs greatly from the 2003 and 2007 rates as used in Table 6. A threefold decrease of the USD equivalent is observed due to the depreciation of the NGN.

that the implementation of a risk-based framework will place large capacity requirements on the regulator as well as on insurers and it may take several years to effect.

Tier-based minimum solvency capital requirements introduced. NAICOM introduced new tiered minimum capital requirements that take effect on 1 January 2019 (NAICOM, 2018). The tiers are set according to risk profiles as indicated in Table 7, with the tiers representing a three-fold increase in capital requirements for tier 1 providers. The previous capital requirements are maintained for tier 3 providers:

	Tier 1	Tier 2	Tier 3
Life	NGN6 billion (USD 16,67 million) All Tier 2 risks and Annuity[47]	NGN3 billion (USD 8,3 million) All Tier 3 risks and Group Life Assurance	NGN2 billion (USD 5,6 million) Individual life, Health insurance, Miscellaneous Insurances
General	NGN9 billion (USD 25 million) All Tier 2 risks and Oil and Gas (oil-related projects, exploration and production) and Aviation Insurances	NGN4.5 billion (USD 12,5 million) All Tier 3 risks, Engineering (all inclusive), Marine, Bonds Credit Guarantee and Suretyship Insurances	NGN3 billion (USD 8,3 million) Fire, Motor, General Accident, Engineering (only classes covered by compulsory insurances), Agriculture and Miscellaneous Insurances
Composite	NGN15 billion (USD 41,6 million) **Life**: all Tier 1 risks **Non-life**: all Tier 1 risks	NGN7.5 billion (USD 20,83 million) **Life:** all Tier 2 risks **Non-life:** all Tier 2 risks	NGN5 billion (USD 13,89 million) **Life**: all Tier 3 risks **Non-life**: all Tier 3 risks

Table 7. New capital requirements for insurers as of January 2019

Source: NAICOM, 2018

The move to tiered capital acknowledges that it is not necessary for all insurers operating across various licences to be at the same level. While this is a positive development, it will require individual risk assessments to take place and for the tiers to be properly enforced. It thus places additional capacity requirements on the market and regulator[48]. The Deputy Commissioner of Insurance announced that transition guidelines would be released in August 2018 (Nigeria News Direct, 2018).

Microinsurers requiring lower minimum capital. Minimum capital requirements for microinsurers are dramatically lower than those of conventional insurers. Unit microinsurers require a minimum capital base of NGN40 million (USD111,111), rising to NGN100 million

[47] The rationale for the high capital requirements associated with annuities is the long-term risk that annuities place on the books of life insurers.
[48] As part of the TBMSC framework, NAICOM has released guidance to the industry on how to transition from the current paradigm of capital requirements to the new tier-based minimum solvency capital requirements. Operators need to show their transition plan to the new capital requirements if they want to launch new products.

(USD277,778) for State microinsurers and NGN600 million (USD1.7 million) for National microinsurers.

Table **8** below illustrates the breakdown of the minimum capital base into general and life insurance components:

	Minimum capital base	General component	Life component
Unit microinsurer	NGN40m (USD111,111)	NGN25m (USD69,444)	NGN15m (USD41,666)
State microinsurer	NGN100m (USD277,778)	NGN60m (USD166,667)	NGN40m (USD111,111)
National microinsurer	NGN600m (USD1,67m)	NGN400m (USD1,11m)	NGN200m (USD555,555)

Table 8. Capital requirements for microinsurers

Source: Microinsurance Guidelines, 2018

Limited requirements for Takaful insurers. The only prudential requirement set for takaful insurers by the Takaful Operational Guidelines is that a minimum deposit of NGN100 million (USD277,778) be held at the CBN.

Low capital requirements for HMOs. The HMO regulations date back to 2005, and since then the capital requirements have not been updated or adjusted for inflation. The minimum paid-up share capital requirement for zonal operators is NGN50 million (USD138,889) and NGN100 million (USD277,778) for national operators. Stakeholder interviews suggest that there is limited prudential oversight by the NHIS in practice.

Regulation stipulating permitted investment classes. Guidelines issued by NAICOM place quantitative limits on investments in certain investment classes. Insurers must invest and hold at least an amount equivalent to the policyholders' funds. The guidelines also stipulate maximum thresholds for the percentage of total assets that may be invested in certain asset classes. For instance, no general insurer may invest more than 25%, and no life insurer may invest more than 35% of its assets in real property (for further discussion on this issue see Section 1117.2.2: Drivers of institutional investment decisions).

Quarterly returns. In accordance with a NAICOM directive of 2016, quarterly returns must be submitted to NAICOM in soft copy as of the third quarter of 2016. The returns must be submitted in terms of NAICOM's Regulatory Reporting Template.

Annual external auditing. The Insurance Act requires that the balance sheet, profit-and-loss account, and revenue account of an insurer be audited by an external auditor on an annual basis.

Life insurers require periodic actuarial valuations. Life insurers are required by the Insurance Act to appoint an actuary to evaluate their financial positions once in every three years.

Intermediation regulation

Distribution is limited to certified brokers and agents. In accordance with the Insurance Act, agents, brokers, reinsurance brokers and loss adjusters are permitted to act as intermediaries between consumers and insurers:

- Insurance agents, who can only be natural persons, are required to possess certificates of proficiency from the Chartered Institute of Insurance Nigeria (CIIN). The CIIN's Certificate in Insurance requires three courses to be passed by means of examination (CIIN, 2018). Agent licences and registration are subject to annual renewal.
- Insurance brokers must be registered and pay an annual levy to NAICOM. Each partner of a firm must be registered as an insurance broker by the Chartered Insurance Institute of Nigeria (CIIN) before the firm will be registered by NAICOM. Brokers must also maintain professional indemnity cover. Insurance brokers require the approval of NAICOM, should they wish to undertake reinsurance broking.
- Loss adjusters must be registered and pay an annual levy to NAICOM. Loss adjusting firms must maintain professional indemnity cover and the Chief Executive must be registered as a loss adjuster by the Institute of Loss Adjusters of Nigeria.

Microinsurance Guidelines broadening the intermediation space. Microinsurance intermediaries consist of individual agents, and corporate or referral agents. Corporate or referral agents include *inter alia*: corporate agents, non-governmental organisations, telecommunications, and microfinance institutions.[49] The inclusion of corporate or referral agents broadens the agent space considerably beyond the individual agents allowed under the Insurance Act. No formal qualification is needed, but each new intermediary involved in microinsurance sales and marketing must undergo training for at least three days. Though this training requirement is much more limited than the qualification requirements for traditional brokers and agents, it may nevertheless be costly in the case of mass distribution channels if *all* sales agents have to be trained[50].

Bancassurance distribution allowed within defined parameters. Dual Bancassurance Guidelines were released by CBN and NAICOM in 2017, setting out the regulatory framework for the offering of insurance through the bancassurance channel. Bancassurance is defined by the CBN Guidelines as "an arrangement in which insurance companies leverage on the customer base of banks to sell insurance products to banks' customers." In the NAICOM Guidelines, the definition is "the collaboration between a bank and an insurance company to market insurance products to the customers of the bank." Partnerships between banks and insurers are restricted to two per institution: Each bank may partner with only two insurers and each insurer with only two banks.

The Guidelines address the aspects of bancassurance in which the institutions that fall under the scope of each regulator respectively are involved. Notably, "banking products that incorporate insurance features" are prohibited, as are "free premium payments as a feature

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[49] The full list of corporate and referral agents as contained in the Microinsurance Guidelines is: corporate agents, cooperative societies, mutual benefit associations, microfinance banks and institutions, trade organisations, health maintenance organisations, faith-based organisations, postal agents, non-governmental organisations, asusu/adashi group, age grade group, telecommunications, mobile payment system, any other registered associations.

[50] Clarity is needed on exactly which individuals are required to undergo training. If every sales representative is included, the requirement may be prohibitive.

of any … products”. This means that insurance may not be bundled onto a banking product or be provided for free as a loyalty benefit. Both of these elements have been leveraged in other countries as a means of increasing insurance uptake, as a means to introduce people to insurance and build consumer trust. Furthermore, bank partners are not allowed to promote and sell insurance products. Thus, only insurers’ agents or brokers may market products and handle and settle claims via the banking channel.[51] This means that the existing staff complement of the banking sector cannot be leveraged for insurance distribution purposes.

Commission caps varying by business line. Commission rates for brokers are capped at 12.5% for motor insurance business, 15% for workmen’s compensation and 20% for other insurance business. Agents are permitted to earn up to 50% of the above rates in commission. As will be discussed in Section 4.2.7, this commission structure favours a broker-driven market focused on the pursuit of larger-value business.

Lower caps for microinsurance intermediaries. All microinsurance intermediaries’ maximum commission rates are 5% for single-premium policies, 15% for non-single-premium policies and 15% for non-life-insurance products. Thus, microinsurance attracts lower commission than traditional life or general insurance. Given that microinsurance policies have lower premiums, resulting in less absolute value commission earned, this limitation may disincentivise microinsurance distribution.

Conduct of business and consumer protection

Dedicated market conduct guidelines in place. In 2015, NAICOM released Market Conduct and Business Practice Guidelines for Insurance Institutions. The Guidelines “set out the minimum standards required from insurance institutions in their dealings with clients, policyholders, shareholders and other stakeholders”. It also provides management of insurers with a “framework for the establishment of policies and procedures for effective claims management” ensuring quality and efficient claims operations to safeguard the reputation and financial stability of insurers. By way of example, insurers are obliged to treat their customers fairly. Fair treatment of customers includes inter alia: a) acting competently, carefully and diligently in all transactions, b) providing high-quality professional advice to customers, c) ensuring that employees and agents meet high standards of ethics and integrity, and d) providing customers with clear information before, during and after sale. Furthermore, in terms of claims management, the Guidelines require that insurers include settlement timelines for claims that arise from all types of insurance business and ensure that the timelines “reflect the principles of good market conduct” – thus avoiding unreasonable delays.

Microinsurance Guidelines limiting turnaround time of claims. The Microinsurance Guidelines impose maximum turnaround time requirements for claim payments as a mechanism to ensure consumer protection outcomes. The Microinsurance Guidelines require that each microinsurance contract contains a claims settlement clause that details the maximum period in which claims must be settled or declined after notification. Further, the Microinsurance Guidelines prescribe that claims must be settled within 48 hours of the

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51 The distinction between the role of the bank and insurer of the bancassurance partnership is emphasised in NAICOM’s Bancassurance Guidelines, which require that consumers understand that “the insurer will wholly be liable for underwriting of risks, assessment, adjustment, and payment of claims that may arise from the risk covered”. The Guidelines further require that an insurer does “not use any advertisement or promotion that would make people mistakenly believe that the … bank stands behind or guarantees any return on the insurance products.”

microinsurer receiving all requested documentation and issuing an executed discharge voucher. There are no corresponding claims-processing guidelines for traditional insurance.

Dispute resolution entrenched in law. The Market Conduct and Business Practice Guidelines include stipulations on dispute resolution platforms and consumer recourse mechanisms. The Guidelines call for "well-documented policies, procedures and processes for complaint and dispute management" to ensure prompt and fair resolution. Beyond the duty placed on insurers to put into place such mechanisms, there are three avenues for redress: NAICOM's dispute resolution unit, which overseas its customer contact centre; the Nigerian Insurers Association (NIA), which has a customer complaints bureau that acts as a dispute resolution mechanism; and the Consumer Protection Council (CPC), which deals with simpler issues. Stakeholder interviews suggest that CPC refer insurance-related complaints to NAICOM.

Miscellaneous

Strict domestication and local content requirements. The Insurance Act prohibits transacting in insurance or reinsurance business classified as domestic insurance[52] with a foreign insurer unless the company is registered under the Insurance Act. Thus, foreign insurers may only operate in Nigeria if a subsidiary company is licensed in Nigeria, and Nigerian businesses and individuals are not permitted to contract with foreign insurers. Where reinsurance is concerned, the Market Conduct and Business Practice Guidelines stipulate that all foreign facultative placements require prior approval of the Commission and that, for treaty reinsurance, available local reinsurance capacity must be exhausted prior to any foreign treaty placement.

Specific local content requirements applicable in the oil-and-gas sector. The local content requirements affecting the insurance sector are contained in the Nigerian Oil and Gas Industry Content Development Act 2/2010 and the Guidelines for Oil and Gas Business (2010). The former is administered by the Nigerian Content Development and Monitoring Board (NCDMB) and covers companies involved in any form of business, operations or contracts in the Nigerian oil-and-gas sector, while the latter is regulated by NAICOM and specifically focuses on the provision of insurance services to the sector. The Nigerian Oil and Gas Industry Content Development Act proscribes the placement of oil-and-gas insurance risk offshore without the written approval of NAICOM, to ensure that local capacity has been fully exhausted. The objective of the local content requirements is to enhance the participation of "Nigerian content" in the provision of goods and services, while strengthening the capabilities of indigenous companies.[53] The Act further provides in its schedule that, in the oil-and-gas sector, the Nigerian content level for life insurance is 100% while the level for non-life insurance is 70%.

Mandatory cession of reinsurance. It is compulsory for 5% of reinsurance treaties to be ceded to the African Reinsurance Corporation in accordance with Nigeria's membership of the multilateral Agreement Establishing the African Reinsurance Corporation. Until 2002, it was compulsory for 20% of the sum insured to be ceded to Nigeria Reinsurance Corporation,

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[52] Domestic insurance or reinsurance business includes: a) fire, b) motor, c) liability, d) life, e) accident, f) other (prescribed by NAICOM) insurance and reinsurance business.

[53] Local content is defined as: "the quantum of composite value added to or created in the Nigerian economy by a systematic development of capacity and capabilities through deliberate utilisation of Nigerian human, material resources and services the Nigerian oil and gas industry." (NCDMB, 2010)

which also had a right of first refusal before business was placed offshore (Nigerian Reinsurance Corporation Act, 1990 and Nigeria Re, 2015).

E-signatures permitted but not widely utilised. The Cybercrimes (Prohibition, Prevention Etc) Act of 2015 permits the use of electronic signatures subject to a few exceptions. Insurance contracts do not form part of the exclusions provided for by the Act. Stakeholder interviews indicate that there are some insurers that make use of electronic signatures in the sale of insurance products, for example via an online direct distribution platform, but that it is not yet widely utilised.

No AML/CFT exemptions. In 2013, NAICOM issued Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Regulations. The regulations apply to all insurance institutions, intermediaries, and transactions, aiming to promote compliance with existing AML and CFT legislation by the insurance industry. In brief, the Regulations require that insurance institutions conduct customer due diligence in order to combat fraud. To date, the BVN system (as discussed in Section 2.3) does not yet extend to insurance companies and therefore the insurance sector does not yet benefit from the efficiency of that digital identity system.

Airtime not acknowledged as legal tender. In 2015, the CBN issued Guidelines on Mobile Money Services that prohibit the use of airtime in transactions. It is thus not possible to pay for insurance premiums with airtime. As discussed in Section 5.4.3, this restriction is regarded as a constraint to the development of mobile insurance distribution. According to the stakeholder interviews, talks are continuing between NCC, CBN and NAICOM to find a solution.

3.4. Regulatory issues

As introduced throughout this section, the stakeholder consultations highlight the following regulatory challenges:

Alleged inconsistencies in product approval process**.** Several stakeholders highlighted the often long product approval process as a constraint to innovation. Concerns were also voiced that product approval processes are not fully transparent.

Lack of prudential oversight adding to concerns in the HMO space. Some of the challenges faced by HMOs, many of which were denied reaccreditation in early 2018, are a result of limited regulation in the space.

Regulatory mandate for subsidised insurance undermining market incentives for agricultural insurance at scale. Insurers approved to underwrite agricultural insurance cannot compete with government subsidies.

Challenges to industry-regulator consultation. Interviews with stakeholders confirm that NAICOM meets with industry on a quarterly basis. While the intention of such retreats is for the regulator and industry to engage and collaborate, stakeholder interviews indicate a perception that industry may listen but not engage openly.

Capacity constraints and enforcement challenges. Nigeria has many registered insurers. Adequate supervision of so many insurers places high capacity demands on the regulator. As discussed in Section 4, technical skills that relate to insurance businesses are scarce throughout the country. This means that NAICOM, likewise, is facing capacity constraints. Stakeholder interviews and the analysis in Section 4.3 suggest that capacity constraints contribute to enforcement challenges, especially with regard to the supervision of insurers with weak business fundamentals. One interviewee suggested that a number of insurers would be forced out of the market if capital requirements were strictly enforced. As will be discussed in Section 5, enforcement of compulsory insurance is also a big challenge, but it falls largely outside the mandate of NAICOM. Capacity constraints furthermore challenge the planned move to risk-based capital.

New regulatory developments promising but restrictive. New regulatory developments such as the Bancassurance Guidelines and the Microinsurance Guidelines show the regulator's dedication to market reform and development. Yet the restrictions and additional requirements that accompany these frameworks discourage the utilisation of the new regulatory dispensations. Thus, the potential of these frameworks to unlock market development is undermined. Notably:

- There are few banks and insurers that have the capacity to invest in enough infrastructure to serve the low-income and rural market adequately and responsibly. This means that the restriction of two bancassurance relationships per insurer or bank poses a constraint on the possible positive effects bancassurance can have on the market. Under current regulation, bundling insurance products with banking products is not allowed and banking staff is not allowed to sell insurance products. Only the insurance agent present in the bank through the bancassurance relationship is allowed to sell insurance. Further, stakeholder interviews suggest that there are delays and uncertainty surrounding bancassurance product and partner approval[54].
- The requirement for separate microinsurance licences creates an extra layer of compliance. This generates additional costs and governance complexity and has dampened interest so far from prospective licensees. Capping commission rates at 5% and 15% for microinsurance also limits the incentives for distribution partners. Finally, market players argue that the microinsurance product approval process and timelines are unclear, making it difficult to anticipate how long product approval may take.

Local content requirements potentially restricting the role of insurance in the economy. The strict local content requirements, while valid from a policy perspective, may have unintended impacts by reducing the effectiveness of insurance to serve the risk management needs of businesses in Nigeria. It may also entrench unviable business practices in the insurance market and may not, in fact, contribute much to capital formation in the local insurance industry (see Section 7: The role of insurance in business resilience and enterprise development, for further discussion on the impact of the local content requirements).

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[54] The hesitance of the CBN to expose the banking sector to the other sub-sectors of the financial sector stems from the challenges the banking sector experienced during the time of universal banking (see Appendix A: Context drivers of market development).

4. Insurance provision

Key insights:

Market evolution and landscape of provision

- The Nigerian insurance market has grown across a number of distinct phases to a current landscape characterised by fierce competition among a large number of insurers for a small premium pool.
- Historically, insurance premiums have tracked economic performance. Insurance penetration, measured as premiums as a percentage of GDP, remains low. General insurance accounts for the bulk of gross written premiums. The market is largely broker-driven.
- The life insurance market is dominated by five insurers which account for 68% of total gross written premiums. Retirement annuities, which developed on the back of the growing pensions market, are emerging as a key growth area for life insurers alongside compulsory group life insurance.
- The general insurance market is more fragmented, comprising 41 insurers of which the top five insurers account for 39% of gross written premiums. Corporate business, largely from the oil-and-gas sector, as well as motor third-party liability and other compulsory lines account for the bulk of general premiums.
- Ten Health Maintenance Organisations (HMOs) account for the majority (55%) of Health insurance premiums.

Market performance

- The market is characterised by a generally strong top tier of insurers, as well as a large tail-end of smaller insurers. Performance correlates with the size of the insurer, with larger insurers generally having better fundamentals.
- The business challenges are exacerbated by technical skills shortages, which limit insurers' ability to price risk correctly.
- A poor claims track-record and incidences of insurers placed under curatorship have eroded trust in the market.
- Substantial recent foreign investment into the sector is indicative of the large potential for growth in the market despite these challenges.
- Government is encouraging the consolidation of the market through increased and tiered capital requirements. Government acknowledges that a further clean-up is required to build a strong industry.

This section provides an overview of the landscape of insurance provision in Nigeria across life insurance, general insurance, health insurance and reinsurance, as backdrop to the more in-depth discussion of insurance market trends as it pertains to household resilience, business resilience and capital market development to follow in Sections 5, 6 and 7. We briefly explore the history of insurance in Nigeria, before providing an overview of the structure and performance of the current market in terms of the providers and main distribution channels.

4.1. Market evolution

Figure 5 highlights some key events in the history of insurance in Nigeria. Each phase is discussed in brief below.

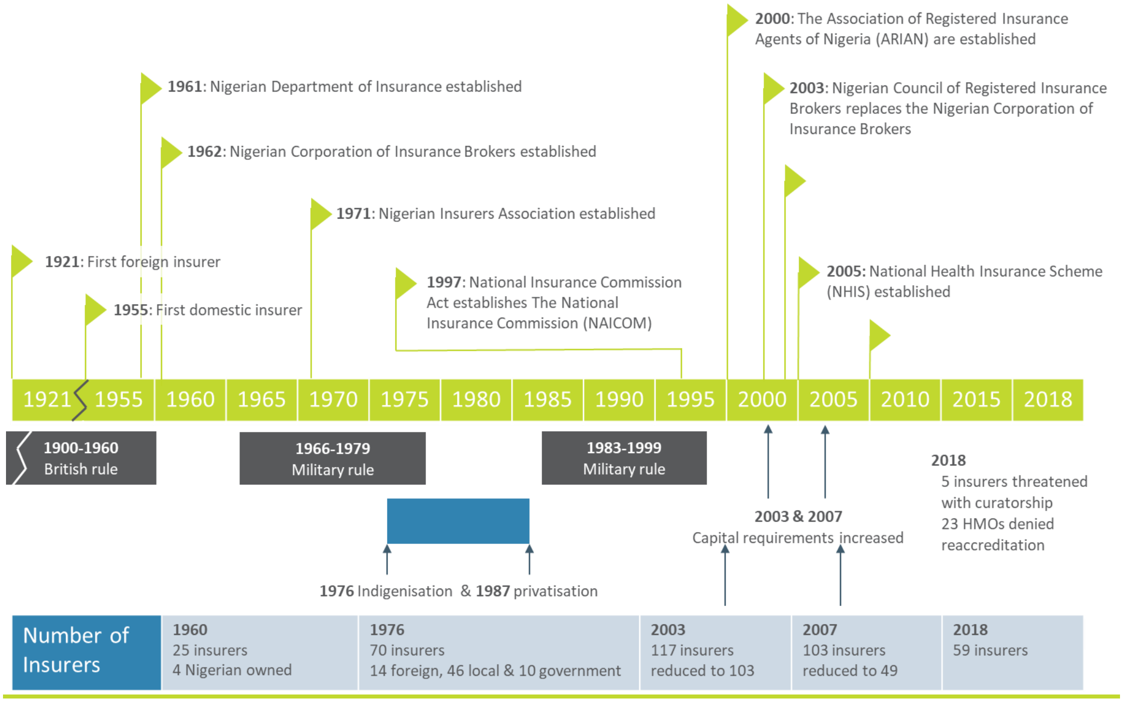

Figure 6: Timeline of key events in Nigerian insurance

Source: Various including: africapractice, 2015; Ikuomola, 2018; NAICOM, 2018

1921–1960: Insurance market establishment. The London-based Royal Exchange Assurance Company established the first Nigerian insurance branch in 1921. In 1955, the first domestic insurer entered the market. There were 25 insurers by the time Nigeria gained independence from Britain in 1960. Of the 25 insurers, four were Nigerian-owned.

1960–1980: Indigenisation. The Insurance Companies Act of 1961[55] introduced the first insurance regulatory framework in Nigeria. It created the Nigerian Department of Insurance as part of the Federal Ministry of Trade. The private sector formalised by establishing the Nigerian Corporation of Insurance Brokers in 1962 and the Nigerian Insurers Association in 1971. In 1976, the ruling military junta instituted an indigenisation programme to curb fraud[56] and increase the local retention of insurance premiums. Prior to indigenisation, 46 of the 70 insurers were locally owned. However, they only earned 17% of gross written premiums. The indigenisation resulted in the Yorkshire General Life Assurance Company being sold to the State to become the National Insurance Corporation of Nigeria (NICON). The State then compelled the remaining 14 foreign-owned companies each to sell a 49% share to NICON.

1980–2003. Privatisation and new regulator. The 1987 Privatisation & Commercialisation Decree reversed the Indigenisation policy. The result was the privatisation of NICON (finalised in 2005) and the sale of 51% of Nigeria Re in 2002, as well as a spate of market

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55 Passed in 1961 but only implemented in 1967.

56 One landmark example of the insurance fraud was Nigeria Railway corporation fraud. This case resulted in a tribunal in 1966. The tribunal report (1968) required that a state-owned insurance company insure all government properties.

entry[57]. The current insurance regulator, the National Insurance Commission (NAICOM), was established by the National Insurance Commission Act 1997. The Association of Registered Insurance Agents of Nigeria (ARIAN) was established in 2000, and the Nigerian Council of Registered Insurance Brokers replaced the Nigerian Corporation of Insurance Brokers in 2003. The Insurance Act of 2003 categorised insurers as either life or general insurers. Composite insurers provide both life and general insurance.

2003–2007: Restructuring. The number of insurers in Nigeria peaked at 117 in 2003, when increased capital requirements were announced. The increase in capital requirements resulted in 14 insurers being liquidated. The period saw a number of reforms in the financial sector more broadly, including the 2004 agenda for bank consolidation (for more information see Appendix A: Context drivers of market development), structural reforms in the pensions market[58] and the establishment of the National Health Insurance Scheme (NHIS) in 2005[59].

2007–2018: Further consolidation and growth. In 2007, capital requirements increased again[60], resulting in further market consolidation through mergers to ensure compliance. As a result, the number of insurers reduced from 103 to 49.

In the last decade, several foreign investors have invested in Nigeria, as shown in Table 15 in Appendix B: Insurance providers[61]. Currently, at least 10 foreign insurers have interests in Nigerian Insurers[62]. Apart from being a source of foreign direct investment, acquisition of insurance licences by foreign players can bring important skills transfer benefits.

Currently, there are 59 insurers, including two reinsurers, registered with NAICOM. As shown in Figure 5 below, this comprises 41 insurers offering general insurance and 27 offering life insurance[63], as well as two takaful insurers and two reinsurers. The market is considered very competitive, with a score of 1,173 for life insurance and 464 for general insurance on the Herfindahl Hirschman Index[64]. 30 insurance companies are listed on the Nigerian Stock Exchange. Health insurance is the purview of 60 HMOs registered with the

[57] Current government ownership is limited to a 49% stake in Nigeria Re and full ownership of the Nigerian Agricultural Insurance Corporation (NAIC). The Federal Government has indicated it will sell a part of its stake in Nigeria Re in November 2018 through an Initial Public Offering (IPO).

[58] The National Pension Commission (PENCOM), was established in 2004 by the Pension Reform Act 2004. The Act saw a move away from a defined benefit system (largely unfunded and non-contributory) to a contributory pension scheme.

[59] Established by the National Health Insurance Scheme (NHIS) Act 35 of 1999. The Act was signed in 1999, but only implemented in 2005. The NHIS established programmes to serve the difference sectors in Nigeria. 1) the formal sector 2) the informal sector and 3) vulnerable groups.

[60] See Table 6, Section 3 for an overview of prudential reforms.

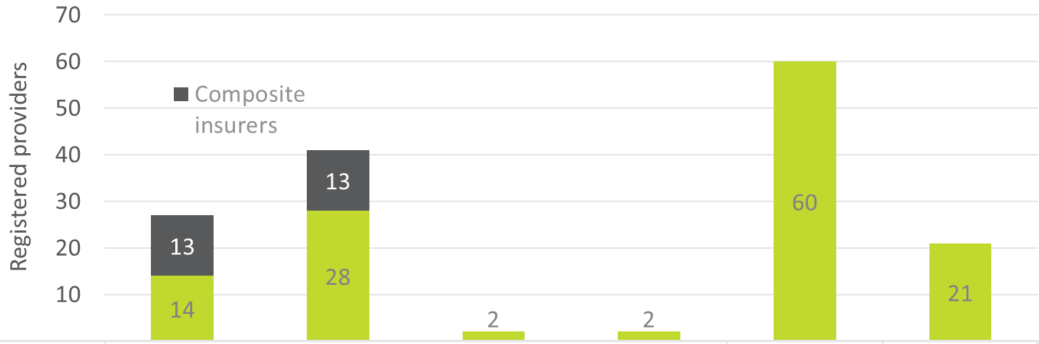
[61] There are no restrictions on foreign ownership. Foreign investors are can own 100% of a Nigerian insurer (Muguto & Ubah, 2015).

[62] Foreign insurers may operate in Nigeria by establishing a local subsidiary or acquiring a local insurer. South African investors include Sanlam, Old Mutual, MMI Holdings and Liberty. The French insurer, AXA has a majority holding in AXA Mansard. Ivory Coast has two investors, NSIA Participations S.A and Sunu Assurances Vie with shares in NSIA Insurance and Sunu Assurances Nigeria Plc respectively. New India Assurance Company and Germany's Allianz have controlling stakes in Prestige Assurance and Ensure Insurance, respectively. The United Kingdom's Prudential has a majority shareholding in Zenith Prudential. In addition, America's Williamsville Sears is acquiring a majority holding in African Alliance Insurance.

[63] Composite insurers provide both general and life insurance.

[64] The Herfindahl-Hirschman index (HHI) is a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in a market and then summing the resulting numbers. It can range from close to zero to 10,000, with zero representing perfect competition and 10,000 a monopoly. An HHI score of below 1,500 is considered to be competitive. Read more: Herfindahl-Hirschman Index (HHI): https://www.investopedia.com/terms/h/hhi.asp#ixzz5Oz0DRjFw

NHIS, while the pensions system is administered by 21 pension fund administrators (PFAs) licensed by PENCOM.



Provider	Life insurers	General insurers	Takaful insurers	Reinsurers	Health Maintenance Organisations (HMOs)	Pension Fund Administrators (PFA)
Regulator	NAICOM				NHIS	PENCOM

Figure 7: Registered insurance providers[65]

Source: NAICOM (2018), NHIS (n.d.) & PenCom (2018)

Despite recent growth, insurance penetration remains limited. In 2016, insurance premiums represented 0.3% of GDP in Nigeria. This is very low compared to the world-wide average of 6.1% and the African average of 2.8% (Swiss Re, 2017). Figure 7 shows the evolution of life and general insurance premiums over time. General insurance premiums have consistently been higher than life insurance premiums. In 2016, general insurance accounted for 68% of insurance premiums written[66].

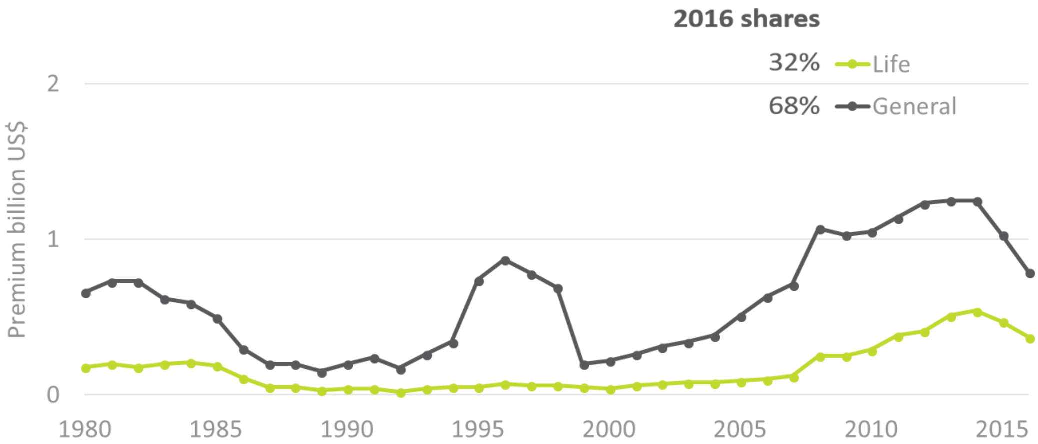


Figure 8: Life insurance and general insurance premiums in Nigeria 1980–2016

Source: Swiss Re, 2017

65 Figure 7 underestimates the number of businesses providing composite insurance as some companies have a group structure with a life and general insurer in the same group essentially providing composite insurance.

66 Note that this figure differs from the NIA (2016) data. The NIA dataset indicates that general insurance contributes 60% of gross written premiums. Prior to the contraction of the general insurance sector in line with the economic woes introduced by the oil price drop in 2014, it contributed an even larger share.

Skills shortages are one of the major constraints to further market development. The stakeholder consultations confirmed that a lack of skills in the market limits the industry's ability to appropriately price risks. This particularly true for bigger, more niche risks. Notable skills shortages include actuarial[67], risk management, capital management and underwriting skills. On the life side, another constraint is the absence of country-specific mortality tables. Without country-specific mortality tables, risks are unlikely to be correctly priced.

To further consolidate the market, NAICOM in 2018 announced that new capital requirements will be implemented across three tiers of insurance provision from 2019[68], and that it will not issue new insurance licences (Adelowokan, 2018). NAICOM has also taken regulatory steps against ailing firms, including placing an insurer under curatorship (Onuoha, 2018)[69].

4.2. Overview of key sectors

This sub-section provides a snapshot overview of the different sub-markets in the insurance sector, as well as two sectors outside the regulatory authority of NAICOM, namely health insurance and pensions (as a sector with strong links to the life insurance market).

4.2.1. Life insurance market

***Five market leaders and a large tail end of small insurers*.** The life insurance industry has five clear market leaders. The top five life insurers earned 68% of the gross written premiums in the life insurance market in 2016, as shown in Figure 9 below. Leadway accounts for a quarter of the market. AIICO (15%), African Alliance (10%), Custodian Life (10%) and FBN Life (8%) make up the remaining top five. The sixth-largest insurer (Mutual Benefit Assurance) only has a market share of 3%, which is less than half of the fifth-largest insurer (FBN Life). On the other end of the spectrum, 11 of the 27 life insurers have a very small market share (1% or less).

67 There are only eight resident actuaries in Nigeria (International Actuarial Association, 2018).

68 As discussed in Section 3, tiers two and three have higher capital requirements. Lower-tier insurers are also restricted from underwriting certain risks. (NAICOM, 2018). NAICOM has also announced that it intends to move toward risk-based capital requirements.

69 Further key events in this period include the repeal of universal banking in 2010, which meant that organisations could no longer conduct insurance and banking in the same entity. Banks that provided insurance had to set up separate insurance companies. The Nigerian Oil and Gas Industry Content Development (NOGICD) Act, discussed in Section 3, was also signed in 2010. It stipulates minimum local content requirements for insurance linked to Nigeria's oil- and-gas sector. To facilitate broader uptake of insurance, NAICOM has also released guidelines for takaful (2013), bancassurance (2017) and microinsurance (2018). These are discussed in the regulatory section.

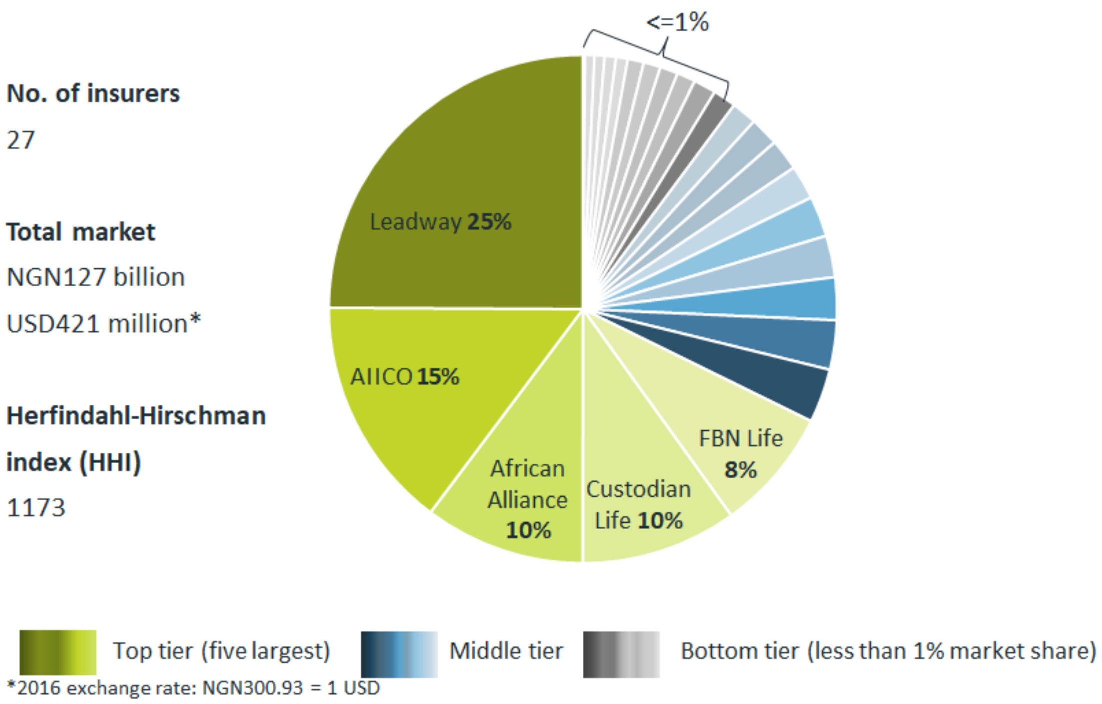


Figure 9: 2016 Life insurance market share by gross written premiums

Source: NIA, 2016

Steady premium growth off a low base. Life GWP has shown significant growth in recent years, albeit off a low base, from NGN40 million (USD265 million) in 2010 to NGN127 billion (USD421 million) in 2016[70]. A significant proportion of this growth has been driven by the introduction of annuities as an option for pension withdrawal under the compulsory pension system[71]. Figure 10 illustrates the growth in life premiums as well as the growing share of annuities in the life market. The top five life insurers are all linked to pension fund administrators in their holding company structure.

[70] Using an exchange rate of NGN150.298 per USD in 2010 and NGN300.93 per USD in 2016.

[71] The pension reform moved pension fund contributors from a defined benefit to a defined contribution scheme. On retirement, pensioners can choose to either undertake a programmed withdrawal or purchase an annuity from a life insurer. This created a market for retirement annuities for life insurers.

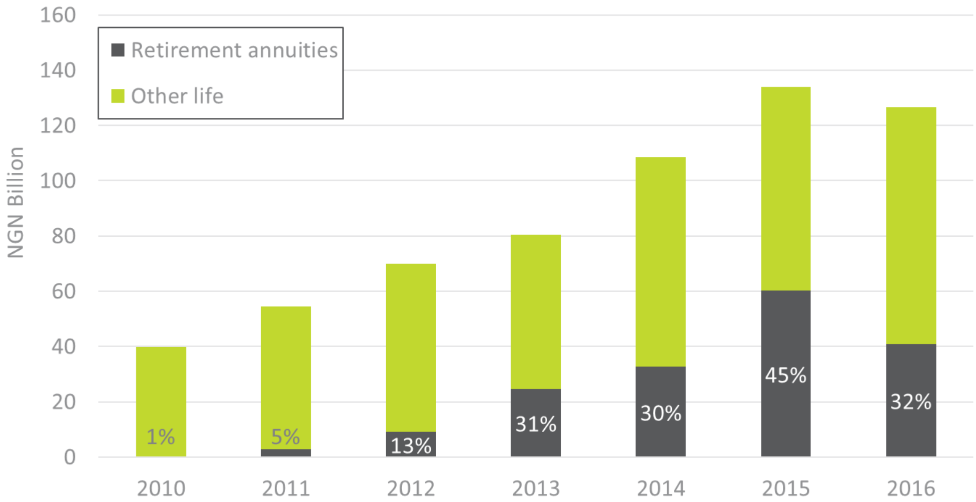


Figure 10: Life insurance premiums and share from retirement annuities

Source: NIA, 2016; PenCom. 2018

4.2.2. General insurance market

More fragmented than the life insurance market. There are 41 insurers in the general insurance market (compared to the 27 in the life market). The top five insurers account for only 39% of the market, compared to 68% in the life market. Similar to the life insurance market, nearly half (49%) of the general insurers have a market share of 1% or less. This suggests a fragmented market where many insurers compete for premiums.

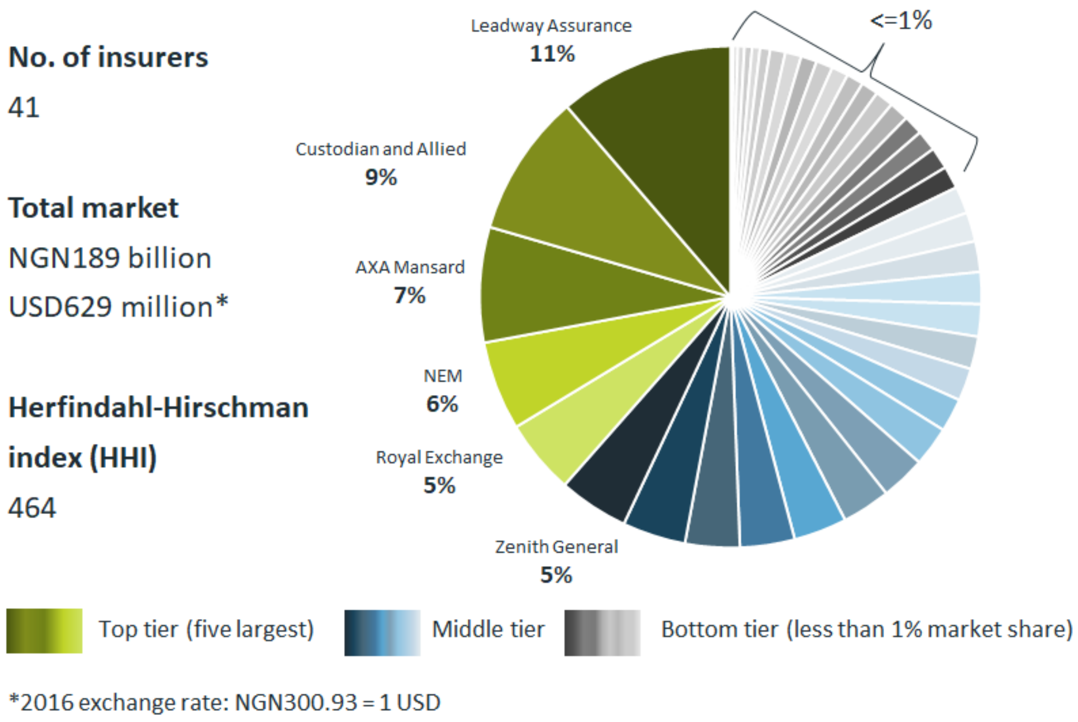


Figure 11: General insurance market share by gross written premiums

Source: NIA, 2016

Most top companies operate in life and general insurance markets**.** Most of the top insurers in the life and general insurance markets are composite insurers or have both a life and general insurer in their broader group structure. Most notably, Leadway has the largest share in both insurance markets. Custodian, Axa Mansard, Royal Exchange, Zenith, AIICO and FBN are all composites or have both life and general insurers in their group[72].

Oil and gas and compulsory insurance lines dominate general insurance premiums. As shown in Figure 12 below, the oil-and-gas sector is the largest line of general insurance business (29%). Motor insurance (21%) is the second-largest and fire insurance (16%) third. Compulsory third-party motor insurance is a main driver of the prominence of motor insurance. The high uptake of fire insurance can also be linked to compulsory insurance. Fire is one of the hazards[73] for which Public Buildings[74] are required to be insured.

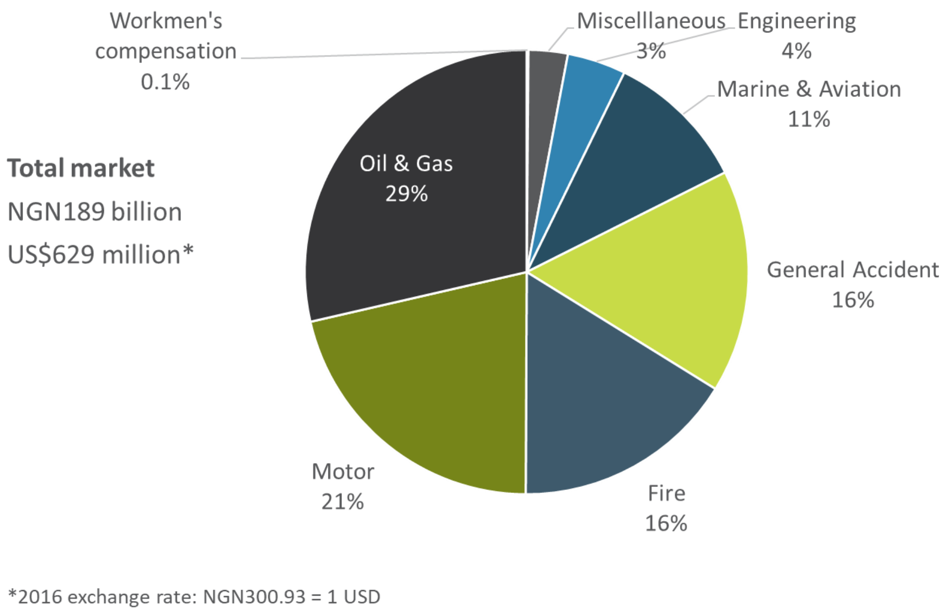


Figure 12: Gross written premiums of general insurance by category

Source: NIA, 2016

Agriculture risks are not shown as a separate category in Figure 10. The state-owned National Agricultural Insurance Corporation (NAIC) is the agricultural insurance market leader, and its figures are not reflected in the total premiums indicated in Figure 8. It has a mandate to provide subsidised insurance. A number of private insurers are also starting to participate in agricultural insurance pilots (see Section 6.2.2).

Limited recent premium growth reflecting economic slump. Given the prominence of business insurance to the general insurance market, general insurance premium trends track broader economic trends, which in turn are correlated to movements in the oil price. The recent oil-induced recession in Nigeria thus caused lacklustre nominal growth in general insurance GWP (negative in real and dollar terms) from NGN187 billion (USD1.2 billion) in

[72] The only exceptions in the top five of both the life and general insurance markets are: African Alliance who specialise in life insurance and NEM who only provide general insurance. However, African Alliance Insurance have a minority shareholding in Universal Insurance Plc at 5.83% (African Alliance Insurance Plc, 2017). NEM used to undertake life business prior to 2007 merger with Vigilant Insurance to ensure capital adequacy.

[73] Public buildings are compelled to be insured for: hazards of collapse, fire, earthquake, storm and flood.

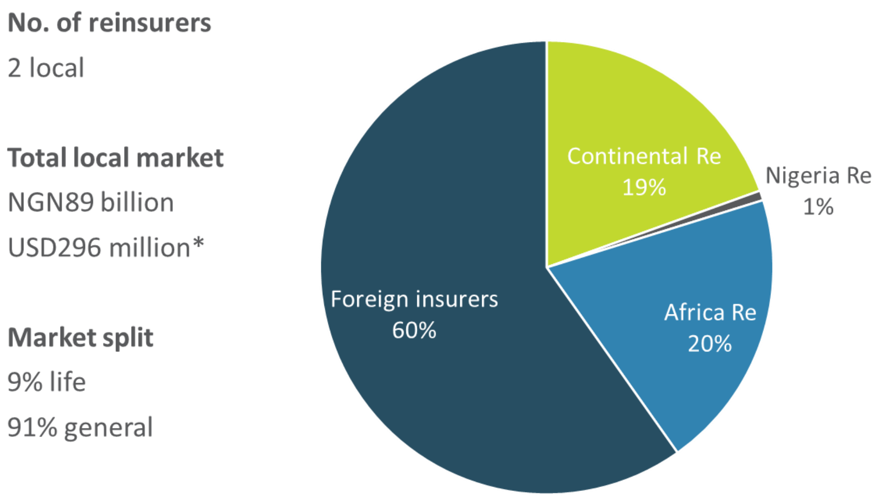
[74] Public buildings are considered buildings to which the public have access, including for business.

2013 to NGN189 billion (USD629 million) in 2016[75]. As oil prices and with it the Nigerian economy recover, GWP from the general insurance sector is expected to follow a similar trend.

4.2.3. Reinsurance

Local reinsurers responsible for a small share of the reinsurance market. Only two reinsurers are registered with NAICOM: Continental Re and Nigeria Re. As shown in Figure 13, they only reinsure 20% of the market according to NIA (2016) data. Other sources estimate that this is potentially as low as 15% (Atlas Magazine, 2017). Continental Re and Nigeria Re are both active in the life and general insurance markets, but Continental Re dwarfs Nigeria Re, which has lost significant market share since the mandatory ceding of 20% that it historically enjoyed ended in 2002[76].

Africa Re playing an important role. Another prominent reinsurer in the market is Africa Re, a regional reinsurer headquartered in Lagos. Africa Re was created by a treaty that requires a mandatory ceding of 5% of all reinsurance in Nigeria. Africa Re is not registered with NAICOM but plays a significant role in the reinsurance market, accounting for 20% of all Nigerian reinsurance premiums. The remainder of the market is served by large international reinsurers.



*2016 exchange rate: NGN300.93 = 1 USD

Figure 13: Local reinsurance market shares

Source: NIA, 2016; Atlas Magazine, 2017

4.2.4. Health insurance

Large number of HMOs. HMOs are the implementors of the National Health Insurance Scheme (NHIS) as well as the providers of private health insurance. While there are no definitive statistics on the sector, it is estimated that the private insurance component is twice as large as the NHIS system in terms of the number of people covered. The total

[75] Or according to Swiss Re (2017), USD1.25 billion in 2013 & 2014 to 790 million in 2016.

[76] Continental Re accounts for 98% of reinsurance premium in the local share of the life reinsurance market and 96% of the local general reinsurance market.

annual revenue for the sector is estimated at approximately NGN300 billion per annum (Omomia, 2018)[77].

Limited competition with life insurers. Health insurance is defined under life insurance in the Insurance Act, but very few life insurers offer health insurance products. The few life insurers that provide health insurance products provide policyholders with cash pay-outs in the event of a health event (e.g. hospitalisation). In contrast, HMOs cover medical costs and make payments to the health service provider directly.

Ten HMOs dominating, with regulatory clampdown suggesting smaller HMOs are unsustainable. The majority of enrolees (55%) are insured by the top 10 HMOs (Omomia, 2018). Five of the top 10 are noted as Hygeia, Total Health Trust, Avon, AIICO Multishield and Healthcare International. As shown in Figure 7, there are 60[78] HMOs listed on the NHIS website. This is already a decrease from over 70 HMOs in 2015. Recent press reports suggest that the number has further reduced substantially, with only 34 HMOs granted accreditation in 2018, and then only provisionally so, subject to meeting full compliance requirements (Ikuomola, 2018). This regulatory clampdown is indicative of structural constraints in the HMO market – discussed in more detail in Section 5. As mentioned in Section 3.3, HMOs' capital requirements are significantly lower than capital requirements of insurers.

4.2.5. Pension fund operators

Strong and large pension sector. Nigeria moved to a defined contribution pension scheme in 2004 with the establishment of PenCom. The success of the pension sector is evident in its relative scale. In 2016, the pension fund administrators had assets worth NGN6.2 trillion across 7.4 million pension fund members. This is more than 14 times the assets of life insurers (NGN476 billion).[79]

Variety of pension funds, but retirement savings accounts dominating. Retirement savings accounts (RSAs) are administrated by pension fund administrators (PFAs), while the funds are held by pension fund custodians (PFCs). Currently, there are 21 PFAs. As shown in Figure 14, these assets constitute 75% of the pension assets. The closed pension fund administrators (CPFAs) and approved existing schemes (AESs) are pension schemes that are

77 This figure cannot be compared like for like with the life and general insurance GWP statistics quoted earlier. This is a 2018 estimate, while the life and general insurance figures are for 2016. There are no definitive statistics of the size of the health insurance sector.

78 However, the umbrella body of NHIS-Accredited Health Maintenance Organizations in Nigeria; Health & Managed Care Association of Nigeria (HMCAN) lists 59 HMOS as members.

79 It may grow further if PENCOM's proposed Micro Pension Plan is introduced. The micropension scheme aims to expand the pension system to those employers with fewer than 15 employees.

limited to specific organisations, and they make up the remaining 25% of pension assets. The pension sector's role in the development of the capital markets is discussed in Section 7.

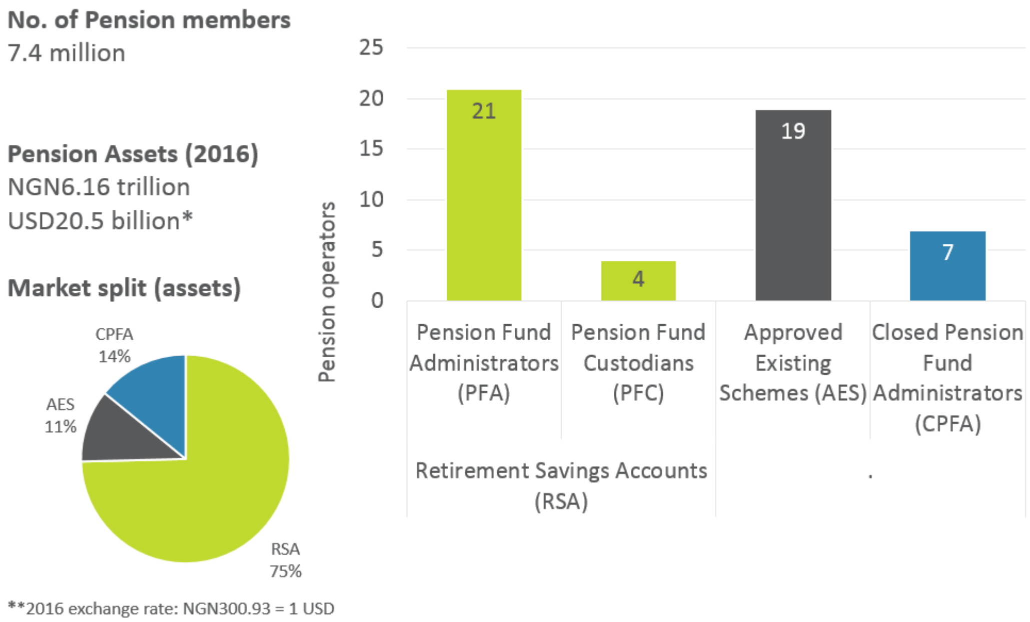


Figure 14: Pension fund operators

Source: PenCom, 2016

Strong links to life insurance. The pensions sector has strong links to the life insurance sector. On retirement, pensioners have two options. They can either use their pension to buy an annuity or undertake a programmed withdrawal. Annuities are bought from life insurers. The link between life insurance and pension funds has also resulted in investment between the sectors. Nine pension fund administrators are either part of a financial services group that also includes a life insurer or are owned by a life insurer[80]. The relationship between insurance and pensions is elaborated on in Section 7.2.1.

4.2.6. Niche markets

Takaful

Three initial providers. The first takaful products were available to the Nigerian public in 2004 (Ardo & Saiti, 2017). By 2016, the latest date for which premium data is available, three insurers provided takaful insurance: African Alliance, Niger Insurance and Cornerstone Insurance. As shown in Figure 15, Cornerstone, the only insurer that provides both life and general insurance, is the market leader with 45% of premiums. African Alliance, who was the first to provide takaful insurance, has the second-largest share (42%). Niger Insurance has the remaining 13%. Sixty percent (60%) of all takaful premiums are life and the remaining 40% is general insurance.

[80] Two general insurers and two brokers also own pension fund administrators. Including the largest PFA which is owned by a broker.

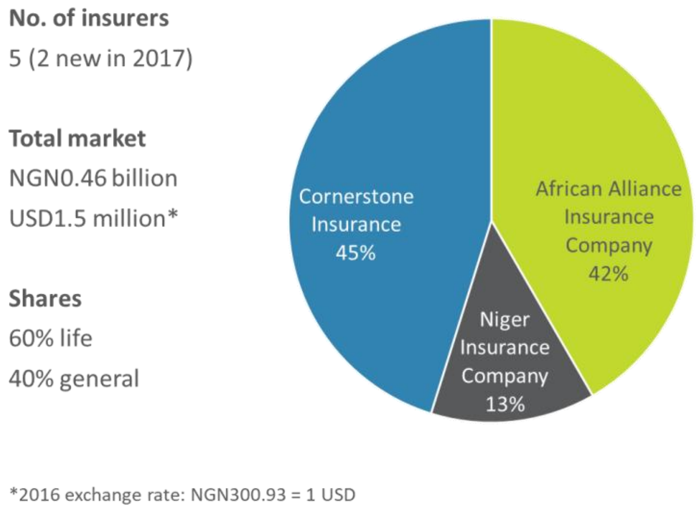


Figure 15: Takaful market share by gross written premiums

Source: Industry annual reports, 2016

New takaful specialist insurers indicating growing market interest. Guidelines for Takaful Insurance operators were released by NAICOM in March 2013. This was followed by Noor Takaful being established and fully licensed in 2016 and Jaiz Takaful Insurance starting operations in 2017[81]. Both specialist takaful insurers provide life and general insurance. In addition, Royal Exchange is in the process of registering a takaful insurance subsidiary.

Microinsurance

New licence requirements problematic. Seventeen insurers are currently providing microinsurance products under a window licence (Khaliq, 2018). However, as highlighted in Section 3, NAICOM now requires insurers to obtain a dedicated microinsurance licence to continue offering microinsurance. At the time of writing of this document, no microinsurance licences had been applied for.

[81] Jaiz Takaful Insurance has also become a member of the Nigerian Insurers Association (NIA).

General insurance dominates microinsurance. Half of the Nigerian adults with microinsurance products have general insurance policies, as shown in Figure 16. The health insurance sector is the second-largest, with 37% of microinsurance holders having health policies. Lastly, 27% of microinsurance policyholders had life insurance. The impact of microinsurance on household resilience is discussed in Section 5.3.1.

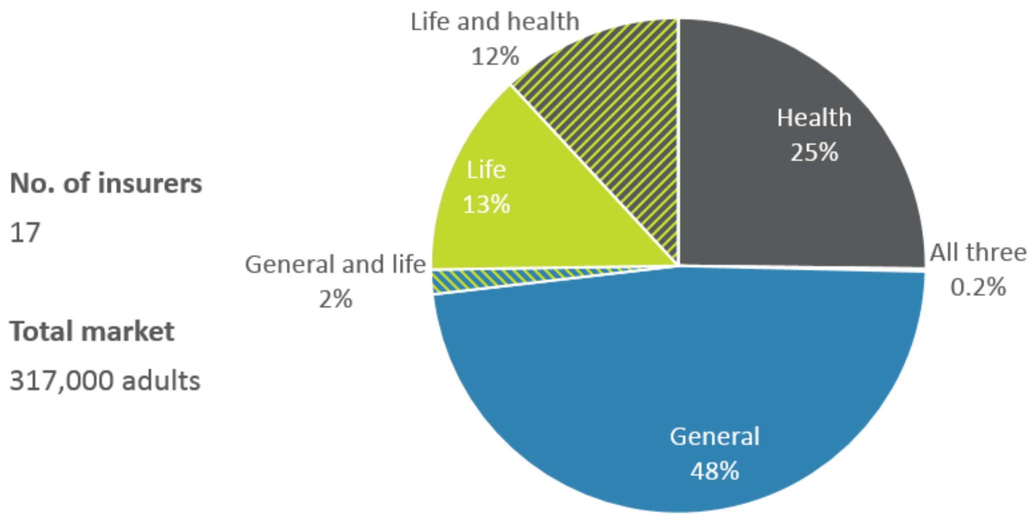


Figure 16: Microinsurance market by policyholders 2016

Source: EFInA, 2017

4.2.7. Distribution

Brokers dominate the distribution landscape. There are currently 451 brokers registered with NAICOM (NAICOM, 2018). Broker distribution accounted for approximately 70% of premiums in 2015 (PWC, 2015), which suggests that the Nigerian insurance market is a broker-driven market[82]. The share has, however, decreased in recent years. In 2011, broker distribution accounted for 90% of premiums (NIA, 2011).

Regulations favouring brokers. Brokers are allowed higher commissions than agents and microinsurance intermediaries. In addition to higher commissions, the Local Content Act requires that all oil-and-gas risks be placed by a local insurance broker. This provides brokers with substantial bargaining power vis-à-vis insurers.

Brokers' incentives encouraging the pursuit of large contracts. Brokers receive a fixed percentage commission and often have to meet absolute value targets. This incentivises the pursuit of fewer, larger corporate contracts rather than many small or retail contracts.

Brokers concentrated in urban areas. Unsurprisingly, with the strong focus on corporate clients, brokers are more prevalent in urban areas. Of the 491 members listed on the Nigerian Council of Registered Insurance Brokers (NCRIB) website, 75% (367) are based in

[82] The strength of the brokers is also evident in the fact that the largest pension fund administrator, Stanbic IBTC Pension Managers which manages approximately a third of all pension funds (NGN1.5 trillion) is owned by a broker (Scib).

Lagos and 12% (61) are based in Abuja (NCRIB, 2018). This suggests that insurance is largely concentrated in urban areas, with limited reach beyond the larger cities.

Most insurance agents are unregistered. The Association of Registered Insurance Agents of Nigeria (ARIAN) has only been established relatively recently (2000) in comparison to the Nigerian Corporation of Insurance Brokers (1962) and the Nigerian Insurers Association (1971). ARIAN has 7,000 registered agents, but the total agents operating in Nigeria is estimated at 20,000 (The Guardian, 2018).

Agents most prevalent in the life insurance sector. The insurers with the largest agent networks are AIICO (with approximately 4,500 to 5,000 agents) and FBN life (with 2,700 agents). During the in-country consultations, both these insurers emphasised the role of agents in reaching into the largely untapped individual life insurance market.

Innovative distribution channels presenting growth opportunities. While most insurance is sold through traditional distribution channels, a few innovative distribution channels show potential, including mobile distribution, online sales and bancassurance. As they play a potentially significant role in expanding the reach of retail insurance, they are discussed in Section 5.4.3, which considers the role of insurance in household resilience.

4.3. Market performance and trends

Cannibalistic competition undermining business fundamentals. The discussion above showed that the Nigerian market consists of a large number of insurers given the relatively small size of total written premiums. This leads to cannibalistic competition. According to NAICOM, 70% of premium income was discounted in 2016 as insurers underbid one another to secure business (Ebong, 2018). This undermines insurers' ability to secure risks. To curb this cannibalistic competition, NAICOM has instituted uniform fees for compulsory insurance[83]. The inappropriate pricing of risk is further evidenced by actuarial valuations not adhered to by some insurers. However, not all insurers perform poorly.

This sub-section discusses the performance of the Nigerian insurance market at the hand of key performance indicators for life insurers and general insurers, respectively[84]. The analysis presents the key performance indicators for three tiers of insurers:

- **Top tier**: the top five insurers in terms of market share by gross written premiums
- **Middle tier**: insurers that have more than 1% market share but are not in the top five
- **Bottom tier**: insurers with 1% or less market share

4.3.1. Life insurance sector performance

Figure 17 at the end of this sub-section outlines the key performance indicators for the life sector. Four companies had extreme negative results[85]. All four underwent some form of restructuring. To prevent these outliers from skewing the results, they were removed from the analysis in Figure 17.

[83] Stakeholder interviews suggest that this has led to competition on "gifts" to retain business.

[84] The performance of the insurers is examined using data from the Nigerian Insurers Association (NIA) 2016 Digest.

[85] Three had expense ratios between 340% and 660% and net profit margins between -1080% and -1160% in 2016. The fourth had large negative equity resulting in a negative solvency. One of the first three also had negative solvency.

Majority of premiums written by five life insurers. As discussed, 68% of gross written premiums are attributable to the top five insurers. In contrast, 42% of insurers only hold 1% or less market share, which places them in the bottom tier. These 10 insurers have a combined market share of only 10%. This results in a middle tier of nine insurers with a combined 22% share of gross written premiums.

Several insurers insolvent. While the average solvency is greater than the required 1.15[86], some insurers did not meet this requirement. The top five insurers have the lowest average solvency ratio (1.4). This is due to the small size of the group and one of these insurers being insolvent (0.35). This insurer is in the process of being acquired by a foreign insurer, which should result in an increase in equity (Lourens, 2018). The middle tier has the highest average solvency (2.9) but still includes three insurers that are insolvent. The bottom tier has a lower average solvency (1.6), with five insurers that are insolvent (over and above the three that were removed because they were outliers).

Average life insurer not profitable. The average net profit margin for all insurers is negative at -4%. This result is supported by average expense ratios (51%) and claims ratios (60%) that result in a combined ratio greater than 100% (111%) and an underwriting loss of 11%.

High expenses undermine the viability of smaller insurance companies. The expense ratios correlate with the tiers. The top tier has the lowest average expense ratio (25%), with the middle tier (54%) and bottom tier (63%) both having average expense ratios more than double the top tier. This suggests that both middle-tier and bottom-tier insurers may be too small to support their expenses: more than half of all premiums go to expenses before any claims are paid. High expense ratios for smaller insurers align with stakeholder interviews, which indicates that it is costly for a small insurer to maintain a management structure that consists of all the same functions of a larger insurer.

Low claims ratios indicative of low value to customers. Claims ratios for the life sector are low, surprisingly so for the top tier, which at 41% has the lowest average claims ratio. This is followed by the middle tier (51%) and the bottom tier (80% average claims ratio). Low average claims ratios may indicate that some insurers provide limited value to their clients, while overly high claims ratios are indicative of unsustainable pricing and cannibalistic competition. For the bottom tier (and to a lesser extent the middle tier) the high claims ratio combined with the high expense ratio results in negative profitability.

Profitability correlated to market share. The bottom tier is unprofitable on average. This is indicated by negative average net profit ratios (-24%) and underwriting ratios (-43%). The results are starker than presented if one considers that the outliers were removed[87]. Low average underwriting profit is indicative of a possible mispricing of risk. Despite these poor results, some insurers in this tier have positive results. The middle tier contains both profitable and unprofitable insurers. On average, it straddles the profitability line with an average net profit that is marginally positive (1%) and underwriting profit close to zero (-4%). The top tier has a positive average net profit (21%) and an average underwriting ratio of 34%. Only one top-tier insurer recorded a slightly negative underwriting profit in 2016.

Only the top five producing a positive average return on assets. The key performance indicators show that the top tier is performing markedly better than the rest of the life

[86] According to the Insurance Act of 2003 but noting that calculations did not account for admissible assets, just total assets.
[87] The outliers were all unprofitable, three of the four with net profit margins less than -1,000%.

insurers along most measures. In line with the above measures, return on asset data indicates that only the top-tier insurers are making a positive average return on assets (at 7%). The middle tier's performance is unclear, with an average of 0% return on assets. The bottom tier is, on average, making a loss on assets (-6%).

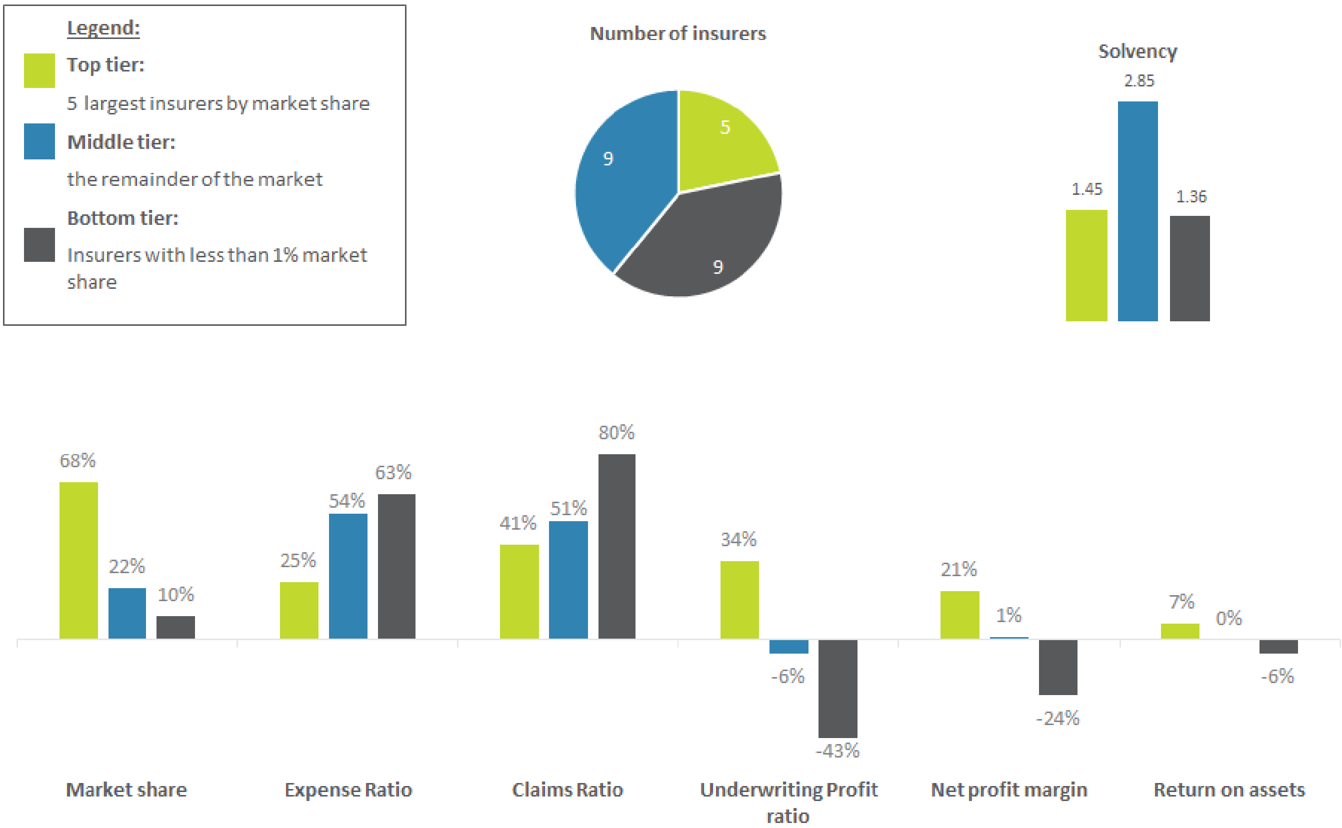


Figure 17: Key performance indicators for life insurers[88]

Source: NIA, 2016

4.3.2. General insurance sector performance

Figure 18 at the end of this sub-section outlines the key performance indicators for the general insurance sector. Four outlier insurers with extreme results were all involved in some form of restructuring. To prevent skewing the results, they were removed from the analysis in Figure 18.

General insurance not as concentrated as life market. The general insurance market does not have as clear a distinction between the top five insurers and the rest of the insurers in the market. The market shares do not fall off as quickly as in the life sector. The sixth-largest and fifth-largest insurers have less than 1% difference in market share. However, the market

88 Four insurers who were extreme outliers were excluded, all of whom had undertaken or were undertaking restructuring processes and were all in the bottom tier. The formulas used were: **Solvency** = equity ÷ 15% of net premiums or share capital, whichever is greater. These were total numbers and did not account for which were admissible and which were not. **Market share** = gross written premium of company ÷ total gross written premiums. **Expense ratio** = (management expenses + commissions) ÷ net premium. **Claims ratio** = net claims paid ÷ net premium written. **Net profit margin** = net profit ÷ gross written premiums. **Underwriting profit ratio** = (net premium – claims – expenses) ÷ net premium. **Return on assets** = net profit ÷ total assets. As Net profit was only reported at company level, composite insurers results would be the same in life and general as net profit was not reported for each sector.

leaders are still significantly larger than those in the bottom tier[89]. Nineteen (19) of the 41 general insurers have 1% or less market share each.

Solvency correlates with market share. Solvency requirements are put in place to ensure that insurers can meet their obligations to policyholders. The top tier has the highest average solvency ratio (at 3.52) and has no insurers that fail to meet the minimum 1.15[90]. The middle tier has a lower average solvency (2.6) and has four insolvent insurers (including one of the outliers). The bottom tier has the lowest average solvency (1.45) and includes eight insolvent insurers (over and above the two outliers that are also insolvent). The prevalence of insolvent insurers suggests that many of the insurance policies in Nigeria are at risk of not being honoured in the event of a risk event occurring.

The average general insurer making an underwriting loss. General insurers, excluding the outliers, on average make large underwriting losses (-25%). Only 15 of the 41 insurers record a positive underwriting profit. Underwriting losses are linked to high average expense ratios (94%), combined with average claims of 30%.

Expense ratios high for all tiers. The top tier has the lowest expense ratio (at 60%). However, this is comparable to the highest average expense ratio in the life sector (63% by the bottom tier). The middle tier has the highest expense ratio (104%). The bottom tier has a slightly lower average expense ratio of 96%. However, this is after the removal of the outliers, which include one insurer with an expense ratio of over 3,800%. Thus, on average the middle and bottom tier have average expenses near or over 100%, indicating that all the premiums are spent on non-claims-related expenses.

Claims ratios correlate with market share. The average claims ratios decrease as one moves down the tiers from the top tier (37%) to the middle tier (33%) to the bottom tier (25%). This indicates that a higher proportion of premiums is paid out in claims by top-tier insurers. As the claims ratio is used as an indicator of whether the insured receive value from their insurance, this suggests that larger insurers provide better value.

Larger insurers more involved in oil and gas. The top tier has the largest (35%) average share of premiums coming from oil-and-gas risk. They also retain the lowest share of those risks (52%). The middle tier has a lower share of 25% of oil-and-gas risks and retains slightly more risk (56%). The bottom tier has the lowest average oil-and-gas risk share (15%) and retains the most risk (72%) (NIA, 2016).

Low ceding of oil-and-gas risk by small insurers unsustainable. As the Nigerian Oil and Gas Industry Content Development (NOGICD) Act requires all local capacity to be exhausted prior to placing risk offshore, some small insurers are exposed to large oil-and-gas risks. Stakeholder interviews indicated that some small insurers underwrite large oil-and-gas risks that they would not be able to pay if a risk event occurred. Rather than cede risks they cannot sustainably underwrite, they keep these risks on their books in the hope they do not experience a risk event. This is supported by the fact that the bottom tier also has the lowest solvency and the most insolvent insurers.

Average net profit margins low, including many making losses. The top tier has the highest average net profit margin (11%), with none of the top five making a loss. The middle and

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[89] The largest general insurer has a GWP of NGN21.1 billion while the largest in the bottom tier has NGN2.7 billion.

[90] According to the Insurance Act of 2003

bottom tiers have average net profit margins just above zero, at 2% and 1% respectively. The middle tier has six insurers making a loss (including a removed outlier). The bottom tier has eight insurers making a loss (including the three removed outliers).

Only top tier having a positive return on assets. As shown by the return on assets in Figure 18, only the top tier has a positive average return on assets (at 6%). The middle tier has an average return on assets of just more than zero (0.4%), reducing to -0.04% for the bottom tier.

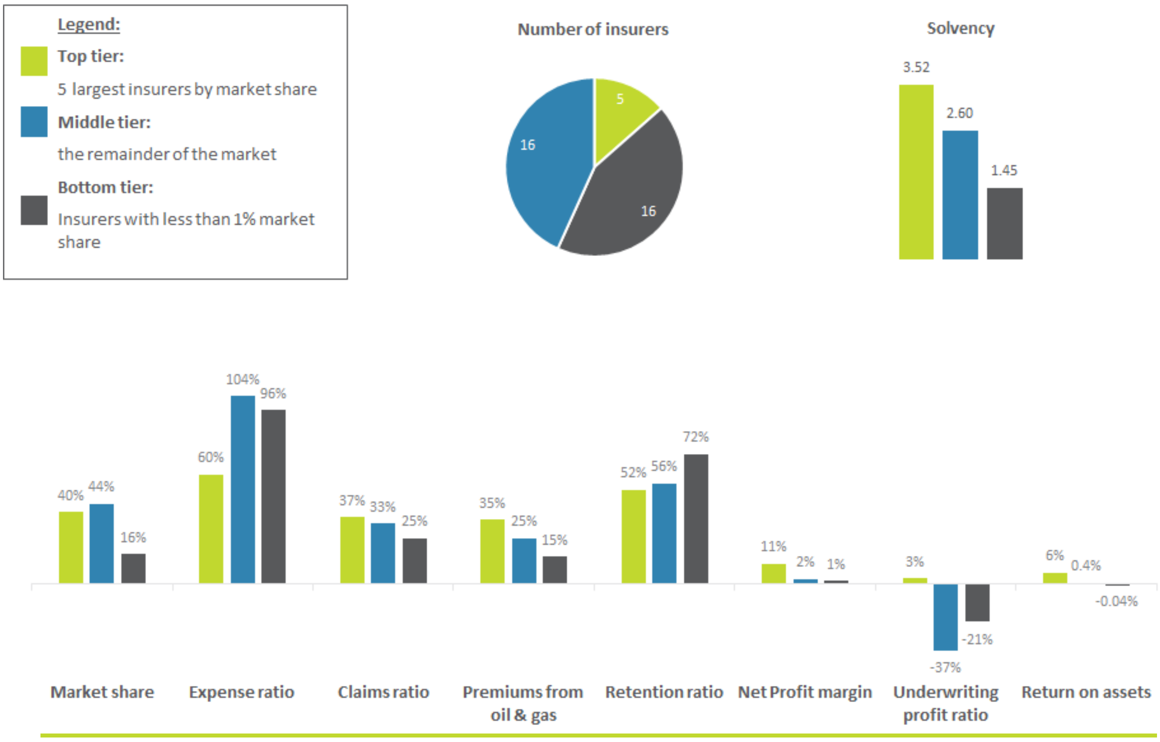

Figure 18: Key performance indicators for general insurers[91]

Source: NIA, 2016

4.4. Conclusion: Insurance development

Nigeria's insurance sector in Stage 2 of development. Considering the different stages of insurance development introduced in the Section 1, most characteristics of the Nigerian insurance market suggests that it is in Stage 2 of insurance market development.[92] This includes the pervasiveness of compulsory insurance products in both the life and general insurance markets, the prevalence group life over individual life, and the fact that

[91] Four insurers who were extreme outliers were excluded, all of whom had undertaken or were undertaking restructuring processes. Three were in the bottom tier and one in the middle tier. The formulas used were: **Solvency** = equity ÷ 15% of net premiums or share capital, whichever is greater. These were total numbers and did not account for which were admissible and which were not. **Market share** = gross written premium of company ÷ total gross written premiums. **Expense ratio** = (management expenses + commissions) ÷ net premium. **Claims ratio** = net claims paid ÷ net premium written. **Premiums from oil and gas** = % of total gross written premiums. **Retention ratio** = net premiums ÷ gross premiums. **Net profit margin** = net profit ÷ gross written premiums. **Underwriting profit ratio** = (net premium – claims – expenses) ÷ net premium. **Return on assets** = net profit ÷ total assets. As Net profit was only reported at company level, composite insurers results would be the same in life and general as net profit was not reported for each sector.

[92] Nigeria has a higher GDP per capita than all the countries in Phase 2 and Phase 3, yet it meets all the other criteria for Stage 2.

distribution is predominantly via brokers that focus on corporate clients. Figure 19 below positions Nigeria on the insurance market development curve heuristic.

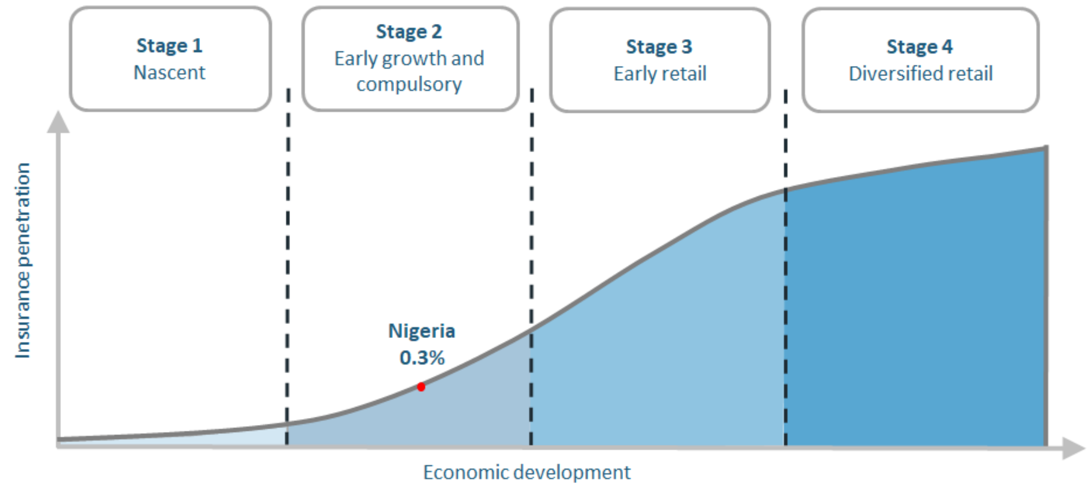

Figure 19: Insurance market development curve

Source: Chamberlain et al, 2017

Market largely fragmented, often with poor business fundamentals. The poor performance indicators discussed in this section suggest that the number of insurance licences in Nigeria remain too many for the size of the market. This is especially true in the general insurance market. On average, performance is correlated with the market share of insurers. The largest insurers are profitable, and smaller insurers are not. The smaller insurers are also more likely to be insolvent. High expense ratios and claims ratios that are either too high or too low are indicative of chronic constraints and inefficiencies in the market. Consequently, the majority of industry profits are linked to investment returns rather than underwriting business. The poor performance is linked to the unhealthy competition in the Nigerian insurance sector.

Insurance has a poor reputation. Insurance has a bad reputation in Nigeria going back to at least until the 1960s. More recently, several companies have had their licences revoked, boards suspended or management taken over by NAICOM. These highly visible failures erode trust in the insurance industry. In addition, as many insurers struggled to meet their minimum capital requirements in 2016, there may be further failures with the implementation of the new tiered capital requirements. The poor reputation affects the ability of the insurance industry to attract competent staff. The resultant skills shortage then perpetuates the sector's poor reputation.

Foreign investment a significant driver of market development. Despite the generally poor business fundamentals, the low market penetration is seen as a market opportunity by investors. There are also no restrictions on foreign ownership of insurers in Nigeria. This has culminated in more than ten acquisitions of insurers by foreign firms in the last decade. This is encouraging, as foreign insurers are also seen as a source of scarce skills.

Room for further consolidation. There has been substantial consolidation on the back of increased capital requirements in the past 15 years. The number of insurers has decreased from 117 in 2003 to 57 in 2018 (excluding the two reinsurers). However, the poor business fundamentals of insurers, particularly smaller insurers, mean that further consolidation is needed[93]. The top-tier insurers are performing relatively well. This suggests that fewer, larger insurers may serve the market better, a sentiment that is supported by NAICOM's move to tiered solvency requirements in 2019. However, as will be discussed in Section 8, concerns remain about the efficacy of the new capital requirements, alone, as a market consolidation tool.

[93] Thorburn (forthcoming) found that fragmented insurance markets are often characterized by high levels of irrational competition. This translates into low HHI values, with the smaller operators struggling to keep expense ratios under control. As we have seen in the discussion so far, this phenomenon is also present in the Nigerian insurance market, particularly in the general insurance market.

5. Insurance for household resilience

Key insights:

Risks experienced and insurance uptake:

- Health risks, followed by death and disability, are the most prevalent consumer risks.
- The very low current uptake means that insurance plays a limited role in individual and household resilience. Substantial untapped potential exists among the formally employed and banked market.
- Lack of trust, limited awareness and economic constraints explain the low insurance uptake. Yet, interest expressed in especially health and agricultural insurance indicates market potential.

Retail insurance offering:

- Compulsory insurance provides opportunities to showcase the value of insurance, but enforcement challenges and low claims experience in the compulsory insurance market erode trust.
- The annuities market is a significant growth area for the life insurance sector, but also introduces complexities requiring specialist skills.
- Takaful shows potential in serving the large Muslim population.

Distribution:

- Nigeria has a largely broker-driven market, but agent distribution is on the rise for the individual life and annuities market.
- The mobile and bancassurance channels present much potential if regulatory constraints are addressed.

Retail insurance is important for household resilience**.** Resilience is defined as "the ability to recover from a financial shock flowing from an unexpected event"[94]. In the case of retail insurance, this relates to households' ability to recover from shocks to income and wealth. Insurance can increase resilience by decreasing the financial impact of risk events such as illness, death in the family or a motor accident. In the absence of insurance, households often undertake survival strategies that affect their long-term earning ability or standard of living. These include selling off productive assets or taking on expensive debts.

This section examines the resilience of households in Nigeria and the insurance sector's role in enabling resilience. First, we segment the population into target groups to consider their risk experience, how these groups currently cope with risks and what role insurance plays.

[94] "The concept of resilience is found in various other fields including early childhood development, food security and socio-ecological systems. Resilience was first used in ecological literature where two dimensions were explored: (i) the magnitude of a disturbance that a system can take before redefining its structure (Centre for Social Innovation, 2016), and (ii) the ability of a system to return to stability after a shock" (Alinovi, n.d.)

Then we take stock of the retail[95] insurance offering – compulsory as well as voluntary – in the Nigerian insurance market, to conclude on the role of the insurance sector in enabling resilience of Nigerian households.

5.1. Target groups

Six target groups[96]. As noted in Section 2, the Nigerian economy is strongly entrepreneurial. This is evidenced by 43% of the adult population's main income being from a business or trading. Notably, 23.8 million adults (25%) reported at least one additional source of income. Based on data from the 2016 Access to Finance in Nigeria survey[97], the Nigerian adult population can be grouped into six groups, classified according to their main income sources and ordered according to current insurance uptake (EFInA, 2017):

1. Salaried employees
2. Informal employees
3. Dependants
4. Business owners or traders: non-agriculture sectors
5. Business owners or traders: agriculture sector
6. Farmers

These target groups together make up 98% (94.9 million) of the adult population of 96 million. The characteristics of the target groups are shown in Figure 20.

[95] Note that the term "retail insurance" is used in this chapter to refer to personal insurance, i.e. insurance for individuals or households, as opposed to corporate or business insurance.

[96] Cutting across these target market segments, it is important to highlight that women as a potential target group for insurance in Nigeria is expected to grow significantly in the near future. For instance, in their 2015 report called SheforShield, the IFC forecasts that the premium expenditure of women clients in Nigeria may reach USD 8 billion on the back of greater economic opportunities in Nigeria. For more information see: https://cdn.axa.com/www-axa-com%2F57b5a3a4-c7cc-4dea-97c9-5f7d9f47232c_sheforshield_final-web2015.pdf

[97] This survey is rolled out by EFInA every two years and is nationally representative of the adult (18 years and over) Nigerian population.

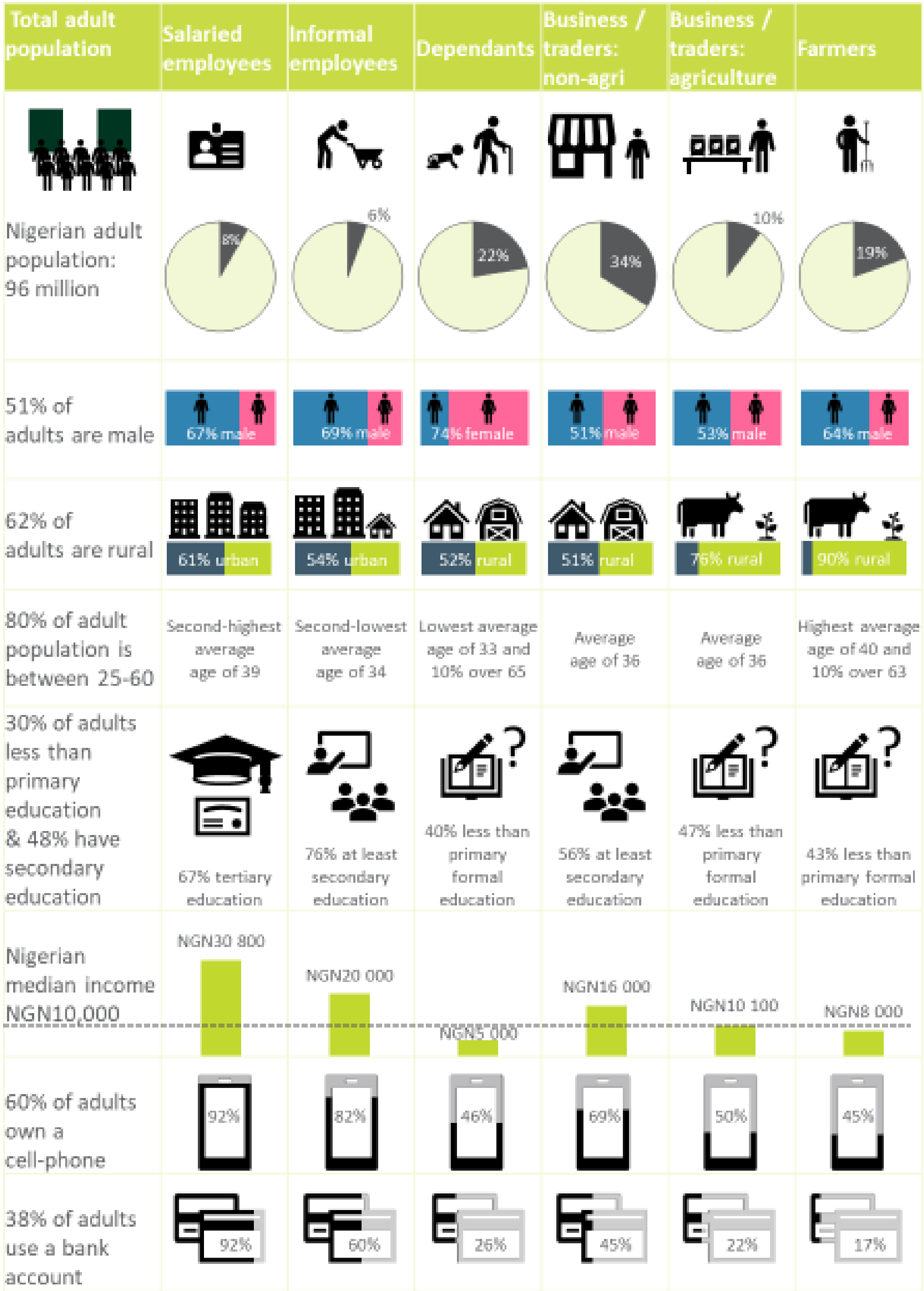

Figure 20: Target market infographic

Source: EFInA, 2017

Together, the indicators in Figure 20 give a sense of how easy it is for insurers to reach each target market, based on their socio-economic profile, location and the presence of existing touch points for distribution purposes (as gauged by cell phone ownership and bank account penetration[98]). The infographic also indicates the relative size of each target group:

- ***Salaried employees easiest to reach.*** The salaried employees group represents 7.9 million adults. They are individuals whose main source of income is a salary or wages from either government or a private company. In addition to receiving a regular income, this group has the highest median income and education. The group is mostly male and urban. Most of them own a cell phone (92.2%) and have a bank account (92.3%).
- ***Informal employees relatively easy to reach.*** Informal employees refer to individuals whose main source of income is a salary or wages from an informal business or for informal work. This group accounts for 5.4 million adults. They have education and income levels only surpassed by salaried employees. The group's median income is second only to the salaried employees and, though touch points are lower than for the salaried employees, the majority of them do use a cell phone (82%) and have a bank account (60%). This group also has the highest share of males (69%) and is slightly more urban (54%) than rural.
- ***Dependants have low incomes and are mostly female.*** There are 21.2 million adult dependants in Nigeria. This group consists of individuals whose main source of income is either another household member, family or friends. Dependants are slightly more urban (52%) than rural. The group makes up a significant share of the young adults and of adults older than 65.
- ***Business owners or traders outside of the agricultural sector have potential for greater insurance uptake.*** This group, which accounts for 32.2 million people, consists of individuals whose main income is a business, service[99] or trading activity outside of the agricultural sector. This is the largest target group, representing a third of the adult population. Cell phone ownership and bank account use rates are above the national average, but lower than for salaried and informal employees. This group is relatively equally split between genders and across urban and rural areas. Their median income (NGN16,000) is significantly lower than their mean income (NGN73,710), indicating some very high-income earners[100]. The median income is still slightly higher than the population median of NGN10,000.
- ***Business owners or traders in the agriculture sector difficult to reach.*** This group of 9.7 million adults consists of individuals whose main income is either a business that sells farming products or agricultural inputs. They are mostly rural (79%) and have less education than other target groups. Their median income level (at NGN 10,100) is similar to the population median. Half of this group uses a cell phone, and only 22% have a bank account.
- ***Farmers most difficult to reach.*** Farmers are individuals whose main source of income is either subsistence/small-scale or commercial/large-scale farming. This group represents 18.4 million adults. 75% of them are subsistence or small-scale farmers. Farmers' incomes are low, almost all of them are rural (90%) and they are mostly male (64%). This is the group with the lowest access to cell phones (17%). 45% of farmers have bank accounts.

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98 Cell phone ownership indicates ease of communicating with the potential client and access to information. Access to a bank account indicates the ease with which payments can be made and claims paid, as well as for potential distribution via bancassurance.

99 e.g. hairdresser, tailor or mechanic

100 The median income indicates the income received by the individual whose income is in the middle of a distribution, i.e. half earn more and the other half earn less than this individual. The income levels of the other individuals are not considered. The mean income considers all the incomes divided by the number of earners.

5.2. Risks experienced

This sub-section considers the risks experienced by the target groups as an indication of where insurance has a role to play in facilitating resilience. As shown in Figure 21, the risks experienced are broadly similar across the six target groups:

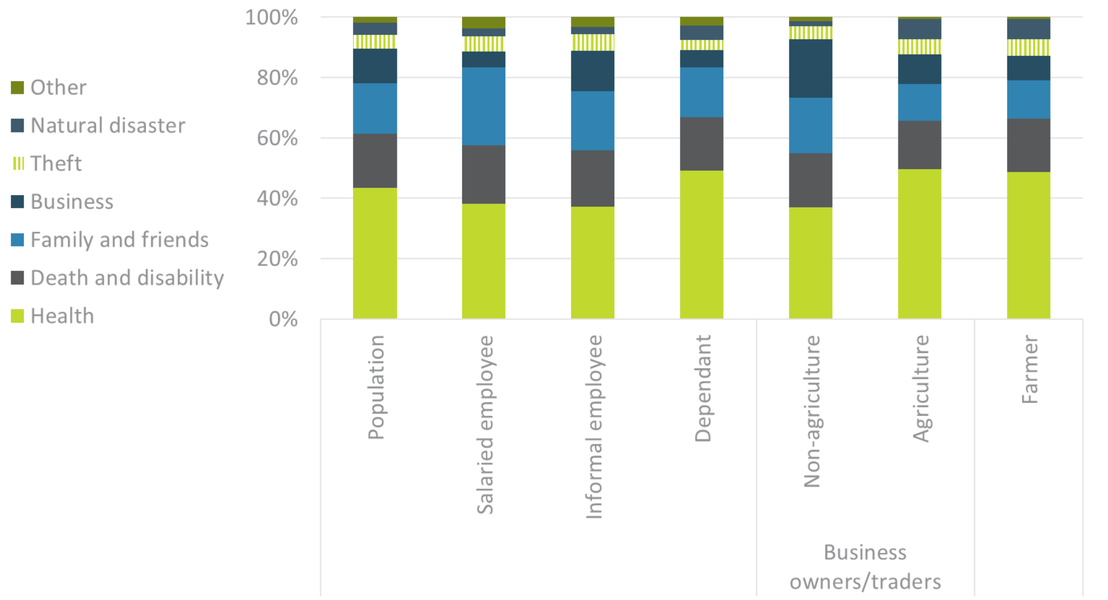


Figure 21: Risk incidence as percentage of total risks experienced in the past 12 months

Source: EFInA, 2017

Health risks prevalent across all target markets, followed by life. Health risk is the most prevalent, representing 44% of all risks experienced. As shown in Figure 21, this ranges from 37% to 49% of the risks faced by any target group. The second most prevalent risk experienced is death and disability, making up 18% of total risk incidence.

Helping others out seen as a "risk". Unforeseen expenses arising from the need to support family and friends are reported as a significant "risk" by all target groups, representing 17% of all reported risk incidence.

Rural inhabitants more at risk.[101] Eighty-three percent (83%) of rural inhabitants experienced a risk of some sort in the last 12 months, compared to only 27% of urban residents (EFInA, 2017). Natural disaster risks are closely related to agriculture, with a relatively high proportion of both farmers and agriculture businesses recording that they have experienced such a risk event in the past 12 months (20% and 18% respectively).

Business risks experienced by all target groups. Business failure or business maintenance costs pose significant risk. Though at a lower incidence than health and life risks, such risks are experienced to a varying degree by all target groups – the highest for non-agricultural entrepreneurs and traders, followed by informal employees. This is due to the presence of secondary income sources for all target groups. The cross-cutting impact of business risks on

[101] Note question asked: "Can you please tell me about something that happened to you in the past 12 months that caused unexpected expenses and made it very difficult for you to pay for other things."

individuals suggests that business resilience may play a significant role in household resilience.

No significant gender differences. The gender skews in risk experience are shown in Figure 43 in Appendix C: Insurance for household resilience. Risks experienced do not differ strongly between male and female respondents. Two risks are experienced more by men, namely agricultural risks (fire, flood or storm) and risks associated with the maintenance of a business. The skew in agriculture risks aligns with more farmers being male. Risks from separation or divorce are experienced more by women.

5.3. Coping with risk

Various coping strategies, with emphasis on social capital. According to household survey data, 23.6% of households reduced food consumption as a coping method in response to shocks. Other coping mechanisms included: the sale of land (3.5%), livestock (14.7%) or other property (11.4%) as well as withdrawing children from school (4%) or sending children to live with friends (4%) (Nigerian Bureau of Statistics, 2016). Social capital is also a key component of how individuals cope with risk. As is evident from the risk experience of individuals, as shown in Figure 21, people turn to one another in times of need. Tellingly, the usage of formal financial services such as insurance did not emerge as a significant strategy to manage the impact of risks. In the absence of formal risk-coping strategies, shocks can have a significant negative impact on households.

This sub-section explores insurance uptake, the reasons why so few Nigerians have insurance and what types of insurance products people would be interested in.

5.3.1. Insurance uptake

Very low insurance uptake. Only 1.9% of the adult population have insurance. Of those with insurance, 65% are male and 35% are female (EFInA, 2017). The low uptake is also emphasised in other sources, including the National Bureau of Statistics (2016) data from and stakeholder engagements. While the percentage is low, this still represents 1.8 million adults with insurance. The insured are most likely to be urban (68%), male (66%) and to have both a bank account (87%) and a mobile phone (97%). This suggests that only the very easy-to-reach currently have insurance.

Target market penetration tracking ease of reach. Figure 22 shows insurance uptake by target market segment:

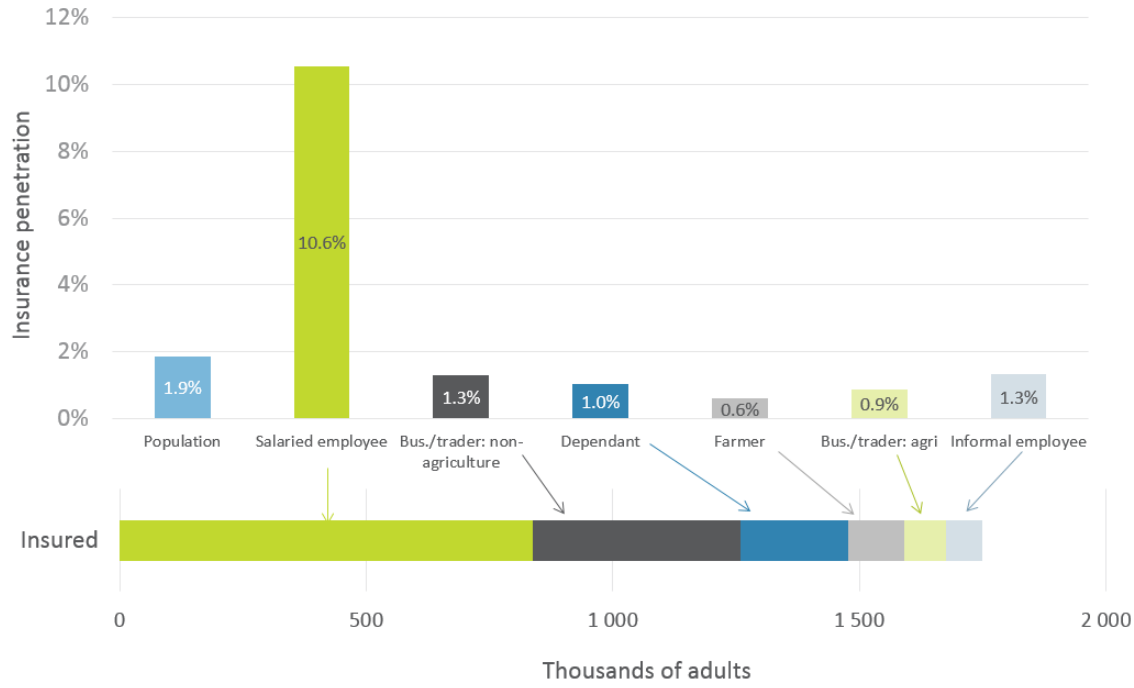


Figure 22: Insurance uptake by target group and insured composition

Source: EFInA, 2017

As shown in Figure 22, the salaried employees, as the easiest-to-reach target market, have the highest insurance penetration (10.6%, representing 840,000 adults). They make up almost half of all the insured adult population. The high uptake is likely due to their regular income source, which grants them access to insurance via employee groups, or which makes it possible to plan for regular payments such as insurance premiums on a voluntary basis. As the group with the highest median income, they are also less constrained by affordability. In addition, they are mostly urban, banked and use a cell phone. All of this makes them easy to reach from a distribution point of view.

The informal employees and non-agricultural business owners or traders have significantly lower uptake (1.3%), but because they are such a large groups they still represent a sizable proportion of all those with insurance, at 420,000 adults with insurance. Though informal employees also have a penetration of 1.3%, this represents only 72,000 individuals. Dependants have an uptake of 1%, representing 218,000 adults with insurance. Business owners or traders in the agricultural sector have an uptake of 0.9%, representing 86,000 adults. Farmers, as the most difficult to reach, have the lowest insurance penetration (0.6%), which equates to 113,000 farmers with insurance.

Life insurance most prevalent, followed by health insurance. For the purpose of this analysis, we categorise retail insurance uptake into life[102], general[103] and health[104] insurance. Of those who have insurance, 40% have life insurance, 32% have general insurance and 38%

102 This includes: life, accident, travel, credit life, endowment, education plan, mortgage protection and annuities. Bundled life and health cover products provided by insurers are also included in this category.

103 This includes, agricultural crop insurance, livestock, business/goods, car, household, building and other.

104 Includes: Health and medical/critical illness

have health insurance[105]. As shown in Figure 23 below, 663,000 adults have some kind of traditional life insurance product, followed by 609,000 with health insurance[106].

Figure 23 distinguishes between "traditional" insurance and microinsurance. Below, we first discuss the uptake of traditional insurance and then of microinsurance.

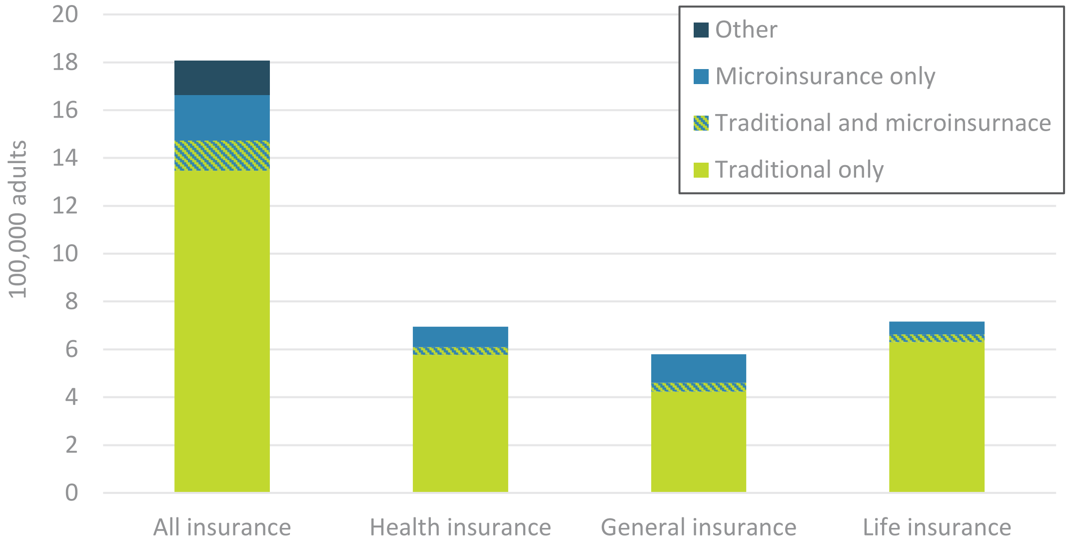
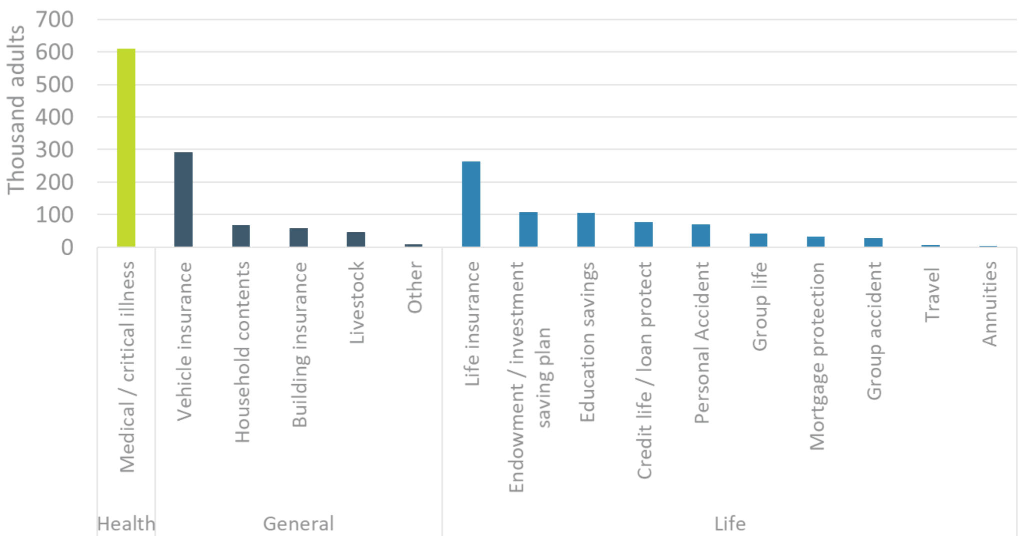


Figure 23: Insurance uptake by category, tradition

Source: EFInA, 2017

Traditional Insurance uptake

Figure 24 shows the different insurance products held by individuals. It is evident that a few products dominate the general and life insurance categories, notably third-party vehicle insurance and group life as compulsory insurance products (discussed in more detail in Section 5.4.1). The voluntary insurance products are discussed in Section 5.4.2.



105 As individuals can have more than one class of insurance, the percentages do not sum to 100.

106 However, as shown in Figure 24, health insurance is the product with the single highest uptake, due to the wide range of life insurance products.

Figure 24: Traditional insurance uptake by product

Source: EFInA, 2017

Microinsurance

Targeted at low-income individuals. As discussed in section 3.3, NAICOM released microinsurance guidelines in 2018. The guidelines define microinsurance as "insurance developed for low-income populations, low valued policies, micro and small-scale enterprises provided by licensed institutions, run in accordance with generally accepted insurance principles, and funded by premiums." The need for microinsurance in Nigeria is apparent if one considers that 23% of households earn less than USD1 per day (EFInA, 2017).

Contributing marginally to insurance uptake. Microinsurance is taken up by 0.33% of the adult population, representing 18% of the insured or 316,000 adults (EFInA, 2017). Figure 19 indicates the overlap between traditional and microinsurance across each insurance category. Of those with microinsurance, most (57%) indicated that they did not have any other insurance. This indicates that, while uptake of microinsurance is very low, it increases the overall reach of insurance.

Covering the full range of insurance categories. As shown in Figure 24, the microinsurance category with the highest uptake was general insurance with 157,000 adults, followed by health (118,000) and life (86,000). The uptake of specific microinsurance products is shown in Figure 25:

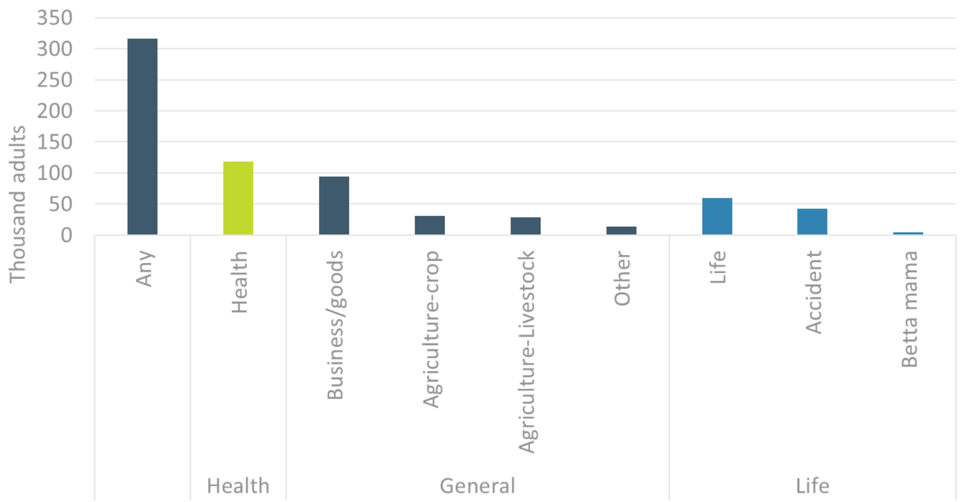


Figure 25: Microinsurance uptake by product

Source: EFInA, 2017

Of those with microinsurance, 37% reported having health insurance, representing 118,000 adults. The most popular general microinsurance products are business/goods insurance (95,000 adults), followed by crop (30,000 adults) and livestock (29,000). Among life microinsurance products, life (59,000) is more prevalent than accident (42,000). Five-thousand (5,000) adults were reported to have "Better Mama Better Pikin", an initiative discussed in Box 3.

5.3.2. Why is insurance uptake so low?

What explains the low insurance uptake? From the Access to Finance in Nigeria survey data, the reasons people do not have insurance can be divided into three categories, as shown in Figure 26[107].

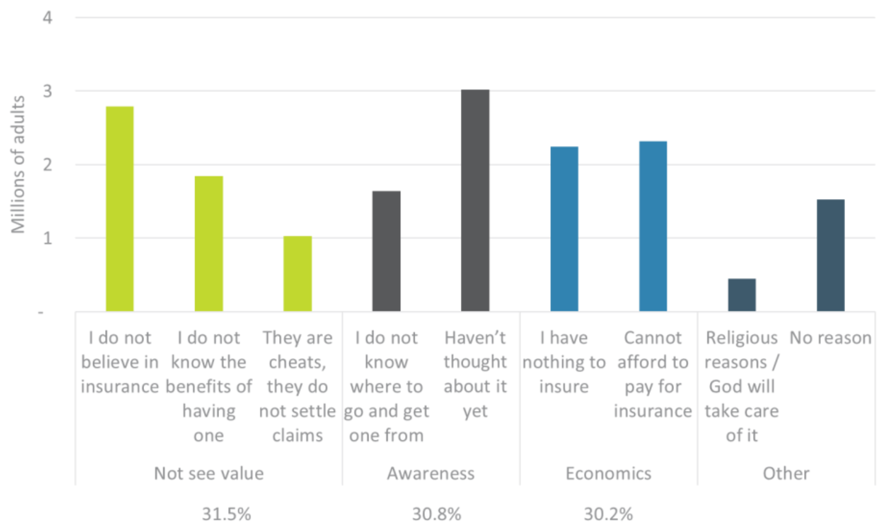


Figure 26: Reasons for not having insurance

Source: EFInA, 2017

Many adults not seeing the value of insurance. Of Nigerian adults, 18.5% reported not believing in insurance, 12.2% reported not knowing the benefit of insurance, and 6.8% indicated that insurers were cheats. This could also be interpreted as a lack of trust in insurance.

Economics a key constraint. 30.2% of adults indicated that they either cannot afford insurance (15.4%) or have nothing to insure (14.9%).

Awareness limiting uptake. 30.8% of adults indicated that they were not aware of insurance. This was either due to not knowing where to get insurance (10.8%) or simply that they have not thought about it (20%). A nation-wide consumer education campaign on insurance awareness called “Insure Today” has been launched by the NIA and NAICOM. This initiative aims to improve awareness of insurance and forms part of a rebranding project in an attempt to improve the industries reputation (Stakeholder interviews, 2018).

Religious reasons likely underreported. While only 3% explicitly[108] state religion as their reason for not having insurance, religion is mentioned as a constraint on insurance uptake in Nigeria in a number of sources (Adewole, et al., 2017). Two broad reasons are mentioned. The first is that religious Nigerians of different faiths believe in divine protection and that purchasing insurance shows a lack of faith. The other component is that traditional insurance is not Sharia compliant. As approximately half of Nigeria’s population is Muslim, this could be a major limitation to insurance uptake.

[107] Note that 86.4% of respondents that should have answered this question did not and multiple response were possible.

[108] Some respondents could reasonably respond they “do not believe in insurance” due to their religious beliefs.

5.3.3. Products of interest

The Access to Finance in Nigeria survey (2017) gives some indication of what products the uninsured would be interested in. This is shown in Figure 27. The question was framed specifically for microinsurance, but the answers may nevertheless be indicative of perceptions and awareness more broadly.

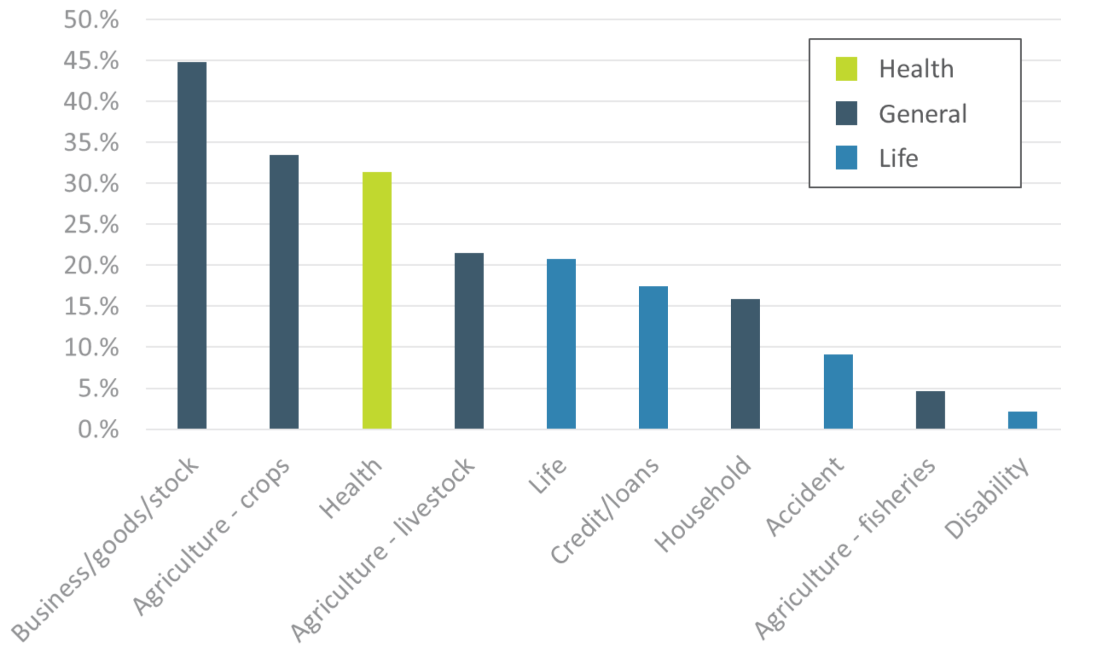


Figure 27: Microinsurance products that respondents were willing to consider

Source: EFInA, 2017

Significant interest in business, agriculture and health insurance. When asked if they were interested in microinsurance, 33% of individuals said yes and 63% said no. However, it is worth noting that this 33% represents 32 million adults. Those that were interested in microinsurance indicated an interest in a wide range of products, as shown in Figure 27. When the interested group members were asked which microinsurance products they would consider, three main products stood out:

- Forty-five percent (45%) – representing 14.4 million adults – were interested in **business/goods/stock insurance**.
- One-third – representing 10.8 million adults – were interested in **crop insurance**. In addition, 21% – representing 6.9 million adults – were interested in **livestock insurance**. Together, this results in 13.7 million adults interested in **agriculture insurance** (43% of respondents).
- Thirty-one percent (31%) of respondents were interested in **health insurance**, representing 10 million adults.

5.4. Retail insurance product offering

Having considered the demand-side perspective on insurance in the sub-sections above, we now turn to the supply of insurance to the individual and household market in Nigeria.

Limited variety of retail options. Most insurers interviewed for this study mentioned better enforcement of compulsory insurance as a key growth opportunity. Very few insurers mentioned the need to innovate to offer unique products or products of value to consumers. In addition, Nigeria has a broker-driven market that incentivises corporate and group policies rather than individual customers beyond high net wealth individuals. This market structure is reflected in the relatively small range of retail insurance products on offer, as shown in table 9 below[109]:

Product	Description	Prevalence among sample of insurers
Life		
Annuity	Guaranteed income until death. Some with immediate annuity options, most retirement annuities. Available from all life insurers in the sample.	All
Savings	From shorter-term (one-year) to longer-term (20-year) savings plans. Most have free life insurance included.	All
Education	Endowment policies, a saving policy with life insurance providing for education costs of insured. Some also include annual payouts until maturity as part of life cover.	Only one insurer does not provide.
Mortgage and credit life	Secures the property that is purchased with a mortgage or loan. Listed as corporate product by some insurers. Of those offering mortgage protection, half also offer separate credit life insurance products.	Half of the insurers
Funeral	Referred to as term assurance, family benefit or dignity plans. Payment on death of the insured with pay-outs ranging from NGN100,000 to NGN5 million.	Half of the insurers
Life Insurance	All insurers in the sample offer at least group life insurance, and most offer individual life insurance. Some refer to the compulsory group life requirement of PenCom.	All
General		
Home insurance	From single (fire and burglary) to multi-peril insurance available, ranging by insurers	Half of the insurers
Travel insurance	Offered by most insurers, with a few offering special products for pilgrimages and students outside Nigeria.	Only one insurer does not provide.
Motor insurance	Standard third-party liability insurance, as well as comprehensive vehicle insurance. One insurer has women-specific motor insurance.	All
Accident/ personal peril insurance	Multi-peril risk, including riots and strikes	Most
Other	Speed boat insurance, yacht insurance, golf and polo insurance	One insurer per product

109 This table was compiled by consulting the website of the top life, general and composite insurers by 2016 gross written premiums. It is therefore not representative of the full market but is intended as indicative.

Health plans – HMO		
Individual (entry level)	• Cost: NGN20,000 to NGN23,000 per annum Cover example: • Consultations with GP. Some plans include limited specialist consultations • Prescribed drugs • 15-day hospital cover in a general ward • NGN100,000 to NGN120,000 surgery limit • Basic dental • Some have optical care • Some HMOs include ambulance transport from hospital to hospital	All

Table 9: Retail insurance products available from the top insurers

Source: Websites of top insurers and HMOs (Leadway, 2017; AIICO, 2017; African Alliance, 2018; Custodian, 2018; FBNInsurance, 2017; Axa Mansard, 2018; NEM Insurance, 2016; Royal Exchange, n.d.; Hygeia, n.d.; Healthcare International, n.d.; Total Health Trust, 2017; AIICO Multishield, 2016; Avon, 2017)

Below, we discuss the main retail insurance offerings, looking first at the compulsory and then at the voluntary insurance market.

5.4.1. Compulsory insurance

Compulsory products dominating retail insurance. Vehicle insurance and life insurance are the products with the highest uptake, as indicated in Figure 24. They both link to compulsory insurance products as introduced in Section 3.3: compulsory third-party motor insurance and compulsory group life insurance.

Group life

Growing but limited uptake. As highlighted in the regulatory section, group life is compulsory for all government departments, as well as for private companies with fifteen or more employees. Group life is regulated by a joint guideline from PENCOM and NAICOM. The number of submissions of group life insurance compliance received by PENCOM has increased markedly from 501 in 2014 to 9,194 in 2016 (PENCOM, 2017; PENCOM, 2018). In 2016 this represented 211,316 employees under compulsory group life[110]. However, this is still only 0.4% of the 51 million people employed fulltime in Nigeria, which indicates that uptake is not truly compulsory (National Bureau of Statistics, 2017).

Uptake driven by government tender regulations. Stakeholder engagements indicated that group life insurance enrolment may be driven by the need for a PENCOM compliance certificate to tender for government projects. One of the requirements for a certificate of compliance is evidence of compulsory group life insurance.

[110] For reference, the EFInA (2017) data only had 42,449 individuals who indicated they have group life insurance but 262,753 indicated they have life insurance. As PenCom indicates a larger number of confirmed group life policies than the Access to Finance in Nigeria survey, this suggests that group life policies are under-reported in demand-side data and may be more prevalent than individual life.

Third-party motor vehicle

Compulsory third-party motor vehicle insurance not widely taken up. According to the National Bureau of Statistics (2018), there are 11.5 million registered vehicles[111] in Nigeria. The annual gross written premium for all motor insurance, including comprehensive cover, was NGN40.3 billion in 2016 (Nigerian Insurance Association, 2017, p. 24). If all this income was for third-party insurance on motor vehicles only (which has a uniform premium of NGN5,000 per annum), 8 million vehicles would have the compulsory third-party insurance. This is a gross overestimate, as comprehensive insurance is expected to contribute substantially to premiums. Stakeholders suggested the total number of insured vehicles was in the region of one-million motor vehicles. It is therefore clear that enforcement of third-party motor insurance remains problematic.

Unclear value proposition. The low claims ratio of 0.43[112] for motor vehicle insurance could be indicative of low value for clients (Nigerian Insurance Association, 2017). In addition, claims are limited to NGN1 million for third parties. The poor value proposition could result in third-party insurance being perceived as a tax, which undermines the trust in insurance more broadly. This is evident from the widespread sale of fake third-party insurance in Nigeria, estimated at 75% of third-party motor insurance in 2017 (Ewherido, 2017).

Technology used to support enforcement. The online vehicle insurance checking system, the Nigerian Insurance Industry Database Portal (askniid.org), is an example of how technology can facilitate enforcement (and possibly trust) by increasing access to data. This Nigerian Insurance Association initiative enables individuals and government officials to check the validity of a third-party insurance certificate in real time. The initiative was piloted in Lagos in 2012. However, the extension to other states has been hampered by limited coverage by mobile network operators.

Compulsory insurance could be the insurance sector's Achilles heel. Compulsory insurance facilitates scale: If successful, it can generate trust and trigger voluntary uptake of insurance. However, if the value proposition is poor, claims ratios are low and enforcement is patchy (as has been the case in Nigeria), it can sow distrust at scale. There is evidence of both in Nigeria, as shown in **Box 1**.

Box 1: Compulsory motor insurance: the tale of two cities

During the country mission for this study, informal qualitative interviews were conducted with Uber drivers regarding their perceptions of insurance and, in particular, compulsory third-party motor insurance. Uber entered Nigeria in 2014, starting in Lagos before expanding to Abuja. Interviews were conducted in both cities. The perception among drivers of the insurance sector differed markedly between the two cities.

The Uber drivers in Abuja generally had a very poor view of the insurance sector and its value. When asked whether third-party insurance provided any value, it was not considered of any value and was rather considered as a tax. When asked about claims experience, many drivers indicated that they did not believe third-party insurance provided any cover to any parties. They indicated that claims settlement took anywhere from six months to two years.

111 Of which 6.7 million are commercial and 4.7 million private vehicles. Other sources indicate the total number of vehicles on the road may be as many as 16 million (Ewherido, 2017).

112 Ranging from 0.05 to 0.72

Lagos is the state with the largest share of drivers' licences produced (National Bureau of Statistics & Federal Road Safety Corps, 2018). The Uber drivers in Lagos almost universally saw the value of third-party insurance and were interested in having comprehensive cover. Their claims experience was markedly different from the drivers in Abuja, with most referring to claims periods of approximately two weeks. Numerous drivers either had a positive claims experience or knew of someone who had.

5.4.2. Voluntary insurance

While compulsory insurance products have the highest uptake, there are several voluntary insurance products that also play a role in facilitating household resilience. These are discussed below by considering the broad categories of health, life and general insurance. We also consider takaful insurance and microinsurance as niche markets that show particular promise.

Health insurance

A key market for the risk mitigation of households. As highlighted in Section 5.2, health risks are experienced by all target groups. At just more than 600,000 adults covered, it is the single most taken-up insurance line, but it still accounts for only a small minority of the adult population, as shown in Figure 22 (EFInA, 2017). It was also one of the three microinsurance products in which individuals expressed the most interest, as shown in Figure 27. Another source estimates that approximately 5 to 6 million[113] of a population of 186 million people are covered by health insurance, representing approximately 3% of the population (Omomia, 2018).

NHIS serving only a small market. The NHIS is the regulator of the health insurance sector as well as the coordinator of voluntary programmes for the formal and informal sector as outlined in Figure 11. The NHIS aims to achieve universal health coverage in Nigeria. Currently, however, the programme only provides health insurance cover for around 1% of the population (Omomia, 2018), and indications are that it faces institutional constraints as evidenced by leadership tensions.

Federal government drives uptake of NHIS. Health insurance is not compulsory. However, the federal government enrolled its employees, resulting in 98% of federal employees being enrolled with NHIS (The Nation, 2017). This is partially due to the NHIS guideline indicating that federal employees' premiums are only 5%[114] of an employee's basic annual salary, while other government departments and private sector have to contribute 15%[115]. Beyond federal government, some states[116] have moved to set up state-supported health insurance

[113] This is markedly higher than Access to Finance in Nigeria survey's 600,000. This figure includes all the dependants of enrolees across the entire population, not just adults as in the Access to Finance in Nigeria survey.

[114] While the guidelines stipulate a minimum 3.25% by the employer and 1.75% by the employee, reports indicate the Federal Government simply pays NGN750 per life insured (Adewole & Osungbade, 2016).

[115] With a minimum 10% contribution by the employer and the employee accountable for the other 5%, unless the employer funds that share.

[116] States that have passed laws to establish SSHIs are: Lagos, Abia, Kwara, Delta, Ekiti, Kano and Bauchi. In addition, Ogun, Enugu, Anambra and Ebonyi are in the process of passing SSHI laws (Ejere, 2017). Kwara State has also introduced the use of facial recognition technology to ease uptake (Burt, 2018).

schemes (SSHIs). This includes Delta State, which has implemented the first mandatory health insurance scheme in Nigeria (Ejere, 2017).

NHIS Mobile Health Insurance Programme shows promise. The NHIS launched a National Mobile Health Insurance Programme in 2014. This programme allows mobile subscribers to access health insurance by linking clients directly with HMOs. It allows premiums to be paid daily, weekly, monthly or annually (NHIS, n.d.). This programme has, however, faced the regulatory constraints associated with mobile distribution as highlighted in Section 3.4. Furthermore, the NHIS has faced issues regarding accessing the biometric database of network operators (Ogundipe, 2015).

Formal					
Clients	Federal employees	Private and other government	Armed forces, police and uniformed services	Students of tertiary institutions	Voluntary Contributions Social Health Insurance Programme (VCSHIP): Anyone not covered by other formal
Fee	5% of salary (3.25% employer and 1.75% employee)	15% of salary (10% employer and 5% employee)	5% of salary (by government)	Mandatory fee, minimum of NGN1,600	NGN15,000 per annum
Dependants	Spouse and four biological children below 18 years of age			None	
Coverage	Includes: Outpatient care, maternity care, immunisation, specialist consultation, 21-day hospitalisation per year, eye exam and care, prostheses, dental, annual check-up			Includes: Outpatient care, specialist consultation, 21-day hospitalisation per year, eye exam and care, dental, emergency care for accidents, health and family planning education and counselling	Includes: Outpatient care, maternity care, immunisation, specialist consultation, 21-day hospital per year, eye exam and care, prostheses, dental, annual check-up
Informal					
Clients	Community-based health insurance programme. Groups with at least 50% willing to participate or at least 1,000 members.				
Fee	Flat fee per household/individual household member or member of an occupation-based group and paid in cash				
Coverage	Preventive, promotive and curative components of healthcare delivery. It aims at minimum primary and secondary curative care, considering the prevailing local morbidity and mortality profile, including pre-natal and post-natal care, normal delivery, child welfare services (including immunisation), family planning and health education services.				

Vulnerable groups		
Clients	• Physically challenged persons • Prisons inmates • Refugees, victims of human trafficking, internally displaced persons and immigrants • Pregnant women and orphans	Children Under Five
Fee	The Federal, States, Local Governments, Development Partners and Civil Society Organisations will pay contributions in advance into the Vulnerable Group Fund.	
Coverage	As in public sector	Major causes of morbidity and mortality in children under the age of five

Table 10: National Health Insurance Scheme (NHIS) social health insurance programmes

Source: NHIS operational guidelines (NHIS; n.d.)

Private health insurance only reaching high-income elite. According to one source, the private sector covers an estimated 2% of the population[117] (Omomia, 2018). This is substantially higher than the Access to Finance in Nigeria survey estimates. Either way, penetration is extremely low. Premiums for private managed care are on average NGN30,000 to NGN40,000 per annum (Omomia, 2018). Should we assume that people are willing or able to dedicate up to 5% of income to health insurance, this means that only 11% of Nigerian adults can afford private health insurance, based on the EFInA data[118]. Yet this percentage is still well above those who currently have insurance, indicating substantial untapped potential.

Almost exclusively employee benefits. Stakeholder interviews indicated that the health insurance market in Nigeria is driven almost exclusively through corporate clients who offer health insurance as an employee benefit. Avon purports to be the only HMO that is focused on the retail market (Omomia, 2018).

Some insurers providing cash pay-outs triggered by health events. The few life insurers that offer health insurance provide cash payouts and do not pay health costs directly, with significant shortfalls possible. There are, however, several[119] insurers that have ownership relationships with HMOs, which allow for cross-selling between life and health insurance. Notable examples are the largest two life insurers: Leadway and AIICO. Leadway started Total Health Trust[120], and AIICO owns AIICO Multishield.

Life insurance

Annuities a growing share of the life market. The significant growth of the pension market has resulted in a market for annuities sold by life insurers. Upon retirement, pension fund account holders can choose between a programmed withdrawal or purchasing an annuity

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117 This includes main members and dependants.

118 35,000*20=700,000 annual income, 700,000/12=58,333 monthly income. 11% of respondents in EFInA (2017) had an income above this.

119 This includes a number of insurers with a stake in Healthcare International including: AIICO, Custodian, Niger Insurance, Lasaco, Nicon. Other insurers with HMOs in their group include Royal Exchange and Axa Mansard.

120 Total Health Trust was sold to Liberty Holdings, a South African company, in 2016 but is still listed as an associate company on Leadway's website and requests for health insurance on Leadway's website refer to Total Health Trust.

from a life insurer. Taking a programmed withdrawal, one runs the risk of running out of money before one dies. Annuities, in contrast, guarantee a set income for the remainder of a person's life. Thus an annuity is a guarantee product purchased from an insurer that requires the quantification of longevity risk. As shown in Figure 28 below, the total number or retirees under the new pension system has been increasing rapidly and the share of retirees choosing retirement annuities is increasing. Annuity premiums have grown significantly since the introduction of compulsory pensions. In 2011, the first pensioners chose to buy annuities at retirement, resulting in NGN278 million premiums for retirement annuities. This has grown to NGN71,050 million premiums in 2017. The annuities market was also widely cited by life insurers in the in-country consultations for this study as the market they see as most promising.

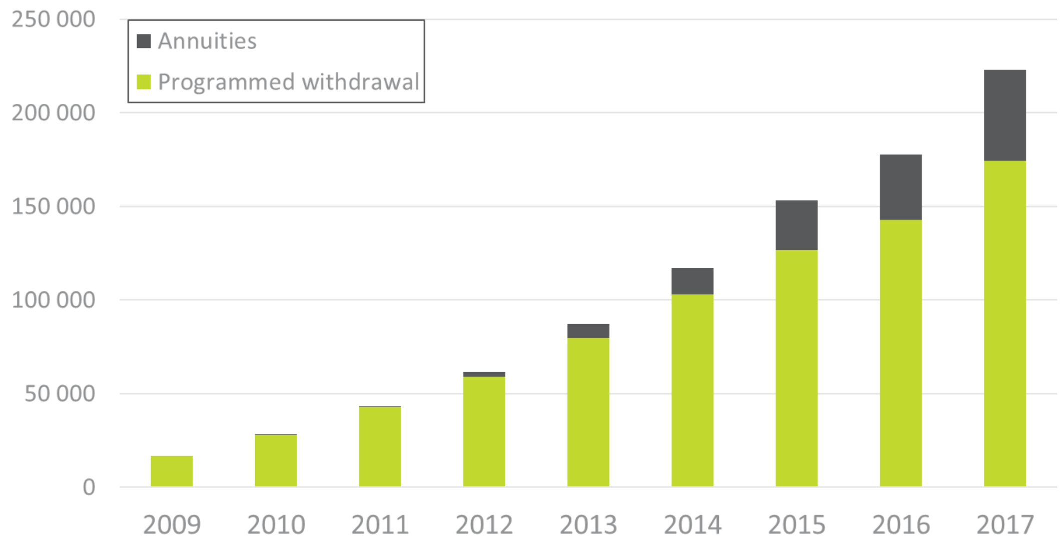

Figure 28: Cumulative number of retirees with programmed withdrawal and annuity pensions

Source: PenCom, 2018

Small but growing voluntary life market. As shown in Figure 21, individual life insurance is reported to reach 305,000 adults, representing only 0.3% of adults. The life insurance market is clearly serving a small high-income elite[121]. However, indications are that this market is growing. At least two large insurers are actively growing their agent base aimed at signing up individual life customers.

Bundling and cross-selling: a growth area. The top five life insurers also have a non-life insurer and PFA or PFC in their group[122], and three of them have an HMO. Some of the life insurers that were consulted indicated that one of the key opportunities for growth was the ability to cross-sell life insurance to clients of other subsidiaries in the group. This allows them to tailor a product offering according to client needs and decreases the onboarding costs of clients. Life insurance is also sometimes bundled with other insurance products, for example as a rider on a savings endowment.

Credit-life reach likely underreported. Coupling insurance with other services such as credit is another way to increase insurance reach. Credit life insurance acts as a bridge between insurance and credit by reducing default risks to enable access to credit. The uptake of credit

[121] Life insurance policyholders have a median income three times the population median.
[122] Ten insurers have a PFA in their group.

life is very low, as shown in Figure 21, with 78,000 reported policy holders. This number is likely to be significantly underreported. It may be that MFIs that provide credit to MSMEs are self-insuring, and/or that people are not aware that they have credit life cover. Indeed, experience internationally suggests that the uptake of credit life is often under-reported in demand-side surveys, as people may not be aware that they have credit life insurance cover if the insurance is bundled with the credit. Bancassurance is an important channel for increasing the reach of the insurance market. However, as discussed in Section 3.3, the bancassurance guidelines explicitly prohibit bundling of other financial services onto banking products[123].

General Insurance

As shown in Section 4.2, the general insurance sector is significantly larger than the life insurance sector in Nigeria. However, when considering the retail market, the opposite is true. As shown in Figure 23, there are more individuals who have life insurance policies than there are who have general insurance policies.

Motor vehicle insurance dominates general insurance. As shown in Figure 12, vehicle insurance constitutes most of the general insurance policies held. This is linked to compulsory third-party motor vehicle insurance, but it also includes comprehensive vehicle insurance cover. Household content (11.6% of general insurance uptake), building insurance (10.1%) and livestock (8.1%) are the other products with relatively significant uptake. Indications from the consultations are that general insurance to the household market is not a priority focus for the insurance industry at present, given the challenges to achieve adoption and the fact that there are no clear client aggregators (such as employers) or compulsory insurance lines as basis for the development of this market.

Takaful insurance

Takaful refers to insurance that complies with Sharia law. Takaful operates on mutual support. Funds are pooled by the takaful mutual fund and are used to pay claims. The insurer is paid a management fee for this service. If any money remains after the claims and management expenses have been paid, it does not become the property of the insurer but is paid to the contributors as a profit share.

Large potential market. Approximately half of Nigeria's 186-million population are of Muslim faith. Sharia law does not allow gambling and insurance is considered by many to have an element of gambling due to the uncertainty of claims and is thus not Sharia compliant. Some also consider the purchase of insurance a sign of a lack of faith. Sharia law does make allowance for use of products that are considered non-compliant with Sharia law if there is no alternative. Therefore, the availability of takaful insurance may not automatically lead to significant growth. However, our consultations indicated that insurance distribution in the Muslim-dominant areas (northern and eastern parts of Nigeria) is nearly non-existent. Thus, the potential for Sharia-compliant insurance is significant. As highlighted in Section 4.2.6, three insurers provided takaful products in 2016, amounting to NGN460 million or USD1.5 million in gross written premiums. In addition, two dedicated

[123] The guidelines prohibit "banking products that incorporate insurance features".

takaful insurers have been registered and one insurer is in the process of setting up a takaful subsidiary.

***Additional skill requirements*.** For an insurer to enter the takaful insurance market, it must first establish a Shariah advisory board that is responsible for ensuring that all the products are services are compliant with Shariah law. This adds a further layer of skills required in an already skills-scarce environment (Ahmed, 2013).

Trust a key selling point. Due to the poor reputation of insurers in Nigeria, takaful insurers may be able to distinguish themselves from other insurers as being trustworthy. Takaful insurers accomplish this by providing clarity and transparency of what happens to pooled funds, especially after claims are paid. These funds are usually paid back to contributors as a profit share by the takaful insurer. This aligns with what some insurers in the consultations indicated as a need expressed by Nigerian clients for insurance to demonstrate clear value to the insured, for example through a cash-back, no-claims bonus or other tangible "in-life" benefits. The oversight of a Sharia board may also instil trust.

Currently mostly life insurance. In 2016, 60% of takaful premiums stemmed from life takaful insurance[124]. This is at least partially driven by the fact that all three insurers that offered takaful insurance in 2016 offered life insurance and only one offered general takaful insurance. The takaful product lines available in Nigeria are shown in Box 2. Both the entrants who entered Nigeria as dedicated takaful insurers are composite takaful insurers.

Box 2: Retail takaful products in Nigeria

General takaful products

Fire and special perils
Burglary takaful
Motor/motorcycle takaful (Third-party and comprehensive cover)
Group/individual personal accident takaful
All-risk takaful
Houseowners takaful
Electronic equipment takaful

Life/family takaful products

Life insurance

- Group family takaful
- Term assurance takaful (funeral)
- Whole life assurance takaful (life)

Savings product with life insurance, variations include:

- Marriage Plan (Al Nikah Plan)
- Mortgage Plan (AL Binau/Baytu Surur Plan)
- Pilgrimage Plan (AL Tadris/Arafat Plan))
- Sallah/Eid celebrations (Sallah Plan)
- Education Plan (Al-Ilmu Plan)
- Retirement/Pension plan (Al-Nasir Plan)

[124] Also referred to as family takaful

- Family takaful (Al-Istidad Plan)
- Short-term Naatijatu-Daynu Plan
- Mudharabah Investment Plan

Source: Takaful Insurers websites (African Alliance, 2018; Cornerstone Insurance, 2018; Jaiz Takaful Insurance, 2018; Niger Insurance, 2017; Noor Takaful, 2018)

Microinsurance

As highlighted in Section 5.3.1, microinsurance contributes marginally to the overall uptake of insurance. As insurance aimed at the low-income market, it has the potential to improve the resilience of those who are most vulnerable to financial shocks.

Microinsurance roll-out stalled. Despite the new guidelines for microinsurance, at the time of writing, no microinsurance licences had been applied for. According to an earlier microinsurance diagnostic study, many insurers mentioned that the low premiums made this an unattractive market to pursue (Dias, et al., 2013). This view was confirmed in the interviews for the current study alongside the regulatory challenges noted in Section 3. Notably, premium collection is a major microinsurance challenge, internationally. Thus, many microinsurance products make use of mobile distribution. In Nigeria, the constraints in mobile distribution have thus far constrained the roll-out of microinsurance products.

Potential value-add not yet demonstrated in practice. A number of programmes have attempted to leverage microinsurance to aid household resilience in Nigeria. These programmes include, for example, the PharmAccess[125] initiative and Access Bank's Better Mama Better Pikin in Box 3, as well as the case studies shown in Box 4 and Box 5. However, indications are that few ventures have reached any scale. Some, like the Better Mama Better Pikin example, have been discontinued. Moreover, the risk cover provided by microinsurance is typically low and the stakeholder interviews suggest that claims ratios on microinsurance products have thus far been extremely low. This means that very little value is paid back to the customers, implying a negligible impact on overall household resilience.

Box 3: Better Mama Better Pikin: bundling financial services for social change

Launched in February 2016 by Access Bank, "Better Mama Better Pikin" was a hybrid mobile money wallet and savings account that provided micro savings, health and life insurance. The product was targeted at the north-west of Nigeria where infant and maternal mortality rates are extremely high and attendance of antenatal classes very low. The product aimed to address this by providing a structured prenatal and postnatal training programme.

How it works

The product was distributed by agents and activated by customers on their phones. Expectant mothers were required to save NGN1,000 per month. Then for a monthly fee of NGN300 they received medical insurance of NGN40,000 (including the antenatal sessions and medical

[125] The PharmAccess foundation has a presence in Nigeria since 2007. The foundation strives to make health care and health insurance more accessible by leveraging mobile technology. For more information see https://www.pharmaccess.org/nigeria/.

treatments), as well as life insurance of up to NGN100,000 in the case of death or permanent disability.

Discontinued

The product reached over 100,000 policies in the one-month pilot phase and was able to reduce infant and maternal mortality by 2% in the participating local government associations. However, due to several challenges, the programme was not continued beyond the pilot.

This example highlights the role that mobile distribution could play in facilitating household resilience. It also illustrates that any such venture faces substantial market and regulatory challenges.

Source: Plantier (2016)

5.4.3. Distribution of retail insurance

One of the most difficult and defining characteristics of insurance is how it is distributed and, related to that, how premiums are collected. Distribution is the contact point with the client and shapes much of the public's perception of and trust in insurance. The lack of trust in insurance in Nigeria was a recurring theme in the consultations.

Traditional focus on annual premium collection. For most of the product types outlined in Table 9, annual premiums have traditionally been the norm. Annual premiums are also required for all compulsory insurance. However, the consultations indicated that more frequent (and hence lower) premiums are emerging for voluntary products, helping to make insurance more affordable.

Automatic premium payment increasing. Stakeholder interviews indicated that the use of automatic payment facilities (such as debit orders) is not as widespread as premium collection via employers. However, many insurers provide options for direct debits or standing instructions.

Employers the dominant distribution channel. As noted in Section 4.2.7, insurance distribution in Nigeria is dominated by brokers, with only a few insurers actively expanding their agent base. Brokers generally have absolute value targets. Thus, they are incentivised to focus on large corporate clients rather than individuals. In the retail market, Figure 29 indicates that 34% of the insured reported that they obtain their insurance through their employer. This was followed by family or a household member (27%), an agent (16%), a bank (13%) and a broker (6%).

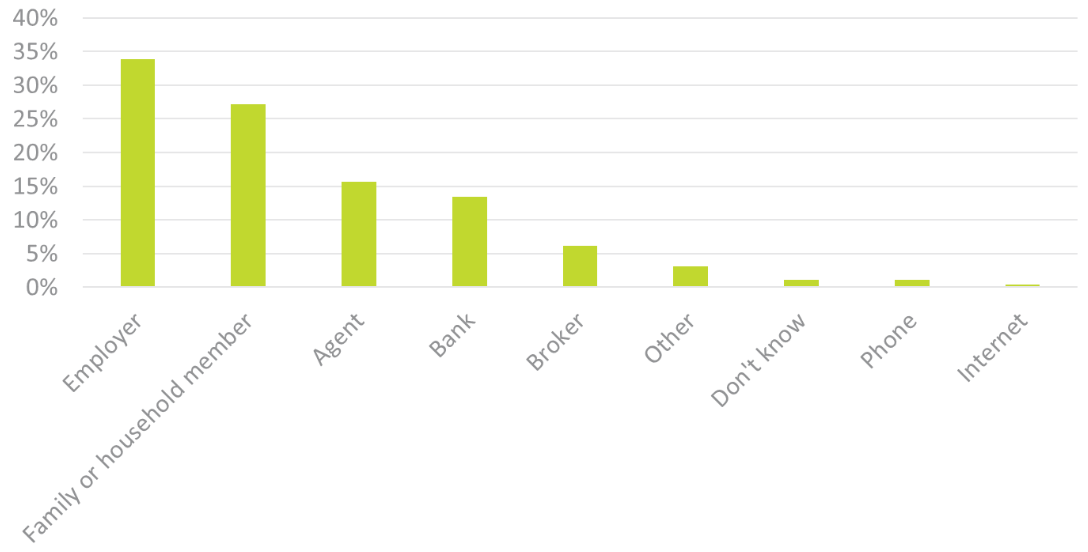

Figure 29: Channels through which insurance is sourced: percentage of insured adults

Source: EFInA, 2017

Limited distribution innovation to date, but some promising developments. During the consultations, many insurers suggested that developing the insurance market centred on ensuring compliance with compulsory insurance and did not emphasise the importance of distribution. However, a few insurers mentioned that innovations in distribution could facilitate growth. The importance that consumers place on human interaction means that insurance agents remain relevant even as technology uptake increases. This is also supported by the fact that some of the leading insurers are increasing the size of agent networks even as technology is highlighted as a key distribution channel.

A few innovative distribution mechanisms show promise, including:

- Mobile distribution
- Online distribution
- Bancassurance
- Using rural aggregators

However, these distribution channels face constraints that are hindering wider uptake. Below, each of these distribution channels is discussed in turn.

Mobile distribution

Several mobile insurance distribution ventures. 145 million people have access to mobile phones (National Bureau of Statistics, 2018), compared to only 1.8 million people with insurance (EFInA, 2017). Thus, mobile distribution presents a large distribution opportunity. A few projects have already explored the use of mobile distribution. These include the NHIS's National Mobile Health Insurance Programme, Access Bank's Better Mama Better Pikin (Box 3 above), Servier's loyalty programme (Box 4) and Airtel's loyalty programme (Box 5). Indeed, most microinsurance contracts in Nigeria are distributed by mobile.

Box 4: Mobile distribution – Servier

Servier partnered with FBN life in November 2017 to provide medical and life cover for users of Servier pharmaceuticals (MicroEnsure, 2017). The insurance is activated through SMS on a mobile phone after the purchase of Servier pharmaceuticals.

How it works

The product provides cover of a lump sum of NGN50,000 on hospitalisation at an NHIS recognised hospital or, on the death of a client, a lump sum of NGN10,000. Cover begins two days after the first registration and runs for 30 days unless renewed. Claims are initiated by phoning the claims line.

Claims experience

The first claim was made shortly before stakeholder interviews in March 2018.

Source: Stakeholder engagements and FBNInsurance (2017)

Regulatory constraints limit scale. As highlighted in Section 3, the use of airtime for payments is not allowed. This restricts the ability to pay for insurance through cellphones to users of mobile money. As mobile money penetration is only 1% of the adult population, this has effectively constrained mobile distribution other than for loyalty programmes that provide free insurance (EFInA, 2017). As shown in Figure 29, these constraints have limited the number of insurance contracts sourced by phone to 1% of insurance contracts in 2016.

Box 5: Free health insurance: Airtel loyalty programme

Airtel's free health and life insurance is one of the insurance products that have the largest reach in Nigeria. Airtel has over 1.5 million insurance contracts with clients in Nigeria[126]. The programme originated in Ghana in January 2014 and was rolled out in Nigeria in September of the same year. The programme was facilitated by MicroEnsure as technical service provider, with risks in Nigeria underwritten by Cornerstone.

How it works

Airtel clients receive free insurance as long as they spent a minimum amount on airtime in the previous month (NGN1,000). Higher spend results in higher cover as shown in the table below:

Monthly recharge	Life cover	Hospital life cover
This month	**Next month**	
NGN1,000	NGN100,000	NGN10,000
NGN5,000	NGN250,000	NGN25,000
NGN10,000	NGN500,000	NGN50,000

The insurance is activated by registering through dialling a shortcode. The product is explained through an unstructured supplementary service data (USSD) menu, showing policy information. Monthly SMSs inform clients about the amount of insurance they had earned based on their airtime usage.

126 This suggests that microinsurance uptake is under-reported in Figure 23 and Figure 25. This could be due to people being unaware of the insurance cover they have, which suggests that the impact on resilience may be limited.

Why free insurance

The mobile phone market in many African markets is characterised by a high level of SIM-card swapping. Free insurance was introduced to develop brand loyalty. For many clients this was their first experience with insurance. The market strategy is that after having positive experiences with insurance, clients would be willing to consider the purchase of larger, more comprehensive insurance plans.

Source: Stakeholder engagements, MicroEnsure (2016) and Cornerstone (Cornerstone, n.d.)

Online distribution

Online sales on the rise. Approximately half of the Nigerian population (98.7 million) have internet access (National Bureau of Statistics, 2018). This provides a clear avenue to increase the reach of insurance in Nigeria. Most major insurers have online sales platforms as part of their websites[127]. Online distribution was also mentioned as an avenue for growth during the stakeholder consultations for this study. Examples of online distribution via aggregators are also emerging, with at least one online retailer, Jumia, offering life and car insurance underwritten by Axa Mansard. However, this market is still nascent. In the 2016 Access to Finance in Nigeria survey data, none of the traditional insurance clients had purchased their insurance online, and only 1.9% of microinsurance clients had purchased insurance online.

Online referral websites starting to facilitate insurance sales. Web aggregators are internet sites that undertake agreements with a number of insurers to provide comparative quotes. Potential clients enter the insurance cover they need on the website. The website provides comparative quotes and the opportunity to discuss a specific quote. The potential client is referred to the insurer by transmitting their details to the insurer. The insurer then contacts the potential client to complete the sale of the insurance policy. A few web aggregators are already in place in Nigeria[128].

Regulatory concerns to potentially hamper online sales. NAICOM has expressed some concern regarding online sales. There had been reports of premiums paid online not being received by insurance companies (Anaesoronye, 2017). In response to these concerns, NAICOM released draft web aggregator guidelines for comment in October in 2017 (NAICOM, 2017). These drafts had not been finalised at the time of writing this.

Bancassurance

Bancassurance a significant growth opportunity. As 38% of adult Nigerians have a bank account, bancassurance has the potential to significantly increase the uptake of insurance from its current 1.9% (EFInA, 2017). More than half (55%) of respondents in the Access to Finance in Nigeria survey indicated that commercial banks were the most important financial institution for managing their finances, and the percentage rose to 65% for urban respondents. The other two important institutions were cooperatives or saving groups and thrift collectors.

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[127] The top five of both life and general insurers have online sites through which most if not all products can be bought. The exceptions are: African Alliance, who have a link that is not functioning, and Zenith, who only sell travel insurance online.

[128] These include: www.insurancequotes.ng, www.compareinsurance.com.ng and www.cheki.com.ng.

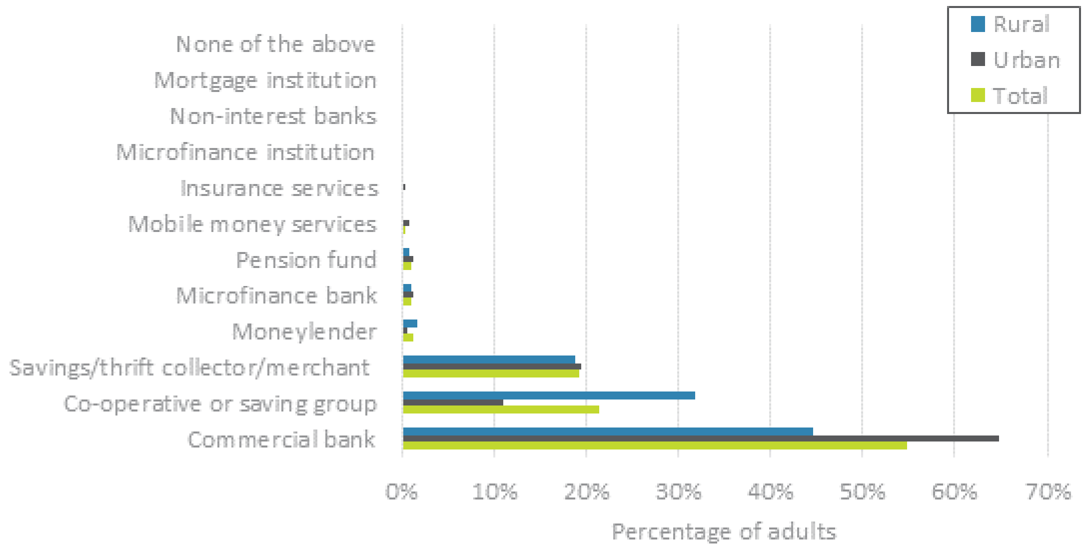


Figure 30: Most important financial service provider for managing finances as percentage of adults

Source: EFInA, 2017

Long-standing relationship between insurance and banking. Prior to the repeal of universal banking in 2010, many banks conducted insurance business (Onuoha, 2018). The repeal required banks to establish separate companies for insurance business. Currently, several banks have insurance companies as subsidiaries or within a larger company group. The legacy of bancassurance is still evident. In 2013, USD90 million worth of gross premium was written through banks (5% of total industry gross premium) (PWC, 2015). In 2014, seven of the ten largest retail banks offered bundled insurance products, while three offered stand-alone insurance products (FinAccord, 2014). In 2016, 13% of the insured reported the bank as the source of their insurance contracts. NAICOM suspended bancassurance agreements in Nigeria in 2016 after the CBN did not allow NAICOM to issue licences to banks for the provision of bancassurance (Nnabugwu, 2016). The suspension was lifted in 2017, when bancassurance guidelines were released jointly by NAICOM and CBN. These guidelines allowed bancassurance to take place within the parameters as discussed in Section 3.

Current market offering still relatively limited. Currently, five insurers have applied to conduct bancassurance under the new bancassurance guidelines. This includes Zenith Prudential, which has rolled out bancassurance in 50 branches to sell life insurance (Vanguard, 2018). Old Mutual General and Old Mutual Nigeria Life are also rolling out bancassurance to 62 branches of Eco Bank[129], selling both general and life insurance products[130].

Regulatory constraints. Industry consultations suggest that the limitation of two referral banks per insurer may limit the reach of bancassurance. This would have a notable impact on reaching potential clients in rural areas. The limits on referral banks will incentivise partnerships with commercial banks at the expense of microfinance banks, who have better

[129] This is expected to extend to 200 branches across Nigeria in 2019.

[130] AIICO is also said to be exploring bancassurance options.

reach in rural areas, as shown in Figure 30. Further limitations are the prohibition on bundling and the fact that bank staff may not sell insurance.

Rural aggregators

The rural sector presents a huge underserviced market. One of the key issues raised in Section 5.2 was that rural individuals report more frequent risk events than their urban counterparts. Section 5.3 highlighted that the uptake of insurance by rural groups was also very low. As most of the population (62%) are rural, this presents a huge underserviced market.

The rural population being difficult to reach. Stakeholder consultations indicated that providing services, such as insurance, to the rural population is difficult for several reasons. The limited basic infrastructure, such as roads, makes travelling problematic. Lack of penetration of electricity and mobile phones makes digital engagement difficult. In addition, the wide variety of languages and dialects challenges effective client communication. It is therefore unsurprising that the farmer group as the most rural (90%) target group is also the least connected (only 45% of farmers having phones and 17% having bank accounts) and have the lowest insurance uptake 0.6%.

Aggregators needed to make rural insurance feasible. Given the high costs of reaching rural individuals, scale is needed to make distribution profitable. This requires aggregator-based distribution, namely distribution through a third party, with an existing client or membership base and existing infrastructure through which insurance can be offered. The distribution innovations discussed above are all instances of aggregator distribution. However, these aggregators are more focused on the urban centres.

Cooperatives potential rural aggregators. In rural areas, cooperatives (including esusu savings groups) present opportunities to aggregate individuals. Esusu groups are rotating savings groups where all the members contribute, usually monthly, and make turns to receive all the contributions. This essentially amounts to an interest-free credit facility. Cooperatives show potential as aggregators – as in addition to aggregating individuals, they facilitate trust. At least one insurer, African Alliance, has utilised the familiarity of Esesu groups to market savings products with a life insurance component. Their product has a daily, monthly or quarterly premium that pays out annually while also providing life cover. However, it is an individual policy not a policy for savings groups.

Retailer distribution limited. Retailer distribution is an important alternative distribution channel that is popular for mass market and microinsurance distribution, internationally – including in rural areas where retailer networks have a presence. Insurers are able to benefit from the retailer's brand that clients recognise and trust. It is used primarily for simple products and depends on customers being aware of insurance (Roth & Chamberlain, 2006). This study did not pick up any examples of retail distribution in Nigeria, except for credit insurance offered on white goods.

5.5. Conclusion: retail insurance and household resilience

Limited reach of insurance constraining household resilience impact. The Nigerian retail insurance market aligns with Stage 2 of insurance market development as highlighted in Section 4.4, where corporate, rather than personal insurance, dominates. Where insurance is aimed households or individuals, compulsory and group-based insurance is predominant, and voluntary individual reach is low. Overall, less than 2% of Nigerian adults have insurance. Even for the target group that is the easiest to reach (salaried employees), insurance uptake is only 10.6%[131]. Similarly, even though there is a government health insurance scheme that aims to achieve universal health coverage, it only serves 1% of the population, mostly federal government employees. The low penetration of insurance has resulted in informal risk-management. Most people rely on family and friends to cope with risk. Alternatively, they forego consumption or draw on savings, thus decreasing their resilience. Therefore, insurance currently plays a limited role in supporting household resilience in Nigeria overall.

Distribution constraints limiting outreach. Distribution of insurance is virtually absent beyond urban centres. Market incentives favour broker distribution, resulting in a limited retail focus, especially beyond urban areas. While technology presents some opportunities to reach the large unserved market, structural constraints such as access to electricity and airtime premium payment, limit the role of technology. Despite these constraints, a number of aggregators have significantly greater reach than the current insurance uptake, presenting growth opportunities for insurers. These aggregators are: banks, mobile operators and online aggregators.

Several regulatory constraints. As discussed in Section 3, NAICOM has indicated that it aims to licence all distributors. This may slow down the uptake of innovative distribution channels including mobile distribution and online distribution. Regulation is already constraining the uptake of bancassurance. In addition, NAICOM has indicated that all microinsurance policies must be placed under a dedicated microinsurance licence. As no dedicated microinsurers had been established at the time of writing, this suggests that existing microinsurance pilots have to come to an end.

Reputational damage. The Nigerian insurance sector does not have a particularly good track record, with several insurers being placed under curatorship in recent years. The poor reputation limits uptake of insurance by households: approximately one-third of those without insurance indicate a lack of trust in insurance. Another third of them are not even aware of insurance.

Compulsory insurance presenting an opportunity to develop trust in insurance. Compulsory insurance dominates the retail insurance landscape. A compulsory insurance product is often a person's first exposure to the insurance sector and may create a lasting impression. The performance in these lines sets the tone for the rest of the insurance market. If compulsory insurance continues to provide clients with limited value, as indicated by low claims ratios, the reputation of insurance will remain tainted. However, if compulsory insurance results in clients receiving value, most notably from a successful and prompt insurance claims experience, it may improve perceptions of the insurance market more broadly.

Health insurance a largely untapped growth opportunity alongside life growth. As discussed, the life market still has significant room for growth among higher-income individuals. The potential for health insurance to build household resilience is clear, as health constitutes 43.5% of all risks experienced. As states implement compulsory health insurance schemes, this presents a significant opportunity to showcase the value of

[131] Even the segment of the market with the highest uptake (Urban salaried employees) still has 4.9 million adults that are uninsured and only 0.7 million insured (13.5%).

insurance if implemented well. However, the HMO market faces structural constraints and there has been limited innovation to date.

Annuities a double-edged sword. As the discussion has shown, annuities are - and will for the foreseeable future remain – an important growth area for the life insurance market in Nigeria. Annuities provide lucrative growth opportunities for life insurers, but the need to guarantee income for the rest of pensioners' lives introduces long-term risks to the market. Without a proactive investment strategy and stable longer-term investment instruments, insurers may suffer significant losses in the long-run. Thus, a viable annuities market requires a robust technical skill base and sound insurers. Moreover, the ability of insurers to successfully leverage the popularity of annuities is tied to the ability of the Nigerian capital market to provide appropriate longer-term investment instruments. All these elements are, however, constrained in the Nigerian market.

Large, unserved, easy-to-reach market. Despite the numerous constraints listed above, there are substantial opportunities to expand the reach of the retail insurance market, given the sheer size of the Nigerian population. These include the development of takaful insurance, providing in-life benefits to consumers[132], and the use of aggregators such as banks or employers to provide access to groups of clients. The low-hanging fruit are substantial. Even if only the urban component of the salaried employees (as easiest-to-reach target market segment) is reached, there is scope to add more than four-million insurance clients[133].

[132] Such as no-claims bonuses.
[133] See Table 16 in the appendix for a full segmentation of the insurance market.

6. The role of insurance in business resilience and enterprise development

Key insights:

Insurance plays an important role in business resilience on paper, but it faces several challenges in practice:

- Oil-and-gas insurance plays a core role in the general insurance market, but domestic insurers do not have the asset base to retain risks domestically or the capacity to honour large claims. Hence a large proportion of premiums flow offshore in reinsurance, thus undermining the intention of local content regulation.
- Outside of large corporate risks, the role of insurance in enterprise development and economic diversification is challenged by the large and fragmented nature of the SME market.
- In the agricultural sector, a history of subsidised premiums by a state-owned insurer has rendered a market with limited reach and innovation. The focus is mostly on farmers; dedicated agricultural value chain insurance is limited. Though innovative parametric insurance offerings are being rolled out, reach is still limited.

Insurance markets contributing to enterprise growth and economic development. In principle, insurance promotes entrepreneurial activity by fostering willingness to undertake risky, profitable ventures and by protecting innovators and investors from external shocks (Chamberlain et al., 2017; Kessler et al., 2016; Zweifel and Eisen, 2012). Hence, insurance markets facilitate the development of enterprises by enabling the efficient allocation of risk in an economy. The functions played by insurers can be broken down into three distinctive enabling mechanisms:

- **Risk transfer:** Insurance companies provide protection of existing wealth and corporate assets against risks that arise in the ordinary course of business. They provide the financial means for making up losses incurred and help to prevent further losses, enabling continuity of services for enterprises.
- **Risk management:** Insurance markets promote more proactive enterprise risk management, by providing loss prevention, safety and risk management advice and services to customers. It also incentivises preventative behaviours.
- **Access to credit:** By providing a range of insurance services to enterprises against property losses, damages and negative events that affect loan repayment, insurers effectively help lower credit risk and positively contribute to the development of credit markets.

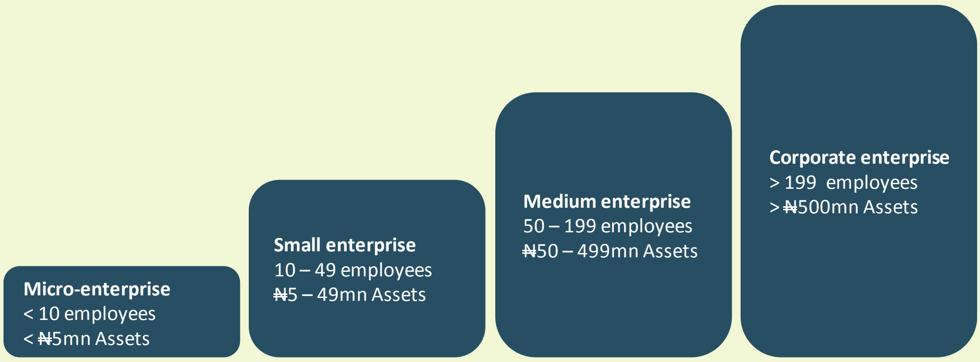
Different role for different tiers of businesses. As enterprises grow, the nature, timing and extent of insurable risk exposures are likely to differ. Hence, to get a better understanding of enterprises risk management needs, it is important to consider businesses at different stages of growth. In Nigeria, enterprises can be classified as micro, small, medium-sized or corporate. Box 6 below explains the basis for the classification.

Sectoral case studies to map role in Nigeria. This section considers the role of the insurance sector in supporting business resilience in Nigeria by looking at the current and potential role played in corporate and small and medium-sized business development[134], respectively. We explore this role at the hand of deep-dive case studies on the oil-and-gas sector and the agricultural sector, respectively. An investigation of the oil-and-gas sector provides insights into the role of insurance in supporting the historical development of corporate enterprises and how they have contributed to economic growth and development to date. The agricultural sector presents opportunities for insurance markets to contribute to the economic diversification of the Nigerian economy, beyond a dependence on oil and gas.

Box 6. Business enterprise classification criteria

Business size classification can be done either based on the number of employees that an enterprise has or its asset size.[135,136]

Small and Medium-sized Enterprises Development Agency classification. In Nigeria, Micro-businesses are defined as those who have fewer than 10 employees or less than NGN5 million in assets. Small and medium-sized enterprises can have a workforce that ranges between 10 and 199 employees or an asset base of NGN5 million to NGN 499 million; and corporate enterprises exceed the thresholds for micro, small and medium-sized enterprises. The different enterprise characteristics create business cases for different insurance offerings to cater for various risk management needs.



Global classification of enterprises. In addition to data collected by domestic authorities, this section draws on the World Bank Enterprises survey, which collects firm-level data on characteristics and challenges faced by firms in 139 countries.[137] The enterprises surveys stratify businesses along various dimensions, of which one of them is firm size. Firms are classified as small (5 to 19 employees), medium-sized (20 to 99 employees) or large (more than 100 employees). Notably, the thresholds for each of the World Bank classifications are lower than those defined by domestic institutions. Hence, we would expect that the enterprise surveys would classify more businesses as medium-sized and large than local estimates.

[134] As microenterprises typically blur the lines between personal and business risks (Merry, 2015), their risks may be served by personal insurance and microinsurance and they are not discussed here.

[135] The employment-based classification takes precedence if a conflict exists (SMEDAN and NBS, 2013)

[136] Asset size excludes land and buildings.

[137] See https://datacatalog.worldbank.org/dataset/enterprise-surveys and http://www.enterprisesurveys.org/methodology

This section considers the role of insurance in business resilience and enterprise development. First, it explores the risk management needs of corporate enterprises generally, as well as the role that insurance has played to date in supporting the oil-and-gas industry. Then it investigates the potential for the insurance market to contribute to SME development, as basis for a discussion on the role that insurance can play in Nigeria's economic diversification and agricultural development imperatives. Finally, it concludes on the gaps and opportunities to enhance the role that insurance companies can play in enterprise development in Nigeria.

6.1. The role of insurance in corporate enterprise development

6.1.1. Risk management needs of corporate enterprises

Business continuity risks and access to finance front of mind. Corporations face a multitude of insurable and non-insurable risks and constraints in Nigeria, as displayed in Table 10. In 2014, the World Bank Enterprise survey identified the most prevalent constraints experienced by Nigerian firms as access to finance (30.2% of respondents), access to electricity (27.2%) and corruption by State officials (12.7%). For large firms, 40.9% of respondents identified access to electricity as their major constraint. In addition, a 2016 industry PWC report identifies inadequate infrastructure and macroeconomic uncertainty as key risks most experienced by large foreign companies in Nigeria (PWC, 2017). While the top constraints noted are not insurable per se, the findings highlight the predominance of business continuity risks and financing constraints. Hence, insurance markets can play a critical role in minimising business interruptions of large enterprises, plus in enabling access to financing.

Major constraints (% of total respondents)	All firms	Large firms (100+)
Access to finance	30.2	14.4
Electricity	27.2	40.9
Corruption	12.7	12.3
Tax rates	5.9	3.6
Transportation	5.7	4.6
Political instability	4.4	10.8
Practices of the informal sector	4.3	7.6
Access to land	2.6	1.3
Customs and trade regulations	2.2	0.4
Tax administration	1.6	0.6
Labour regulations	1.1	0.4
Crime, theft and disorder	1.0	0.8
Business licensing and permits	0.7	1.9
Inadequately educated workforce	0.4	0.3
Courts	0	0
Total	100	100

Table 11. Challenges faced by large enterprises

Source: World Bank Enterprise Surveys (2014)

Industrial risk cover playing a prominent role in the general insurance market. As discussed in Section 4.2.2, general insurance business in Nigeria accounted for gross premium income of NGN189.3 billion in 2016, which represented approximately 60% of the total premium income collected by the Nigerian insurance industry.

Figure 31 below captures the general insurance risks covered from 2007 to 2011. Over the period, motor-vehicle insurance was the largest contributor to gross premium income. However, since 2012, oil-and-gas insurance businesses have accounted for the largest market share. In 2016, oil-and-gas premiums represented 28.6% of total general insurance business, followed by motor-vehicle insurance at 21.3%. Other significant insurance offerings include fire, general accident, and marine and aviation, which represented 16.3%, 16.2%, and 10.4% of market share respectively. The five business lines highlighted above represent 92.8 % of gross written premiums.

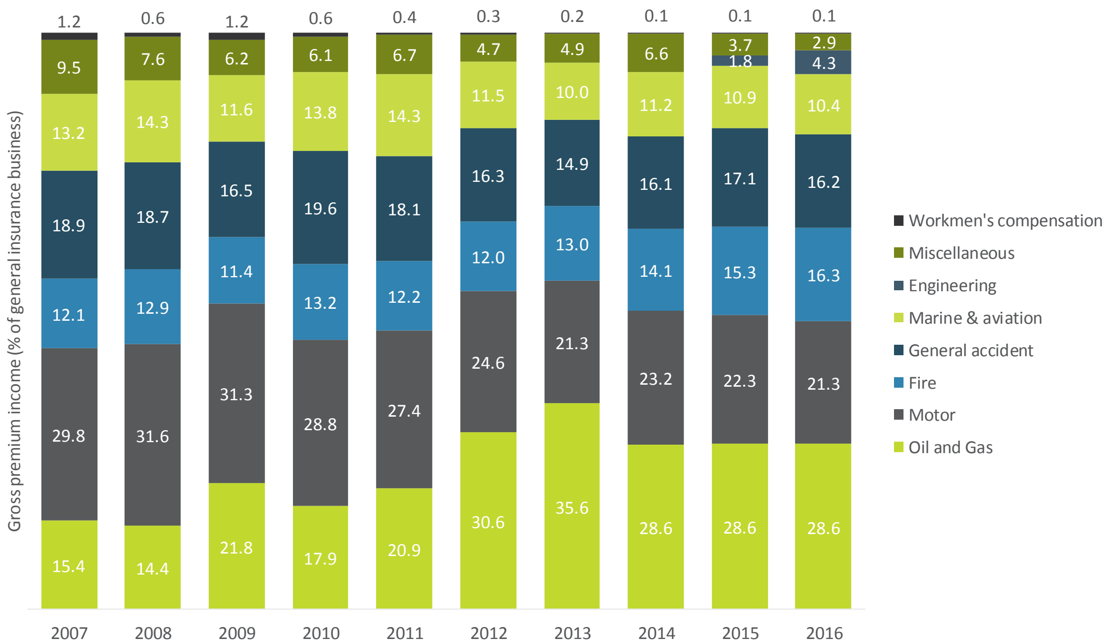


Figure 31. Distribution of general insurance in Nigeria, 2007 to 2016

Source: Authors' own (NIA data)

From our interviews, all insurers and brokers referred to the oil-and-gas business as a prominent market opportunity. Given the importance of the oil-and-gas sector in Nigeria, we explore the historical relationship between insurance market development and oil and gas below.

6.1.2. Case study: Insurance coverage for oil and gas

Important economic contributor. As highlighted in the Section 2, the oil-and-gas industry is an important player in the Nigerian economy and a central source of revenue for the Federal Government. The Federal Government, through the Nigerian National Petroleum Corporation (NNPC), is entitled to oil-and-gas revenue through various production arrangements[138]. In 2015, the combined production output was 776 million barrels a day, which amounted to financial flows to FGN of USD24.8 billion (2014: USD54.6 billion[139]) (Yahaya et al., 2017). Below, we explore the risk management needs of the oil-and-gas industry to identify gaps and constraints for insurance to enhance its viability as a major contributor to the Nigerian economy.

Substantial need for risk cover. The oil-and-gas sector is vulnerable to sabotage and terrorism, damage to property, pipeline damage, flooding and gas fires. Most notably, crude oil theft and sabotage have meant serious setbacks to the oil-and-gas operations in Nigeria,[140]. In 2014, the total crude loss due to sabotage and theft was estimated to be USD1.4 billion, which represents 5.6% of total financial flows to FGN from oil-and-gas production arrangements. Given the systemic importance of the sector to the Nigerian economy, it is clear that there is a need for risk cover to ameliorate the losses experienced by the government and by operators.

Insurance covers various perils related to the exploration and production of oil and gas. Furthermore, trade insurance provides a safeguard for the foreign exchange earnings on exported crude oil and protects against losses that arise from the risk of theft and sabotage associated with imported oil products. In Nigeria, marine insurance has consistently featured among the top five business lines of general insurers. In addition to the direct contribution mechanisms, in-principle insurance markets play a significant role in attracting foreign direct investment and capital inflows for new developments and expansion projects in the oil-and-gas sector.

Infrequent, yet relatively large, risk experience. Figure 32 shows the size and frequency of large non-life insurance claims experienced in 2016. The reported claims are graphically depicted using Box and Whisker plots that show the distribution of reported claims values for each type of general insurance business.[141] Large oil-and-gas claims have the highest average value among general insurance claims at NGN46.9 million per claim (USD155,785.10 at the 2016 average exchange rate)[142]. The oil-and-gas sector also accounted for the largest general insurance claim paid, NGN543 million (USD1.81 million). In total, only 27 large oil-and-gas claims were paid for the year.[143] Despite their limited frequency, the size of risk events in the

138 Nine venture arrangements accounted for 48.4% of total production, production-sharing contracts represented 41.3% of production output, and balance was represented by Service Contracts (SCs), Sole Risks (SRs) and Marginal Fields. The various production arrangements are aimed at sharing both financial and exploration risk in oil production.

139 The reduction in USD-based revenue is due to the sharp depreciation of the Naira to the dollar in this period.

140 "Crude oil theft" is defined as an illegal crude oil removal from the facilities of the operators in the oil-and-gas industry, while "sabotage" is the wilful act of people who cause damage to the oil-and-gas facilities, blocking of access to the facilities, thereby causing production losses and deferments in the industry. (Yahaya et al., 2017). These acts have had far-reaching effects on the governments' and operators' revenues, the international traders that buy crude oil from Nigeria, and the environment due to oil pollution.

141 Each respective dot corresponds to a data point that shows an individual reported claim. The box-and-whisker plot shows a five-number summary of the set of data (i.e. minimum, first quartile, median, third quartile and maximum). The ends of the box are the upper and lower quartiles, the median is marked by a vertical line inside the box. The whiskers are the two lines outside the box that extend to the highest and lowest observations. Observations that fall outside of the whiskers are outliers. See https://www.statcan.gc.ca/edu/power-pouvoir/ch12/5214889-eng.htm for further explanation.

142 As compared to the lowest average claim size being reported under motor insurance, NGN6 million per claim (USD20,096.02)

143 See Appendix D: The role of insurance in business resilience and enterprise development for the full list of large oil-and-gas claims. Unconfirmed anecdotal evidence suggests that even large claims are relatively low because old and gas companies insure within their global structures and only insure some of their risks in Nigeria. Thus actual risks may be substantially higher, requiring an even more sophisticated local industry to be carried domestically.

oil-and-gas sector demands an insurance market that has the capacity and capability to address and underwrite large, and oftentimes specialised, risks.

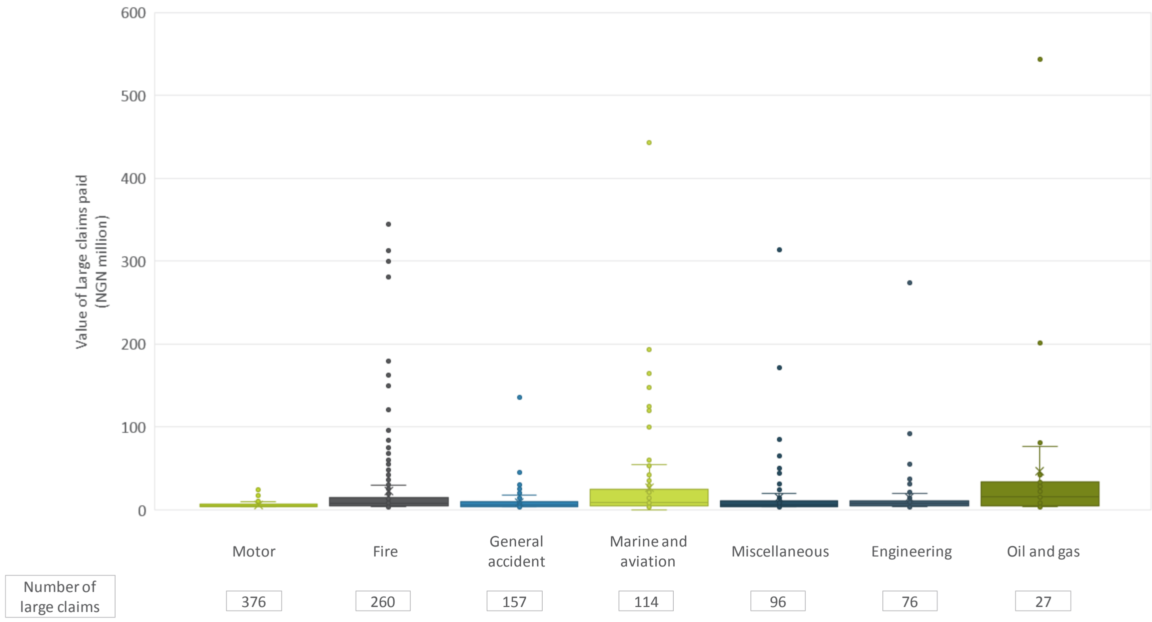


Figure 32. Size and frequency of large claims paid in 2016[144]

Source: Authors' own (NIA data)

Regulatory driver for local risk placement. As discussed in Section 3, regulation since 2010 compels participants in the oil-and-gas sector to retain a significant share of their risk exposure domestically. The local content regulations outline prescribed minimum levels that oil-and-gas operators are to spend on life insurance services (100% of total spend), non-life insurance (70%), and marine insurance (40%). Most notably, any consideration of offshore risk placement requires approval from the National Insurance Commission (NAICOM), which evaluates whether local capacity has been exhausted.[145] Insurers' reinsurance capacity is considered as part of local capacity. For insurance broking, loss adjustment and pension fund services, the regulations require 100% minimum spend on local content. This regulatory framework sets the tone for oil-and-gas insurance business in Nigeria.

A substantive part of the general insurance market. Figure 33 below depicts the gross written premiums from oil-and-gas insurance business over the 10-year period from 2007 to 2016, and the corresponding annual premium growth. Between 2007 and 2010, the gross written premiums from oil-and-gas insurance business doubled in size from NGN12.9 billion (USD102.87) to NGN26.1 billion (USD173.62 million),[146] accounting for 15.4% and 17.9% of general insurance business respectively. After the introduction of the local content requirements in 2010, oil-and-gas insurance premiums grew rapidly to a high of NGN66.8 billion in 2013 and represented 35.6% of general insurance premiums. Since then, the adverse impact of declining oil prices has translated into moderated, sometimes

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[144] Large claims are defined by Nigeria Insurance Association as claims larger than NGN 3.5 million (USD 11,630.61)

[145] Local capacity is defined as: "… the aggregate capacity of all Nigeria registered insurers and reinsurers which shall be fully exhausted prior to any application for approval to reinsure any Nigerian Oil & Gas risks overseas." (NAICOM, 2010)

[146] Using an exchange rate of 125.81 NGN per USD in 2007, 150.298 NGN per USD in 2010, and 300.93 NGN per USD in 2016.

negative, premium growth relative to the formative years. However, oil-and-gas business still accounted for NGN54.1 billion (USD180 million) or approximately 28.6% of general insurance premiums in 2016.

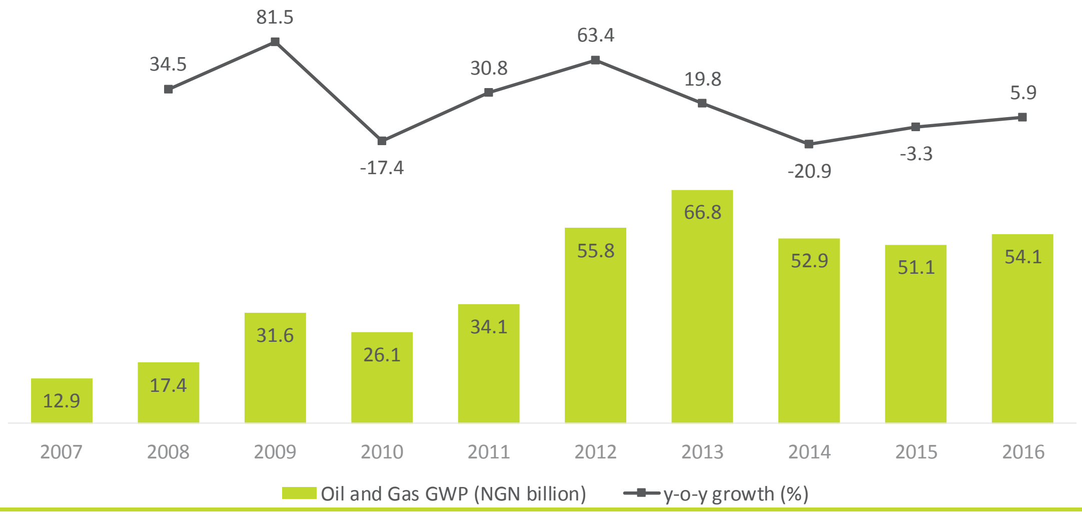

Figure 33: Oil-and-gas GWP and growth, 2007 to 2016

Source: *Authors' own (NIA data)*

Limited domestic capacity to address oil-and-gas risks. The size of the oil-and-gas insurance premiums and the infrequent risk events are perceived to present a lucrative market opportunity for insurance companies, and the local content regulations in principle protect insurers from foreign competition. However, in practice, the insurance industry does not have the capacity to cover the full scope of oil-and-gas risks in Nigeria. If we consider the asset base of insurance companies that participate in the oil-and-gas sector, it is clear that the asset base of NGN504.6 billion (USD1.66 billion)[147] would just about cover the estimated crude losses of USD1.4 billion that arise due to sabotage and theft, assuming that no other risks required insurance cover. Interviews with stakeholders suggested that some insurance companies have limited capacity to honour claims and that the sector struggles to address particularly large risk events and claims. The Providers section highlighted that nearly half of the general insurers have a market share of 1% or less of total premiums and struggle with profitability. Hence, the claims are too large for small insurance companies to retain[148].

Premium size not always correlating strongly with asset size. Growth in the market for oil-and-gas business is not always matched with a commensurate increase in domestic insurers' asset bases. Figure 34 below shows the relationship between the asset size of non-life insurance companies and the size of their oil-and-gas insurance business between 2014 and 2016. In 2014 and 2015, there was a weak relationship between asset size and oil-and-gas premiums.[149] Hence, access to a larger available asset base did not automatically translate to insurers that pursue more oil-and-gas business. In the recent past, the relationship between

[148] Anecdotally, it was suggested by interviewees that many insurers take on oil-and-gas risk exposure in the hopes that claims will not materialise.

[149] The relationship between general insurer asset size and oil-and-gas business is represented by R-squared, which is a statistical value representing the proportion of variation in one variable explained by another variable. See https://people.duke.edu/~rnau/rsquared.htm for further explanation.

asset size and oil-and-gas insurance business strengthened markedly. Notably, in 2016, the top five oil-and-gas insurance companies by gross written premiums accounted for 53.8% of sector risk exposures; and they represented NGN151.1 billion or 30% of total assets among insurers involved in oil and gas.[150] General insurers with larger asset bases may not always have the appetite to take on more oil-and-gas risk. Nevertheless, it is imperative for insurers with larger appetites for oil-and-gas business to have sufficient asset bases to cover the risk exposure.

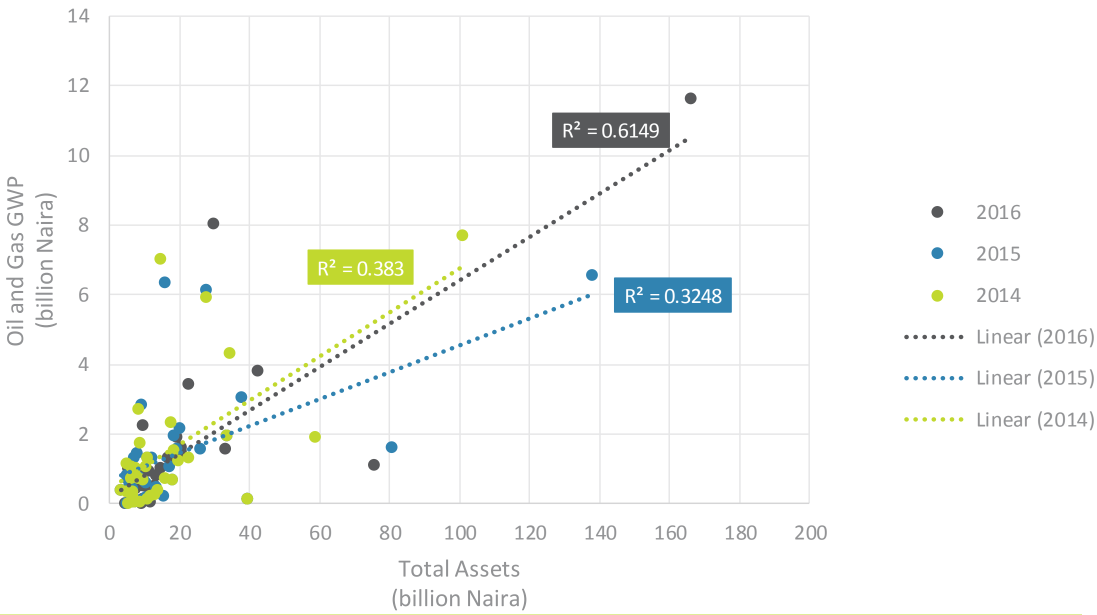

Figure 34: Total assets vs oil-and-gas GWP, 2014 to 2016

Source: Authors' own, based on NIA data

Size of oil-and-gas risk necessitating co-insurance arrangements. The small asset base of many insurance companies relative to the size of the risks prevalent in the oil-and-gas sector means that no single insurer can take on big-ticket risks by themselves. In a bid to exhaust the capacity of the local insurance industry, the Nigeria Oil and Gas Guidelines provide for co-insurance arrangements, such as insurance pools, syndicates and consortium bidding (NAICOM, 2010). Insurers and brokers are permitted to participate in consortium bidding; and large corporate and government insurance contracts are often in consortia, based on tender. Each arrangement is required to have a contracting leader that is responsible for bidding on behalf of its members and for coordinating the processing and settlement of insurance claims.[151] Members of each arrangement are jointly and severally liable for claims that fall due. However, contracting leaders are held accountable for settling on behalf of members that fail to settle their claims.

Reinsurance capacity is considered as part of insurer or pool capacity for oil-and-gas policies. Application for offshore placement of risk is considered only when domestic capacity has been exhausted. Nigeria has a history of risk pooling, having established the African Oil and Energy Insurance Pool (AOEIP) in 1998, the Nigerian Oil and Energy Insurance Pool (NOEIP) in 2001, and the Energy and Allied Risks Insurance Pool of Nigeria (EAIPN) in 2015. These risk

[150] In 2016, the top five oil-and-gas insurers by GWP included: Leadway Assurance, Custodian and Allied, AXA Mansard, Royal Exchange, and Sovereign Trust.

[151] The Guidelines for Oil and Gas business expressly preclude dual bidding, and they require an insurer to bid for a contract either on an individual basis or as a member of a consortium.

pools were established with the intention of enabling domestic insurers to participate in oil-and-gas risks, preventing capital flight through retention of premium locally, and developing technical capacity for oil-and-gas insurance.

A lucrative revenue stream. Stakeholder interviews suggest that insurers and brokers are attracted to the lucrative revenue streams that arise from oil-and-gas insurance business. Insurers prefer large oil-and-gas insurance contracts, particularly those arising from joint-venture arrangements administered by NNPC. Distribution is largely broker-driven, and premium collection is done largely through corporate payments. Brokers have absolute commission targets, which skews incentives towards big-ticket items. The local content regulations position oil-and-gas insurance contracts as relatively stable, large-premium income generators for participating insurance companies. Further, the requirement to exhaust local capacity, typically through co-insurance arrangements led by a contracting leader, creates conditions for administration costs to be reduced significantly or avoided entirely by smaller players.

Risk pools introduce adverse incentives. However, stakeholder interviews suggest that, in practice, co-insurance arrangements often do not work optimally. It may happen that smaller insurers cannot honour claims and that larger insurance companies in the group are compelled to settle the outstanding claims to ensure that contracts be fulfilled. This undermines the joint and several liability implied by pooling arrangements, as the liability is then ultimately placed on consortia leaders. Hence, the intended purpose of co-insurance arrangements as a means to strengthen the capacity of the insurance industry to take on more oil-and-gas risk, creates incentives for undercapitalised insurance players to free-ride on the efforts of their stronger, more capable, peers. Reneging on the settlement of insurance claims is a reputational risk that may jeopardise access to future oil-and-gas insurance contracts. Hence, contracting leaders are incentivised to mitigate the risk of non-fulfilment. This may result in higher premiums being charged to cover the potential shortfalls of weaker insurers.

Oil-and-gas deals prone to unsavoury practices. Moreover, several reports suggest that large oil-and-gas insurance contracts are oftentimes pursued through unsavoury, corrupt practices that introduce prudential and market conduct risks into the insurance industry, while deteriorating the potential contribution that the oil-and-gas sector can have on economic growth and development (Donwa et al., 2015; Gillies, 2009; Osuoka, 2007). The cost of acquiring oil-and-gas insurance contracts is high, and when these contracts come up for renewal it is expensive to retain them.

Significant share of the oil-and-gas risk ceded offshore despite local content requirements. The local content regulations prescribe levels of local retention for oil-and-gas business to be at least 70% of total spend. In practice, the Nigerian insurance industry has fallen short of the local content requirements, and the introduction of risk pools has not significantly enhanced the capability of the industry to take on larger oil-and-gas risks. Interviews with stakeholders suggested that numerous oil-and-gas companies prefer to carry their risk offshore, due to concerns about the limited underwriting capacity of local insurers. As part of their insurance contracts, oil-and-gas operators will instruct brokers that risk must be reinsured with their interest offshore. Alternatively, risk sometimes carried at the group level of the multinational parent company, which further contributes to premium flight.

Figure 35 below shows the proportion of oil-and-gas risk ceded to reinsurance companies. From 2014 to 2016, more than 70% of oil-and-gas risk was ceded, which was a striking increase from the proportions ceded in 2012 and 2013. The reduction in oil-and-gas business retained locally is consistent with the decrease in oil-and-gas premiums, driven by declining crude oil prices in 2013.

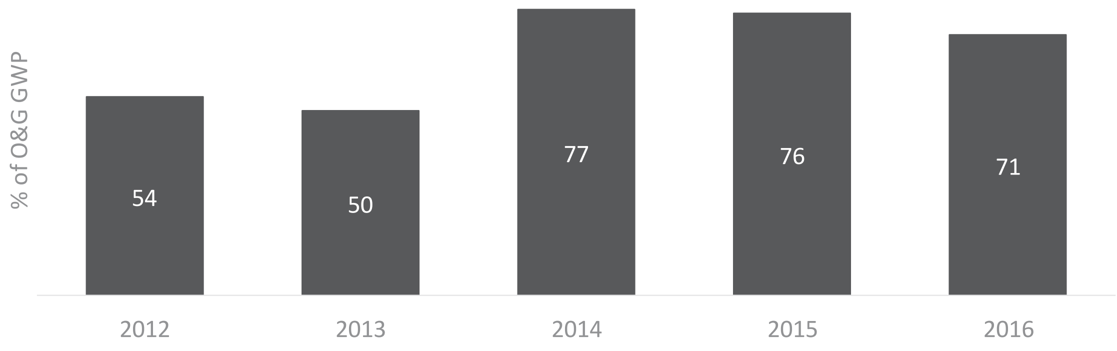

Figure 35: Proportion of oil-and-gas premiums ceded to reinsurers, 2012 to 2016

Source: NIA

Local content regulation not achieving its intended impact. Figure 36 graphically depicts the *in-principle* local content requirements as compared to stylised estimates of domestic and offshore risk placement in 2013 and 2016, respectively, based on data reported by NIA. The proportion of offshore placements has increased from 46.6% to 66% from 2013 to 2016. Our estimates are consistent with the findings from stakeholder interviews, which suggested that a large proportion of oil-and-gas risks are placed offshore through reinsurance arrangements. Thus, the local content regulation is not achieving the full intended impact of preventing premium flight and building domestic capacity.

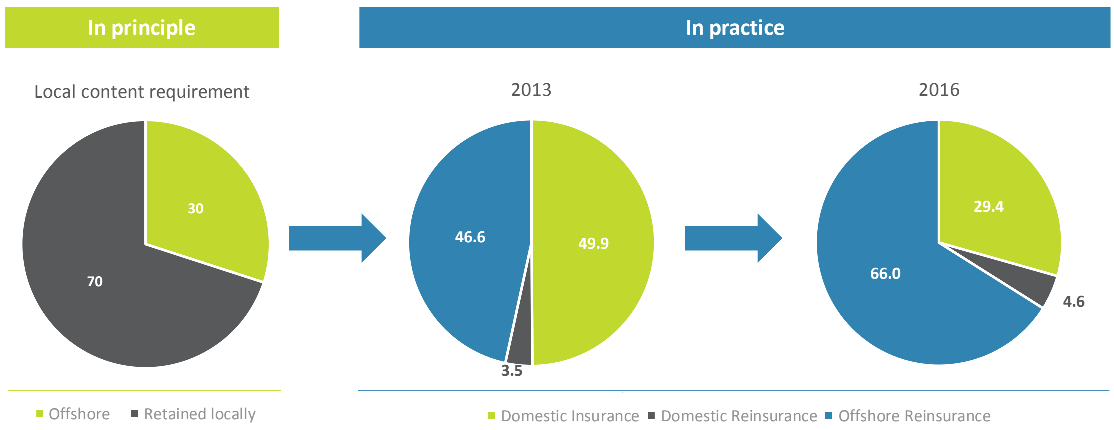

Figure 36: Nigerian oil-and-gas insurance arrangements, in principle and in practice

Source: Authors' own, NIA data

6.2. The role of insurance in business development and economic diversification

6.2.1. Risk management needs of SMEs

Need for business continuity risk management. Small and medium-sized businesses face several hazardous, operational, financial and strategic risks (Merry, 2015)[152]. In principle, insurance therefore has an important role to help growing businesses to thrive and survive.

Table 12 below outlines the main constraints experienced by SMEs in Nigeria according to a 2014 survey. Like large corporate firms, access to finance, access to electricity, and corruption are the most predominate constraints reported. These findings support the need for business continuity risk management tools. Further, insurance companies can enable access to credit by mitigating the potential default risk faced by SMEs.

Major industry constraints (% of total respondents)	Small enterprises	Medium enterprises
Access to finance	30.4	31.1
Electricity	26.9	27.3
Corruption	13.4	10.2
Tax rates	6.2	5.1
Political instability	4.3	4.3
Tax administration	0.9	4.3
Access to land	2.2	4.2
Practices of the informal sector	4.4	3.6
Transportation	6.4	3
Customs and trade regulations	2.1	2.9
Labour regulations	0.8	2.2
Crime, theft and disorder	1.1	0.8
Business licensing and permits	0.7	0.6
Inadequately educated workforce	0.3	0.5
Courts	0	0
Total	**100**	**100**

Table 12. Constraints faced by medium-sized and small enterprises

Source: World Bank Enterprise Surveys 2014

Limited availability of tailored SME insurance products. Of the top five general and life insurers identified in Section 4.2, only one company from each market segment directly targets SMEs. Corporate insurance products dominate the market and are often perceived by providers as more feasible to offer than SME products, which are costlier to tailor and distribute due to SMEs' high-risk and heterogenous needs. Products designed for SMEs are

[152] **Hazardous risks** refer to shocks induced by sudden climate change, property damage or personal injury/disease and business disruptions. **Operational risks** refer to shocks associated with business operations such as information and communication damages or the misfortune of books of account. **Financial risks** link to unexpected credit or liquidity shocks, and **strategic risks** underline those risks that businesses may incur to their reputation.

typically derivatives of larger corporate offerings and do not necessarily consider the unique risk needs of smaller enterprises. This problem is further worsened by the difficulty of SMEs to effectively articulate their unique risk management needs to insurance brokers.

Limited uptake of insurance and formal finance suggesting unmet need. According to the Access to Finance in Nigeria Survey (2016), only 1.3% and 0.9% of agricultural and other business owners, respectively, report having insurance cover. SMEDAN and NBS (2013) data reveals that fewer than one-third of SMEs have access to formal insurance products. The data also shows that personal savings and family sources are key sources of financing for SMEs. The availability of formal risk management tools may facilitate access to larger, more diversified financing that would enable small enterprises to develop into larger entities (Terungwa, 2012). This underscores the large untapped market opportunity for appropriately tailored SME insurance, but also the significant challenges in serving this disaggregated market.

6.2.2. Case study: Agricultural insurance

Agricultural development an important policy objective. As discussed in Section 2, the agricultural sector is responsible for a significant share of economic output and employment generation in Nigeria and forms an important part of the economic diversification drive. Yet, agricultural development progress has been incremental and Nigeria is a net food importer (PWC, 2017). Government, via the Federal Ministry of Agriculture and Rural Development (FMARD) actively seeks to develop the agricultural sector on three fronts: i) productivity enhancements, ii) institutional realignment and iii) crowding in private-sector investment (FMARD, 2016).

Agricultural sector actors facing personal and business risks. Agricultural businesses and farmers face pervasive, and largely unaddressed, insurable risks. According to EFInA (2017), approximately 80% of agribusiness owners and farmers reported having experienced personal risks such as illness, death and disability, or family and friends requiring assistance.[153] Approximately 20% of these agricultural actors reported having experienced business risks such as business failure, theft of business stock or natural disasters (i.e. fire, flood or storms). Nevertheless, less than 1% of farmers or agricultural business owners has taken up insurance.

Risks ranging from weather and disease to industrial and policy risks. Agriculture in Nigeria is highly prone to natural hazards arising from weather-related and biological risks (NAIC, 2017; Olubiyo and Hill, 2005). Weather-related risks such as droughts, bushfires, lightning and flooding adversely contribute to poor yields and low incomes along the value chain; while biological risks such as diseases and pests have the potential to disrupt input suppliers and producers[154]. Further up the value chain, agricultural processors such as cocoa processors or rice mills face industrial risks such as fire outbreaks, unstable utility supply, or breakdown of machinery. All agricultural actors are vulnerable to economic and policy risks such as currency fluctuations and inflation, sovereign default and government policy

[153] Survey elicited single response about something that happened in the past 12 months that caused unexpected expenses and made it very difficult to pay for other things.

[154] Devastating droughts during cropping seasons between 1972 and 1984 and an outbreak of rinderpest that almost wiped out cattle farms in Nigeria were contributing factors to the establishment of an agricultural insurance scheme.

changes. In addition, illegal activities may disrupt production activities or introduce unfair competition into the market.

Also considerable non-insurable risks and financing constraints. Agricultural businesses in Nigeria face considerable non-insurable risks along the value chain (PWC, 2017). Interviews with industry associations representing SMEs and agricultural producers, highlighted the following risks and constraints: i) limited access to information and extension services; ii) limited access to inputs such as good-quality seeds and shortages of fertiliser[155]; iii) production and processing capacity being undermined by a lack of affordable production equipment and irrigation infrastructure[156]; iv) basic infrastructure constraints such as access to electricity and roads, which undermine agricultural productivity and the ability to get produce to market; and v) limited access to financing and prohibitive interest rates – despite government initiatives to the contrary[157].

Risk experience depending on the type of activity. In Nigeria, the risks and constraints experienced in the agricultural sector differ along various dimensions. Most notably, agricultural value chain actors will experience varying risks based on whether they are involved in cash crop, food crop or livestock value chains.[158] Appendix D: The role of insurance in business resilience and enterprise development lists in more detail the risks and constraints faced by agricultural actors that participate in selected cash crops and food crops.

Important role for insurance. Insurance markets are well positioned to address the government's agricultural policy priorities and contribute to economic development and diversification by enabling local production of food crops and facilitating the export of cash crops. Agricultural policymakers have proposed a review of the structure of agricultural insurance markets, in partnership with NAICOM, to intensify competition and product innovation (FMARD, 2016).

Insurance linked to agri-credit schemes. To date, the development of the agricultural insurance market in Nigeria has been inextricably linked to the performance of agricultural credit markets. Commercial banking loans extended to the agriculture sector represented only 3.36% of total banking loans in the fourth quarter of 2017 (CBN, 2017). Hence, government has implemented several credit schemes – as outlined in Appendix D: The role of insurance in business resilience and enterprise development – to promote agricultural development (ActionAid Nigeria, 2017). Relevant recent examples are the Growth Enhancement Support Scheme and the Anchor Borrowers Programme. The latter was primarily established to connect out-growers (smallholder farmers) to local processors (the

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155 For example, stakeholder interviews highlighted that poor seeds and agricultural practices resulted in low germination rates ranging from 10 to 15%, as compared to more than 90% globally for improved seeds.

156 Local access to machinery is limited, and local quality of equipment was described by stakeholders as particularly poor. Hence, most of the agricultural equipment is imported, which is oftentimes too costly for agricultural players due to currency volatility and devaluations. This results in limited mechanisation of agricultural processes, which undermines the productivity of agricultural actors.

157 FMARD (2016) highlights that there are inadequate mechanisms and channels for agricultural financing. Stakeholder interviews further confirmed that financial institutions have limited capacity to lend to the agricultural sector, while the Ministry has inadequate capacity to facilitate agribusiness investment. Funding for agricultural programmes is typically allocated at FGN and state level; and there is limited funding at local government or ward level. Hence, agricultural programmes or interventions do not reach the grassroots.

158 See Appendix 3.5 and 3.6 for detailed value chains

off-takers). Public and private lending institutions then distribute agricultural insurance on the back of these schemes.

State-owned provision. Agricultural insurance in Nigeria has traditionally been the domain of the Nigerian Agricultural Insurance Corporation (NAIC). NAIC was incorporated in 1993 with the primary responsibility of implementing and administering the National Agricultural Insurance Scheme (FGN, 1993).[159] The general objective of the scheme is to protect Nigerian farmers from adverse effects that arise from natural disasters through the provision of financial support for losses that may arise. Typically, beneficiaries of agricultural credit are required to take up insurance from NAIC. Uptake of insurance from the Corporation is compulsory for agricultural market participants whose crop or livestock is covered by the scheme and who are simultaneously beneficiaries of commercial or government-funded agricultural loans.[160] In particular, NAIC is responsible for the following initiatives: i) to promote agricultural production and minimise the need for ad hoc government assistance during agricultural disasters, ii) to subsidise the premiums chargeable on selected crops and livestock (by up to 50%), and iii) to carry on commercial insurance business (i.e. without subsidy) on property, plant and equipment, which form part of the total investment on farms.

Government-sponsored agricultural insurance not perceived as effective. Despite the government-sponsored credit schemes and subsidised NAIC insurance offerings, there has been low uptake of agricultural insurance. Stakeholder interviews suggest that only 500,000 farmers have been reached through NAIC insurance and that the offerings are perceived to be expensive despite being subsidised by the government. Further, there was minimal trust that claims would be paid out on time or in full. In addition, it was stressed that banks do not understand the agricultural insurance process. The focus of agricultural insurance has been at the micro-level, as smallholders are indeed the most vulnerable. Nevertheless, the provision of agricultural insurance on a sustainable basis hinges on the scalability of insurance provision and an expanded focus along the whole value chain.

NAIC faces several challenges. NAIC dominates the agricultural insurance market; however, it has been underfunded to carry out its core activities. The Corporation's initial authorised capital of NGN200 million was set up from public-sector (90%) and private-sector (10%) contributions.[161] As at December 2015, the initial capital had reduced to NGN76.7 million as part of the original amount was used in meeting the recapitalisation needs of the corporation.

Table 13 below shows the performance of NAIC from 2013 to 2015. The Corporation reported losses in 2013 and 2015, despite consistently posting underwriting profits.[162] The major cost drivers that affect the performance of the corporation include personnel expenses and other operating expenses, which accounted for 64.8% and 30% of total expenses respectively. Stakeholder interviews also suggested that inadequate extension services impede NAIC's ability to verify losses of farmers. This constrains the claim payout

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[159] NAIC was established in 1987 and became a corporation in 1993 with the enactment of the NAIC Act (Elusakin, 2012).

[160] See Appendix D: The role of insurance in business resilience and enterprise development for a full list of crops and livestock covered by NAIC

[161] Public-sector contributions are primarily from the Federal Government (70%), State (10%), and CBN (10%). The private-sector portion is contributed commercial, merchant and development banks, insurance companies, and oil companies.

[162] There was flooding in 2012, which stress-tested NAIC's operations and provides a good sense of how well they will perform when a natural disaster hits.

process and contributes to an erosion of trust among agricultural insurance beneficiaries. In addition, NAIC has consistently reported impairment losses that exceed 50% of receivables due from Federal and State Governments. The receivables owed to NAIC reflect the premium subsidy due from the government, which oftentimes remains unpaid.

N '000	2013	2014	2015
Gross Premium Written	995,816	1,243,237	1,037,268
Claims expenses	(686,872)	42,910	(3,495)
Underwriting profit	254,141	924,544	835,382
Total operating income	597,332	1,267,150	928,368
(Loss)/profit after tax	**(505,181)**	**301,696**	**(194,264)**

Table 13. NAIC abridged income statement, 2013 to 2015

Source: NAIC Annual Reports (2014, 2015)

Limited private-sector participation. Private insurance players have to date had limited involvement in agricultural insurance. Before the incorporation of NAIC in 1993, no insurance companies in Nigeria were involved in agricultural insurance (Elusakin, 2012). Since 2013, agricultural insurance has been partially liberalised, and private insurance companies have been permitted to provide cover for all aspects of agriculture, following product approval from NAICOM (Hansen et al., 2017). Six insurance companies have received licences to provide agricultural insurance. However, NAIC still remains the dominant player. The current regulatory framework precludes private insurance companies from benefiting from the subsidies that underpin much of NAIC's business. The stakeholder interviews also identified limited skills, inadequate technical capacity, insufficient high-quality data (which is needed to dimension the risk associated with agricultural activities) and climate variability (which may result in larger, covarying risk events being experienced) as key constraints to private, unsubsidised provision of agricultural insurance.

Products traditionally indemnity-based. Figure 37 below shows a selection of public and private agricultural insurance offerings:

- Agricultural insurance offerings by NAIC are primarily subsidised multi-peril cover – with some general insurance. They are predominately focused on smallholder farmers. Based on NAIC's 2014 Financial Statements, approximately 60% of core business is subsidised agricultural insurance. NAIC subsidises the insurance premium payable by farmers by up to 50%. The Agricultural Insurance Scheme administered by NAIC covers crops, livestock and other agricultural items on a subsidy-basis, and other property, plant and equipment on a commercial basis (NAIC Act 1993). [163] The NAIC Act makes provision for crop risks that may cause damage or loss, and livestock risks that may cause death or injury. For crops, indemnity is based on input costs, whereas for livestock it is based on valuation tables prepared by the Corporation. Policies include multi-peril crop insurance, plantation fire insurance, livestock, poultry and fishery insurance. In addition, the

[163] Subsidised crops are typically food crops (i.e. for consumption), while commercial crops are cash crops (i.e. for sale / export). Subsidised livestock are typically for consumption, while commercial livestock or for domestication [PLACEHOLDER: *Source:* http://naic.gov.ng/agricultural-insurance-main-page]

Corporation is permitted to carry on commercial insurance business on property, plant and equipment, which form part of the total investment on farms.

- The private agricultural insurance providers typically offer peril insurance. According to Hansen et al. (2017), the focus of private agricultural insurance providers has been on medium-sized and large-scale farms.

	NAIC	IGI	Leadway
Subsidized crop	X		
Multi-peril crop	X	X	X
Plantation fire		X	
Subsidized livestock	X		
Commercial livestock	X		
Poultry	X	X	X
Fish farming		X	X
livestock	X	X	X
General business	X		
Tangible fixed assets	X		X
Farmers and employee	X		
Multi-Peril Cover	X		

Notes

Subsidized crops
- Maize (Small Scale), Rice, Cassava, Yam, Millet, Sorghum, Irish Potato, Soya Beans, Cow peas, Fluted Pumpkin – Rain fed, Melon, Groundnut, Vegetable, Sesame, Wheat, Sweet potato, Mixed crops (Mixtures of any of the above)

Perils
- Diseases*, accident*, fire, lightning, windstorm, flood, drought, pests*, theft**

* Sometimes excluded
** Mostly excluded

General business
- Theft, accident, burglary, loss or damage to plants, machinery etc, transit risks and other allied risks

Tangible Fixed Assets
- The perils covered include loss or damage to insured items by fire, lightning, collision, explosion, storm, violent theft and other allied perils.

Farmers, Farm Labour/Employees and their dependants
- The policy covers death or bodily injury which may result in temporary or permanent disability during the course of duty or work.

Multi-Peril Cover (MPC)
- The policy covers risks of loss or damage to agricultural produce or goods while in storage or in transit from one destination to the other or due to and fire, allied risks, burglary, house breaking and transit goods.

Figure 37: Selected agricultural insurance products in Nigeria

Source: Company websites

Insurance component to partial credit guarantee scheme. In addition to the agricultural insurance products provided by NAIC, the government has been responsible for the administration of partial credit guarantee schemes that aim to incentivise lending in the agricultural sector.[164] In particular, the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) and the Anchor Borrowers' Programme (ABP). NIRSAL is an initiative by CBN, FMARD and the Bankers committee to de-risk agriculture and mobilise financing for Nigerian agribusinesses by using credit guarantees to address the risk of default (CBN, 2014). The NIRSAL business model is depicted in the diagram below. In addition to the credit guarantees provided, NIRSAL requires borrowers to take up agricultural insurance and is the only credit-related government scheme that expressly accommodates the participation of both public and private insurance companies.

[164] Partial credit guarantees are credit enhancements that reduce the risk of default to incentivise credit providers to lend. (Beck et al., 2010)

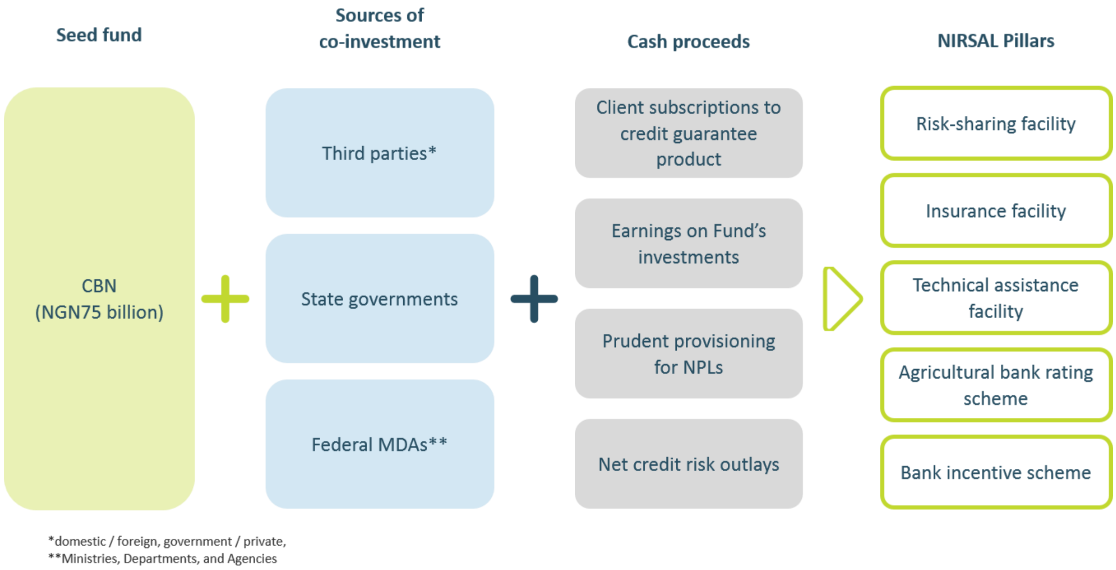

Figure 38: NIRSAL business model

Source: NIRSAL Guidelines, CBN (2014)

To date, NIRSAL's Risk Sharing Fund has guaranteed more than 600 projects with a total value that exceeds USD375 million, including the financing of more than 400 tractors (Abdulhameed, 2016; NIRSAL, 2017). In addition, NIRSAL has contributed extensively to agricultural insurance product development, capacity-building and technical assistance to primary producers, extension workers and financiers. Interviews with agricultural industry associations highlighted that the efforts of NIRSAL are considered innovative, yet highly politicised, and that despite the large need for risk management solutions for primary production, NIRSAL prefers commercial farmers. Further, the procedures to claim guarantees are onerous and the release of funds is delayed, which places significant liability on lenders when borrowers default.

Nascent index insurance opportunity via public–private cooperation. In addition to the indemnity-based insurance products noted above, parametric insurance presents an opportunity to expand the scale and impact of agricultural insurance in Nigeria. Parametric insurance pays beneficiaries a fixed amount on the occurrence of a triggering event (Clyde & Co, 2018). NIRSAL, in association with NAIC and a consortium of private insurers, has contributed to the development of an Area Yield Insurance (AYI) product, which is a form of parametric insurance. The parametric trigger in the case of the AYI relates to crop yields falling below a certain threshold. NAIC is the lead insurer and has a majority stake of 51% in the consortium, followed by Leadway who serves as the assistant lead. The remaining general insurance companies involved are Royal Exchange Assurance, Industrial & General Insurance (IGI) and AXA Mansard. African Re is the reinsurer.

The AYI is still nascent and NAICOM has indicated that it is targeting 15 more insurance companies for the index-based agricultural insurance initiative (Nnabugwu, 2018). As at April 2018, up to NGN2.75 billion expected revenues were protected for 16,954 farmers across maize, rice, wheat and cassava production (Abdulhameed, 2016; NIRSAL, 2017). The parametric insurance offerings are expected to expand to cover all other crops and livestock. In addition, the feasibility of weather-based index insurance (WBII) in Nigeria has been investigated (World Bank, 2011).[165] Stakeholder interviews identified plans for WBII as an avenue for innovation.

A major challenge to enhancing the feasibility of index-based insurance is limited access to good-quality data. Stakeholder interviews confirmed that 10 years of historical yield data has currently been obtained for the AYI, but 25 years of data is required to reduce the premium, which is currently perceived by farmers to be too high. In the case of WBII, the high cost and availability of weather data has been a major challenge.

Anchor borrowing programme providing opportunity for scale. The Anchor Borrowers Programme (ABP) aims to create economic linkages between smallholder farmers and reputable large-scale processors, that serve as aggregators, with a view to increasing agricultural output and significantly improving capacity utilisation of processors. Currently, NAIC is responsible for providing insurance cover to the projects under the Programme; and NIRSAL is responsible for collaborating on technical assistance. Given the participation of both farmers and processors, the ABP presents opportunities to enhance the business case for private insurance companies to enter agricultural markets at a feasible scale. The ABP is not without challenges, however. Notably, the terms and conditions of participating in the ABP are not clearly understood by smallholder farmers, and varied experiences have been reported across different states (The Guardian, 2017a, 2017b, 2017c). Further, stakeholder interviews highlighted that there are delays in loan disbursement by lenders and challenges in loan recovery from farmers.

6.3. Conclusion

"On paper versus in practice". This section has shown that the insurance sector does indeed play an important role in business resilience but that it faces several challenges in fulfilling its full potential:

- Oil-and-gas insurance in Nigeria is lucrative and largely driven by regulation. Thus it plays a core role in the general insurance market. Yet the market suffers from unsavoury practices and domestic insurers do not have the asset base to retain risks domestically or the capacity to honour large claims. Hence a large proportion of premiums flow offshore in reinsurance, thus undermining the intention of local content regulation. Better serving the oil-and-gas insurance needs domestically requires a structural change in the market towards fewer, stronger insurers.
- The role of insurance in supporting small and medium-sized business development is likewise strong on paper, but less evident in practice. The large and fragmented nature of the SME market poses a big distribution challenge. This suggests that meso-level products, targeted via associations or lenders with a pre-existing relationship with businesses, may be most effective.
- In the agricultural sector, insurance serves the policy imperative for economic diversification. Once again, however, this role is on paper rather than in practice. A history of subsidised premiums by a state-owned insurer has rendered a market with limited reach and innovation. Though innovative parametric insurance offerings are being rolled out, reach is still limited. Moreover, the focus is mostly on farmers, and dedicated agricultural value chain insurance is limited. Given the severe challenges in serving a rural smallholder farmer and agribusiness base, public–private

[165] A pre-feasibility study was completed for five Nigerian states (Kano, Kaduna, Lagos, Enugu and Cross River) for rain-fed maize and rice. See https://www.indexinsuranceforum.org/project/feasibility-study-index-insurance-and-awareness-raising-nigeria for more details.

partnerships are essential to transforming the agricultural insurance sector. The structural constraints are too big for the market to serve on its own; and NAIC does not have the capacity to serve the risk management needs of agricultural actors in Nigeria.

7. The intermediation role of insurance

Key insights:

Capital market support for insurance market development

- Insurance company stocks have small market capitalisations, low share prices and are illiquid. Performance of insurance stocks reflects their poor fundamentals and low profitability.
- Insurance companies face capital shortages, which are addressed more through private markets than through public markets.
- There is increasing interest from foreign investors who want to take advantage of long-term insurance market opportunities.

Mobilisation and allocation of institutional investment funds

- Insurance companies have NGN774 billion investment assets under management, which represents 2.5% of total financial-sector assets.
- Pension fund assets under management is approximately seven times larger than that of the insurance sector, which represents significant intermediation opportunities.
- Insurers have access to pensioners' retirement savings accounts via annuity products, which has been an important source of capital.
- Institutional investors have conservative investment allocation strategies that skew allocations towards safe, liquid asset classes, with a substantial allocation to government debt.
- Funds raised by government from institutional investors are largely channelled to recurrent expenditure and debt service, and not capital expenditure. Thus, the indirect impact of the insurance and pensions sector on growth via the intermediation function is sub-optimal.

Capital market development is important for economic growth and development. In his seminal papers, Levine (2005, 1997) outlined five functions that capital markets[166] can fulfil in economic development:

i. **Mobilise and pool savings:** Capital markets efficiently mobilise domestic and international resources at significant scale by creating a diverse menu of saving and investment options.
ii. **Allocate capital:** A well-functioning capital market facilitates the efficient allocation of capital towards productive use in the economy.
iii. **Facilitate the trading, diversification and management of risk:** Money and bond markets enable macroeconomic stabilisation, equity markets provide opportunities for risk diversification, and derivatives markets enable alternative risk transfer beyond the scope of traditional risk management approaches.

[166] Chamberlain et al. (2017) define the capital market as: "a market where equity, debt and other financial instruments are bought and sold. Capital markets bring together supply and demand of capital, by attracting institutional investors (such as insurance firms) that supply capital, and businesses, individuals or governments that use or require capital. Capital markets include primary markets, where instruments are sold for the first time, and secondary markets, where existing instruments are traded."

iv. **Produce information:** Capital markets facilitate price discovery of tradeable assets, convey performance information about the performance and profitability of current investments, and crystallise the economic expectations of economic agents.
v. **Monitor and exert corporate governance:** Capital markets contribute to enhancement and monitoring mechanisms and facilitate disclosure by setting and enforcing listing requirements.

Appendix *E: The intermediation role of insurance* presents a diagrammatic depiction of the five functions of financial markets and the transmission mechanisms from the financial system to the real economy.

Insurance and pension markets[167] matter for capital market development. In Nigeria there is a limited, but growing, interplay between insurance companies and pension funds. As such, an investigation of the insurance sector's role in developing the capital market cannot exclude a discussion on linkages with the pension market. Insurance companies typically mobilise capital from the collection of policyholder premiums, while pension funds are primarily responsible for collecting and managing the savings of retirees. The sizeable assets accumulated by institutional investors represent investable funds. By investing their assets into capital markets and direct investments, institutional investors intermediate funds towards potentially productive economic activity. Hence, the investment decisions of insurers and pension funds are essential for the functioning of the capital market and the economy as a whole.

The rest of this section first explores the potential for insurance companies to raise capital from the domestic stock markets or foreign direct investment, then takes a closer look at the drivers that enable and inhibit institutional investment allocations. Finally, it outlines the gaps and opportunities to enhance the role that the insurance and pensions sector can play in capital market development.

Note that the focus is on outlining the linkage between the insurance and pensions sector and the capital market. It does not aim to address the broader question of the drivers of and barriers to capital market development in Nigeria, which would require a separate, dedicated research focus.

7.1. Capital market support for insurance market development

Capital essential for business-as-usual, growth and buffering but potentially costly to hold. Insurance companies require capital to undertake their core business of taking on risk. In exchange for regular premiums, insurers commit to compensating customers when adverse events arise. To make good on these obligations, insurance companies need to have sufficient financial resources. The capital raised and the premiums collected enable the insurer to pay out claims when they fall due and cover the related business expenses (Kielholz, 2000). Further, an insurer's capital base safeguards against unexpected claims or financial losses that may arise in the ordinary course of business. Over and above the essential role that capital plays in sustaining ongoing operations, insurance companies may need to seek financing in order to replace capital that has been depleted by operational

[167] Nigeria is the only country in Africa that follows the Chilean pension market model. In short, the Chilean model works on an individual pension account basis in which each individual decides who the pension fund administrator is who manages their pension money (Yusuf, 2014).

losses, and also to fund additional growth opportunities that cannot be supported by existing capital (Berry-Stölzle et al., 2014).

Capital management decisions are made after careful consideration of the trade-offs between the potential returns on capital and the associated costs of holding capital. Kielholz (2000) outlines at least four distinct costs of holding capital, namely: i) an investor's rate or return[168], ii) transaction costs[169], iii) agency costs[170] and iv) taxation.

Insurance companies presenting poor investable prospects on the Nigeria Stock Exchange (NSE). Insurance sector performance on the NSE has been lacklustre relative to other financial sub-sectors. Institutional and individual investors are faced with numerous investment options, and the return on their investments is expected to adequately compensate for the opportunity cost of capital. Figure 39 depicts the cumulative annual growth rates of various equity indices constructed by the NSE.

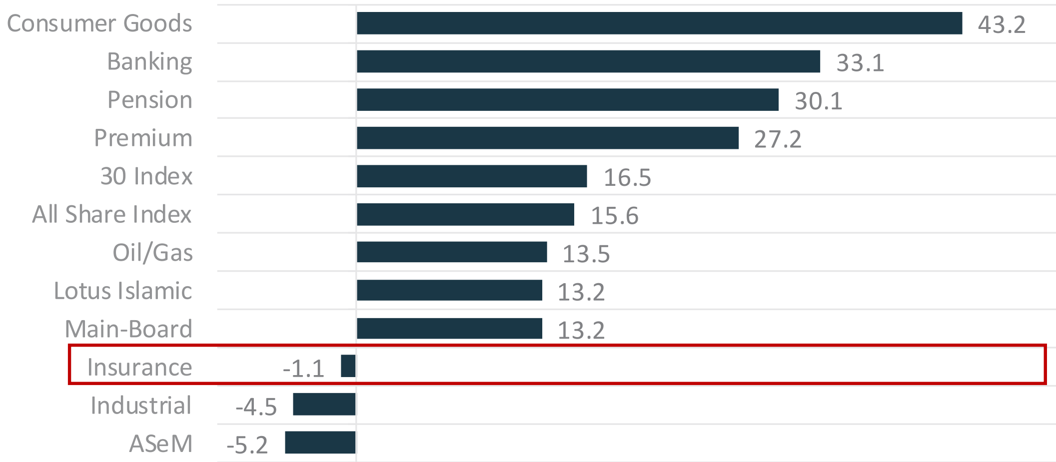

Figure 39: Cumulative annual growth rates of equity indices, 2015 to 2017[171]

Source: Authors' own (NSE data)

Over the two-year period from December 2015 to December 2017, the All Share Index yielded an average annual return of 15.6%.[172] The top performer on the NSE was the consumer goods sector, which recorded an average annual return of 43.2%. From an investor's perspective, the financial sector may present an opportunity for portfolio diversification across multiple industries in the economy; however, insurance companies did not perform as well as other sub-sectors. Among the financial institutions, the best

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168 The opportunity cost of capital, or fair rate of return, is the rate that insurers have to compensate investors for the use of their financial resources.

169 Transaction costs are typically made up of fees paid to issuing housings such as investment banks. In Nigeria, the prescribed fees are regulated and enforced by the Securities and Exchange Commission (SEC). In a move to reduce the costs of raising capital, the SEC implemented upper limits on the total cost of equity and debt issues.

170 Agency costs arise due to the asymmetric information between investors and insurance companies. As investors do not have full information about management's decision-making, the perceived risks of their investment allocations are typically higher than the actual risk. While the costs of transparency may be significant, an alternative approach is for the insurance company to compensate investors for the additional uncertainty, which increases the cost of capital.

171 See Appendix 2 for comparison of equity indices for various time periods

172 Insurance companies can be listed on one of the NSE's three boards: the main board, the premium board, or the Alternative Securities Market (ASeM). Each of the boards is distinguished by the listing requirements, with the premium board having the strictest requirements (see http://www.nse.com.ng/issuers/listing-your-company/listing-requirements for more details).

performer was the banking sector and the worst performer was the insurance sector, with a negative average return of -1.1%. Many insurers' stocks have over the past few years been trading flat around the 50 Kobo minimum par value and dropped well below when the price floor was dropped at the end of 2017, earning the title of "penny stocks". The limited share-price movements constrain the potential returns that investors can realise, which disincentivises them from committing capital to insurance companies. Thus, the insurance sector has not been an attractive choice for investors to allocate their funds. In December 2017, insurers only represented 0.64% of total stock market capitalisation and most insurers fall within the small caps threshold. Top-tier insurance companies typically have higher market capitalisations than other listed insurers.

Appendix E: The intermediation role of insurance provides a full historical overview of market capitalisation, share price movements, returns and risk-return ratios in the insurance sector to illustrate.

Lacklustre stock market performance driven by poor underlying business fundamentals. Share price performance is influenced by the demand for investable opportunities. In turn, this demand is driven by investors' expectations of future performance, which is reflected in the performance of the underlying business. Figure 17 and Figure 18 in the Providers section present key performance indicators for life and general insurers, which show that insurance companies did not perform well in 2016. With the exception of the top tier of insurers, which performs better than the rest across all indicators[173], few insurance companies present good investment opportunities from a business management and business growth perspective.

Constraints in raising public capital compensated for by private capital markets, notably FDI. The result of the poor stock market performance and fundamentals described above is that insurance companies have difficulty raising capital on the stock market, which in turn constrains their risk management potential. To supplement the capital raised on the NSE, insurance companies can tap into private capital markets, including foreign direct investment. The issuance of new licences has been suspended to encourage consolidation of the insurance market. This has prompted increased merger and acquisition activity in the past few years, many of these with a foreign company as counterpart (for further details, see Table 15 in Appendix B: Insurance providers)[174]. Foreign investment provides the domestic insurance industry with much needed capital in an environment where they have struggled to raise capital on local capital markets. It also provides an injection of skills and capabilities that are in short supply in the Nigerian insurance market.

Long-term foreign investors interested in innovative market opportunities. Stakeholder interviews suggest that foreign investors are attracted to the Nigerian insurance market because of the significant long-term opportunities that exist, unlike many local insurers, who are mostly interested in the large corporate market and compulsory business lines[175]. Some investors have specifically identified the potential of the largely untapped retail market and the immense opportunity for innovation in that market. The recognition of long-term opportunities by foreign investors bodes well for the Nigerian insurance industry. It signals

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[173] Notably, top tier life insurance companies reported return on equity (ROE) of 52.8% in 2016, compared to a sector average of 7.2%. Similarly, non-life insurance companies reported ROE of 15.8% compared to sector average of 4%.

[174] In addition to direct investments, the removal of the price floor may also support foreign investment into insurance stocks on the NSE, as it aids price discovery and may present bargain opportunities for investors. See Appendix E for more details.

[175] However, many foreign investors' interest in entering the Nigerian insurance market is moderated by their unwillingness to participate in unscrupulous market practices.

an intention to develop the market and commit capital for the longer term, provided that the business environment is favourable.

7.2. Mobilisation and allocation of institutional investment funds

7.2.1. The role of insurers and pension funds as institutional investors

Mobilisation, pooling and allocation of investable funds. Insurance companies accumulate large amounts of investable funds through premium collection and investment activities (Dickson, 1998; Gupta, 2014). Premiums are collected in advance during the ordinary course of business, to provide for obligations that may arise in the future; this premium income is available for insurers to invest. In addition to the premiums collected, insurers generate funds from investment income and maturing investments. According to Tschampion et al. (2007), the primary investment objective of insurance companies is to service future policyholders' claims and benefits as and when they arise. Hence, the appropriateness and suitability of insurers' institutional investment allocation decisions is typically determined by the nature and term of their underlying liabilities. Typically, life insurance companies create long-term liabilities that require long-term investments, while general insurance companies require investment in short-term, liquid assets (Chamberlain et al., 2017).

Sister companies and third-party funds creating opportunities to raise additional investable funds. As highlighted in Section 4, a number of insurance companies are in group holding structures. In addition to housing insurers, some holding companies hold pension fund administrators and fund management subsidiaries. Within financial holding companies that undertake various banking and non-banking financial services, pension funds are ring-fenced with limited interference or influence allowed by non-pension players. Nevertheless, stakeholder interviews suggested that the ability to source third-party funds via a fund management subsidiary and to cross-sell insurance to pension clients in the same group provides an opportunity to expand the assets under management available to institutional investors.

Linkages between insurance and pensions markets. Apart from the cross-selling potential, there is a direct linkage between the insurance and pensions sector in the form of the annuities market. A Contributory Pension Scheme (CPS) requires employers and employees to contribute to an employee's retirement[176]. At retirement, the accumulated savings of retirees can be utilised either in a Programmed Withdrawal or a Retirement Annuity. Programmed withdrawal funds remain part of the pension market and are administered by pension fund administrators, whereas annuity funds are managed by life insurance companies[177].

Annuity market as source of investable funds. The annuity market linkage means that growth in pension fund assets under management plays an important role in insurance market development. The annuity market represents a significant growth opportunity for life insurance companies and provides an avenue for them to increase the size of their investable funds under management. As shown in Section 4.2.1, premiums from annuity business made

[176] As such, pension funds attract predictable, long-term, contractual obligations, much like life insurance companies.

[177] In Appendix E: The intermediation role of insurance we outline further details of Nigeria's pension fund structure and provide some country examples that demonstrate the interplay of insurance and pension markets in sub-Saharan Africa. For the remainder of this section, we consider both insurance and pension funds in our consideration of institutional investments available for long-term investment.

up 32% of total life insurance premiums in 2016. Stakeholder interviews highlighted the annuity market as the most fruitful growth opportunity for the life insurance market.

Figure 40 below shows the growth in the cumulative premiums available to the annuity market, which represents income received by life insurance companies since the issuance of the joint Regulation on Annuity issued by PENCOM and NAICOM in 2009 (PENCOM, 2009). From 2009 to 2017, cumulative annuity premiums grew to NGN241.6 billion.

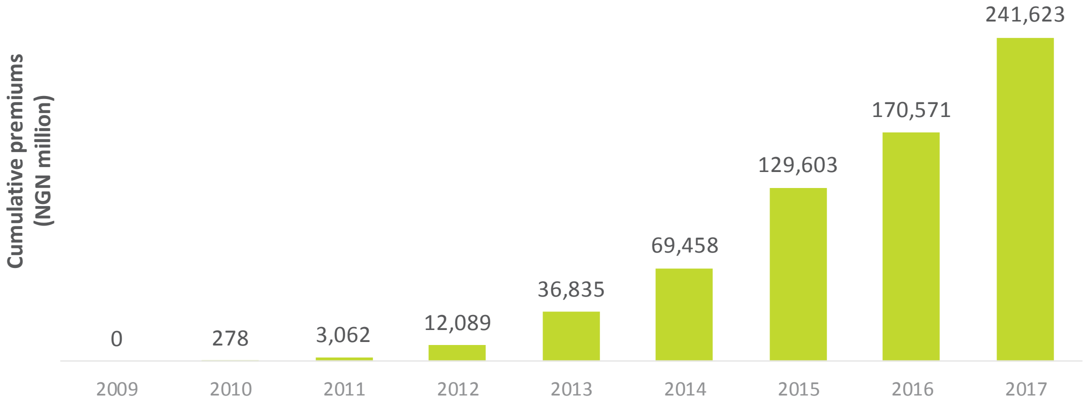

Figure 40. Cumulative annuity premiums 2009 to 2017

Source: Authors' own (based on PENCOM data)

Significant assets under management when pensions sector is included. The insurance industry itself is still too small to play a substantive role as an institutional investor. However, when considering the 15.5% contribution of pension schemes to total financial assets, the combined institutional investment role is greatly expanded. From 2013 to 2016, total insurance investment increased by 48.5% from NGN522.9 billion to NGN776.5 billion (NIA, 2016, 2013). A significant driver of insurance investment growth was an increase in life insurance investments, which grew by 78.3% on the back of annuity premium growth, as compared to growth of 20.2% reported by the general insurance sector. Over the same period, pension assets increased by 51.8% from NGN4.06 trillion to NGN6.16 trillion (SEC, 2018).[178] Pension fund assets under management are expected to grow further with the introduction of the Micro Pension Plan that extends the Contributory Pension Scheme to self-employed individuals and those working in the informal sector (PENCOM, 2018a, 2018b). Collectively, insurance companies and pension funds represented NGN6.94 billion in total institutional assets under management in 2016.

7.2.2. Drivers of institutional investment decisions

Different drivers of investment decisions. The insurance and pensions industries' investment practices are underpinned by conservative fiduciary principles, to mitigate against the risk of significant loss of insurance assets or the interruption of investment income. Different institutional investors have different investment policies, depending on their investment time horizon and liquidity requirements. Life insurance companies are traditionally characterised as long-term investors, with predictable cash flows and minimal liquidity[179] requirements. Annuity investment portfolios will have a higher liquidity requirement than

[178] From December 2016 to 2017, pension fund assets increased by 22% from NGN6.16 billion to NGN7.52 billion (SEC, 2018).
[179] Liquidity is the ease and speed at which an investment can be sold for a fair price.

other life insurance portfolios. The duration of general insurance liabilities tends to be shorter, with the uncertainty of cash flow giving rise to relatively higher liquidity needs than for life insurance companies. Like life insurance companies, pension funds have long investment horizons[180], yet their liquidity requirements depend on the proximity of retirement pay-outs[181].

Nigerian insurers generally having short-term, highly liquid investment needs. In Section 4.2.1, it was highlighted that annuities and compulsory group life constitute a significant share of the life insurance market, while the oil-and-gas sector and third-party motor vehicle insurance represent the largest non-life insurance classes. The structure of the market suggests high liquidity needs to cover the uncertain timing of future cash flows. Further, the dominance of short-dated liabilities constrains the risk tolerance of insurance companies. As such, we would expect a disproportionate investment allocation in short-term, relatively safer assets. Interviews with various stakeholders confirmed that investors are trading off returns for security.

Pension funds having long-term, low liquidity investment requirements. In Nigeria, the characteristics of employees participating in the Contributory Pension Scheme determines the investment needs of pension funds. Figure 41 below graphically depicts the age distribution of the 7.82 million retirement savings account (RSA) members in Nigeria as at December 2017. The age profile is skewed towards younger employees, with 75% of Active RSA account holders being 49 years old and below[182]. Given that the time horizon and liquidity need of pension funds depend on the proximity to the pay-out of benefits, the current profile suggests the need for long-term strategies that simultaneously maximise investment returns and mitigate the risk of principal loss, with less consideration for liquidity. Hence, we would expect a disproportionate investment allocation in long-term, relatively safe instruments.

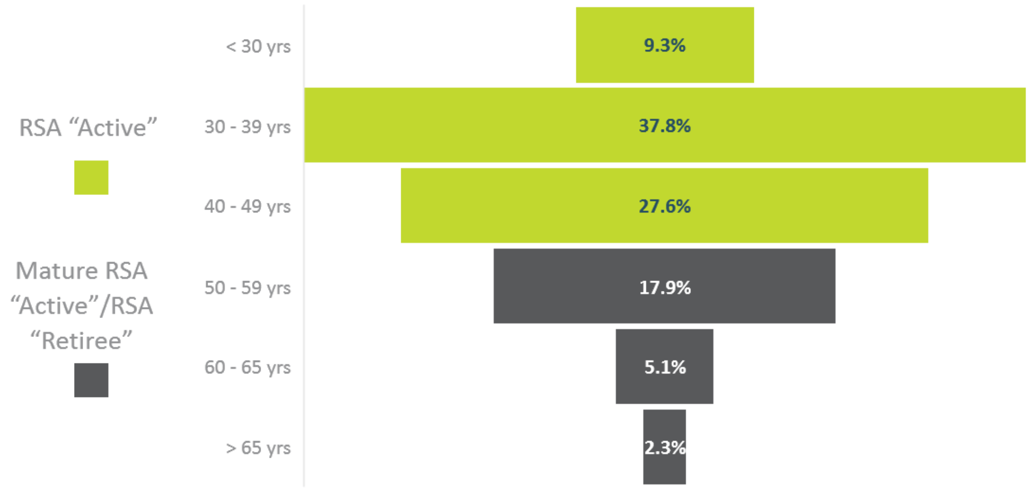

Figure 41. Age pyramid of retirement savings account holders, December 2017

Source: Authors' own, adapted from PENCOM

180 The investment horizon refers to the planned liquidation date of investment

181 Younger employees will have low liquidity requirements, whereas mature employees and retirees would have high liquidity requirements.

182 In Nigeria, official retirement age varies. Retirement savings account holders are entitled to access their RSA upon retirement based on condition of service or after having attained the age of 50 years, whichever is later (PENCOM, 2018c)

A variety of instruments available on the NSE, with adequate capital market activity. Investment allocations rely on the availability of investment instruments. A comprehensive range of investment products are listed on the Nigerian Stock Exchange (NSE).[183] Institutional investors have access to traditional investment classes such as equity, government and corporate bonds, treasury bills, money market instruments and cash, collective investment schemes, in addition to alternative investments (e.g. infrastructure, private equity and real estate) and the non-interest capital market (e.g. Sukuk bonds). In the second quarter of 2018, there were approximately 4,383 average daily transactions on the NSE, with an average daily value traded of NGN5.99 billion (NSE, 2018).

Different instruments suitable for different investment objectives. Asset allocation decisions are based on the relative returns that available investment instruments can provide, in line with the time horizon and liquidity needs of the institutional investor. Equity instruments and collective investment schemes have unspecified tenures or time horizons, while fixed-income instruments have tenures that range from 91 days to 20 years. Appendix E: The intermediation role of insurance outlines the returns across selected investment instruments available in Nigeria. It shows that Nigerian equities have capital appreciation potential in the long run, but they are subject to significant volatility in the short term. Likewise, collective investment schemes render high returns, but exhibit significant variability. Direct property investments (and to a lesser extent indirect property investments) are popular and render high returns, but at relatively high risk. In contrast, fixed-income instruments such as Treasury Bills and FGN bonds yielded relatively stable returns, with Treasury Bills more attractive than long-dated government bonds.

Tax and regulation also affecting investment decisions. In addition to horizon, liquidity and availability of instruments, investment decisions are determined by tax and regulatory considerations. While pension funds are typically tax exempt, insurance companies are tax-paying entities. Hence, insurance companies focus on the after-tax performance of their investment strategies and allocations. Insurance companies and pension funds are also subject to regulatory investment requirements, which are considered below.

Investment guidelines limiting excessive risk-taking. Institutional investment guidelines issued by NAICOM place quantitative limits on investment instrument classes. Restrictions typically take the form of a maximum percentage of assets permitted in certain asset classes. Investment restrictions for unlisted investment securities, and alternative investments typically have lower maximum thresholds than those set for traditional, listed investments. The latest insurance guidelines, which date back to 2010, restrict listed equity allocations to 50% of total assets,[184] while non-listed equity allocations are permitted up to 10% of assets. Life insurance companies may not place more than 35% of their total assets in real assets, given the long-term and low-liquidity nature of assets in the real economy. Given the shorter-term liabilities of non-life companies, these companies are only permitted to invest up to 25% in real property investment (NAICOM, 2010, 2008, 2003). In addition to the maximum asset allocation restrictions, insurers are required to invest a minimum of 20% of non-life funds and 40 % of life funds in real property development (National Housing Fund Act, 1992).

[183] The Nigerian Stock Exchange (NSE) is responsible for listing and trading services, licensing services, market data solutions, among others.

[184] Not more than 20% may be allocated to any single listed company.

Pension allocation subject to conservative investment guidelines. Following the transition from a defined benefit (DB) to a defined contribution (DC) scheme, the regulator outlined conservative guidelines to allay employees' and retirees' fears about the security of their retirement savings. The pension investment guidelines use clear, prescriptive language to emphasise an explicit mandate of "safety and maintenance of fair returns" (PENCOM, 2014, 2017a). In 2010, the regulatory framework for pension fund investment transitioned from a single-fund to a multi-fund structure, with the intention to relax restriction on younger RSA holders that have longer time horizons, lower liquidity needs, and higher tolerance for riskier investments. See Appendix E: The intermediation role of insurance for an overview of permitted investment allocations across age cohorts.

Annuity investment guidelines conservative, but with some scope for tailored portfolio allocations. Annuity funds represent retiree funds, the age class that requires the most conservative allocations under the PENCOM guidelines due the constrained investment horizon of beneficiaries – from age 50 for remainder of life – and the increased liquidity needs of retirees. In 2009, PENCOM and NAICOM issued joint annuity guidelines to govern activity in the annuity market (PENCOM, 2017b). The language of the joint guidelines is relatively less prescriptive than the pension investment guidelines. Notably, the maximum limits on variable income investments permit more aggressive investment allocations than retirees under programmed withdrawal.

7.2.3. Institutional investment behaviour

Cautious asset allocations with a preference for fixed-income government securities. To assess the impact of institutional investment decisions on the real economy, it is useful to investigate the *actual* asset allocation behaviour of insurance companies and pension funds. Appendix E: The intermediation role of insurance depicts the flow of institutional investment funds from the type of investor to the available assets for the pensions and insurance sector, respectively. Most institutional assets under management are allocated to government bonds and short-term investments. Federal Government Bonds account for NGN3.7 trillion or 52.9% of total institutional investment allocations. Short-term investments comprise Treasury Bills, local and foreign money market securities, commercial papers and other liabilities, and they account for 22.3% of total institutional investments. Ordinary shares and real estate represented 8.5% and 5.4% of total asset allocations respectively. Less than 5% of institutional allocations is invested in corporate bonds. Pension funds are even more significant contributors to the long-term domestic bond market, which dwarfs other classes in pension asset allocations. Collectively, FGN Bonds and short-term investments account for approximately 75% of total institutional investment allocations.

These findings demonstrate a preference for fixed-income government securities, which confirms the tendency to trade off security for returns as noted above. Given the mostly short-term, liquid investment needs of insurance companies in Nigeria, it is not surprising that a significant share of institutional assets under management are allocated to short term investments and liquid assets. Nevertheless, given the long-term nature of future obligations held by insurance companies, larger allocations towards ordinary shares and alternative investments would have been expected.

Implications for inclusive growth ride on government allocation of debt. To evaluate the role of institutional investment in economic growth and development in Nigeria, we need to explore how the asset allocation decisions highlighted above translate into real-economy investments. As the current institutional investment allocations are skewed towards government securities, an understanding of how the government raises and allocates resources will provide us with insights into the potential of institutional investment allocations for inclusive growth[185]. In 2016, 49.7% of government's domestic debt was raised from pension funds, insurance companies and asset managers, with the balance raised from banks (33.8%), CBN (15.3%) and a sinking fund (1.3%)[186].

Government allocation of domestic debt depressing potential multiplier effect. Capital expenditure is critical for economic development[187]. Yet, in 2016, less than a third of government budget allocations were directed towards capital expenditure (BudgIT, 2017). Over 60% of domestic debt was allocated to non-debt recurrent expenditure and debt service. Hence, the potential multiplier effect of institutional investment on the economy is sub-optimal, as it is largely not channelled into infrastructure and other capital expenditures.

7.3. Conclusion

By acting as institutional investors, insurers can help to develop the capital market and, in principle, play an important intermediation role in investment and, hence, economic development.

Insurers not attractive investments or large institutional investors. This section has shown that Nigerian insurers, by themselves, are not large institutional investors. Neither are they attractive investable opportunities. Insurers face capital shortages and struggle to raise capital on public capital markets due to poor business fundamentals. Increasing merger and acquisition activity bring capital inflows via foreign direct investment. Yet assets under management for the sector as a whole remain low in comparison to the pensions sector.

Pensions greatly enlarging the investment footprint. When the pensions sector is added, the combined institutional investment role of the two sectors is substantive. The pensions sector is also feeding growth in the insurance sector via the budding annuities market.

Bulk of investments allocated to government debt. When investing their assets, insurers and pension funds favour safe, short-term assets. Investment allocation decisions are constrained by conservative investment guidelines, risk-return profiles favouring short-term instruments and asset-liability considerations. Institutional investors invest substantially in short-term government securities and longer-term government bonds.

Government debt allocations moderating the economic multiplier of institutional investments. Government's allocation of debt largely to recurrent expenses and debt servicing limits the multiplier effect of insurers and pension funds' asset allocations on the real economy. Thus, while the insurance and pension sectors do play a role in intermediating investments for growth, the full potential of this role is not realised. Unlocking this potential requires the development of viable longer-term investment instruments that are able to

185 As at December 2016, the Federal Government of Nigeria (FGN) reported a public debt stock of NGN17.4 trillion (DMO 2016), comprising external debt (NGN 3.5 trillion), FGN domestic debt (NGN 11.1 trillion) and states' domestic debt (NGN 2.8 trillion). Despite an oversubscription of domestic debt auctions, the Federal Government continues to raise capital on foreign capital markets. Going forward, this may have implications for institutional investor investment portfolios given their over-reliance on domestic Federal Government Securities.

186 This increase in domestic debt was due to new borrowings to partly fund the 2016 appropriated budget deficit and the refinancing of matured debt obligations.

187 The following ministries account for 50% of total capital expenditure allocations: power, works, housing (23.6%), transportation (11.7%), special intervention (6.7%), defence (6.3%), and universal basic education (4.1%).

effectively compete with government debt or a change in the investment guidelines to mandate infrastructure and other capital investments.

8. Opportunities for market development

This document outlined the development path and present state of the insurance market in Nigeria to understand the current and potential role of insurance from three perspectives: in building household resilience, in supporting business resilience and enterprise development, and in capital market development.

Context drivers of market development

The development of the market is inextricably linked to the economic, political economy and demographic context within which the market develops. We see a context with many contradictions:

- ***Large, growing population largely making an informal living***. Nigeria is a populous country, home to one in every five Africans. The population is growing. It is also urbanising rapidly. While the formal economy is unable to absorb the growing workforce, the informal economy is buoyant, particularly driven by small-scale traders.
- ***Growing connectivity***. Despite the fragmented nature of employment, the population is increasingly connected. Nearly one in every three Nigerians now have a smartphone, and close to half of them are regularly using the internet. Yet, regulatory restrictions have meant that mobile money is slow to take off.
- ***Economic and regional disparities.*** Nigeria is a diverse country along ethnic, religious and economic lines. Poverty and income inequality at regional and ethnic levels contribute towards instabilities and terrorism.
- ***Economic diversification imperative***. The performance of the Nigerian economy – and, with it, state revenue – has historically been strongly linked to the performance of its oil-and-gas sector. Therefore, fluctuations in the price of Brent Crude has significant effects on the growth trajectory of the Nigerian economy, as witnessed in the adverse effects of the 2016 recession. For the longer-term sustainable growth of the economy, as well as social stability, it is essential that the relative GDP contributions of other sectors increase. The Economic Recovery and Growth Plan (ERGP) articulates such a diversification strategy, emphasising macroeconomic stabilisation, infrastructure, energy sufficiency, small business development and food security via agricultural value chain development.
- ***Large opportunities, but tough conditions***. As the economy recovers from the recession, the ERGP sets the tone for a climate of reform and opportunity. This is supported by a strong banking and pensions sector with a large asset base. Nevertheless, the business environment remains challenging, as evidenced by a consistently low ranking on the global ease-of-doing-business index. Access to justice is slow and initiatives for SME and agricultural value chain development have faced challenges.

Landscape of insurance provision

There should be opportunities for insurance on the back of the turnaround of the economy out of recession, as well as the government drive for diversification. Indeed, insurance can support several of the ERGP pillars. Foreign acquisitions of local insurers over the past few years confirm the opportunities in the Nigerian market. However, several market features challenge insurers' ability to reap the returns:

- ***Fragmented market with often poor performance.*** At 59 licences across a relatively small premium pool, the insurance market is fragmented. Apart from a few larger and stronger insurers, there is a large tail-end of insurers with small balance sheets and often weak business fundamentals[188]. For many insurers, expense ratios are high and claims ratios are either too low to provide consumer value, or too high to attain profitability. NAICOM has used capital requirement increases to consolidate the market, but it acknowledges that more consolidation is necessary. Proper enforcement to ensure sound financial positions has also been lacking so far.
- ***Limited asset base constraining capacity to absorb risk***. The ability of the insurance sector to fulfil its role as risk manager in the economy is determined, to a large extent, by the size of its assets. Only 2.5% of financial sector assets sit with insurance companies, with the majority of those assets being on the balance sheets of general insurers.
- ***Skills constraints***. Technical skills are scarce, and the number of insurance professionals is disproportionately low for the number of insurers and brokers in the market. The scarcity of technical skills also affects the regulatory authority and its ability to regulate and supervise the market.
- ***Trust deficit***. Poor-performing insurers and a poor claims track-record are fuelling public distrust in insurance. The market's reputation is further tainted by compulsory insurance lines that are poorly enforced and seen by the populace as a tax, rather than a benefit.

Overall, Nigeria exhibits features of the second stage of insurance market development: Corporate and compulsory general insurance business accounts for the bulk of premiums. Life and health insurance penetration is largely provided on a group basis, and the individual retail insurance market is nascent.

Against this backdrop, how is insurance in Nigeria faring in supporting household resilience, business growth and capital market development, respectively; and where do the main opportunities and imperatives lie?

Insurance for individual and household resilience

Current role limited. Uptake of insurance products lags significantly behind that of other financial services. The Access to Finance in Nigeria survey shows significant risk exposure among Nigerians. Yet only 1.9% of adults have insurance cover, compared to 38% of adults with a bank account. Instead, households typically rely on their social circle to deal with unexpected risk events, or resort to more drastic coping mechanisms such as reducing consumption or selling assets. This suggests an unmet need for insurance.

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188 Such that the insurance sector is the worst-performing sector on the Nigerian Stock Exchange with trading prices often close to zero.

Insurance uptake often not voluntary. The most popular insurance product line is health insurance (609,000 adults). Beyond that, uptake is often compulsory. Compulsory group life and motor-vehicle insurance together account for a substantive part of household insurance penetration. Voluntary, individual insurance policies are still very limited.

Reach limited to urban and high-income segments. The uptake of insurance among individuals and households is concentrated in urban areas, largely in the south, and within specific target markets that are typically easier to reach. Almost half of the 1.8 million adults who have insurance work as salaried employees.

Distribution challenges to reaching the mass market. Distribution is largely broker-driven, and most premium collection is done through corporate payments or payroll. Agent sales are growing, but agent distribution is limited to a few insurers that are keen to push retail insurance. Bancassurance holds much potential given the large number of banked individuals without insurance, but there have not been any significant developments so far, partly due to the recent bancassurance guidelines being perceived as restrictive.

Opportunities for enhancing individual and household resilience. There are several opportunities for the insurance market to contribute towards the resilience of individuals and households:

- ***Easy-to-reach target market.*** The formally employed market of 7.9 million individuals remains largely untapped (only 10.6% having insurance, 33% being women) and presents a ready distribution channel via employee groups. Voluntary group health presents scope to deepen the employee benefits market for the growing middle class. The annuities market is growing fast on the back of pensions market growth and is seen as a core growth area for many life insurers.
- ***Aggregator-based distribution.*** To reach individuals in rural areas and the urban mass market, distribution through aggregators that have an existing relationship with clients is needed. Mobile distribution, bancassurance and retailer distribution all hold potential. In each case, however, several barriers would need to be overcome: the trust barrier on the demand-side, a supply-side innovation-barrier and a regulatory framework largely orientated to broker distribution.
- ***Takaful insurance.*** Sharia-compliant insurance products hold potential to increase the penetration of insurance to northern parts of the country, but indications are that reach is still limited, largely due to distribution constraints in serving the northern regions and the limited availability of individuals that can serve on the requisite Shariah boards.
- ***Microinsurance.*** Microinsurance is regarded as an opportunity for innovation, but overall market interest is lacklustre – understandably so, given the constraints in serving even the upper end of the retail market. Claims ratios are low. Regulatory restrictions that have held back the development of mobile money and the use of airtime to pay premiums prevent scale via mobile insurance distribution.

Enterprise development

Insurance important to corporate and industrial sectors, notably oil and gas. General insurance constitutes close to two-thirds of the total insurance market in Nigeria. Aside from third-party motor vehicle insurance, the majority of general insurance premiums is written in the corporate sector, with the oil-and-gas sector being the largest category. Brokers play an important role in placing risks in the corporate sector. By covering these risks, insurance has contributed meaningfully to ensuring sustained economic activity. This is reflected in the value and volume of claim pay-outs in 2016. Though infrequent, oil-and-gas claims tend to have the highest value, followed by marine and aviation and then fire.

Bulk of the risk not carried domestically. Local content legislation requires the bulk of oil-and-gas risks to be carried domestically, and this has resulted in the formation of insurance consortia, often with numerous insurers. However, reports suggest that, while keeping some premiums onshore, the local content requirements are not succeeding in bolstering the domestic industry and may, in fact, introduce systemic risks through the concentration of risk that it introduces[189]. Anecdotally, there are many reports of smaller consortia members that are unable to honour claims. Ultimately, limited balance sheets and capacity constraints mean that the majority of premiums are reinsured and, eventually, most risks are carried abroad. Thus, while insurance as such is important to the corporate sector and, hence, the Nigerian economy, the domestic insurance industry is not currently able, by itself, to fulfil this role.

Insurance can serve as an enabler for SME industrialisation, but current role limited. To transition from an oil-and-gas-dependent economy, the EGRP identifies industrialisation through SME development as a key priority. Though there are a large number of microbusinesses in Nigeria, very few can be classified as small or medium-sized. Demand-side data shows that SMEs are mostly situated in rural areas. Their informality and location make it difficult for formal insurers to serve them. One potential avenue is via credit providers. Upscaling the SME sector depends on SMEs' ability to access credit for working capital. Approximately one-third of SMEs cited this as a main constraint to their business development. Insurance as a risk management tool can be an important enabler of access to credit by reducing the risk of lending to SMEs for credit providers. This would require meso-level insurance distributed via credit providers, but indicators are that the bancassurance guidelines pose challenges to bank-based distribution, especially in rural areas.

Pervasive insurable risks in agriculture. Agriculture is particularly important to the diversification drive in Nigeria. It supports the livelihoods of many Nigerians, yet it is unable to meet domestic food security needs. Agriculture in Nigeria is prone to natural shocks arising from weather-related and biological risks. These shocks often have devasting effects on yields and disrupt the entire value chain from input suppliers to ultimate food processors. Risk mitigation through insurance provision in agriculture has been limited to date, largely provided by the state-owned NAIC. The market has only recently been made more accessible to private-sector participation, and private innovation has so far been limited.

Opportunities for enterprise development. The diagnostic findings suggest the following opportunities for insurance to contribute to business resilience and enterprise development:

- ***Access to credit for MSMEs***. Insurance, as a risk management tool, can be an important enabler of access to credit by reducing the risk of lending to SMEs for credit providers. In particular, meso-level insurance distributed via credit providers presents an opportunity, but indicators are that the bancassurance guidelines pose challenges to bank-based distribution, especially in rural areas.
- ***Public–private partnership in agro value chains.*** The fragmented nature of smallholder farmers means that, for agricultural insurance to reach scale, distribution needs to be anchored to a central off-taker, lender or processor. Government-driven schemes such as the NIRSAL and ABP enable value chain development, credit expansion and

[189] See, for example: https://www.businessdayonline.com/companies/insurance/article/bad-risk-management-attempt-oil-gas-business-nigeria/

guarantees through public–private partnerships, but indications are that much efficiency gains can be had in public-driven initiatives.

- ***Introduction and expansion of index-based products.*** Coordination between NAIC, NIRSAL and private insurance and reinsurance companies saw the development and launch of area yield insurance in Nigeria, and weather index insurance is also planned. However, the feasibility and scalability of index-based insurance in Nigeria is constrained by low access to capital, inadequate technical skills and limited good-quality data.

Intermediation of capital

The insurance industry links to capital market development either as an investible opportunity for capital or as an investor into the capital market.

Limited ability to raise capital to strengthen core business. One of the key constraints to the Nigerian insurance market's ability to manage risks in the economy is its limited amount of capital. The introduction of newly raised capital requirements set to come into effect on 1 January 2019 means that insurers will have even less capital available for doing business. Historically, insurers have struggled to raise capital on the public capital market due to their low share price returns relative to alternative investments. The struggles of insurers on the stock market is a stark indication of their constrained role in the economy and the market's perception of the industry's growth potential.

Direct investments by foreign insurers a boon to the domestic insurance industry. The low insurance penetration (0.3% of GDP) coupled with the size of the population and the economy, creates an opportunity for foreign investors. An effective embargo on new licences means that acquisitions of local insurers are the only entry point for foreigners. Ten acquisitions by foreign insurers have taken place since 2010. The additional capital and critical skills that foreign insurers impute to the market address two of the major constraints that inhibit the local insurance market to pool and manage risk effectively.

Small insurance premium pool limiting the insurance sector's institutional investor role. Insurers invest the premiums that they collect to provide for the liabilities they take on in the form of insurance policies. As institutional investors, insurers could therefore play an important role in capital market development and in supporting investment in the economy. However, the insurance sector itself is but a small player in the institutional investment landscape.

Pensions sector larger role in capital market development. When also considering the role of the pensions sector more broadly, the institutional investment role expands greatly. The pensions market, as long-term savings pool, has an asset base approximately seven times bigger than the insurance industry, reaches many millions more clients and is an important source of domestic credit to the government (by investing in T-bills and government bonds), at least part of which is channelled into infrastructure investment.

Opportunities for capital market development. We identify the following long-term opportunities for insurance markets to support capital market development:

- ***Annuity market a growing source of investable funds***. The annuities market is the direct linkage between the insurance and pensions sector.[190] From 2013 to 2016, pension fund assets increased by more than 50%. Therefore, the annuities market represents a significant growth opportunity for life insurance that, in turn, helps to build the longer-term investment allocation role of the insurance sector. However, capitalising on the annuities opportunity requires advanced skills and capabilities[191]
- ***Development of appropriate and suitable long-term investment instruments.*** For more of the potential role of insurance and pensions in intermediating investments for growth to be realised, viable longer-term investment instruments must be developed that can effectively compete with government debt.

Imperatives for insurance market development

Even though the financial sector, and the insurance sector in particular, is not specifically mentioned as one of the focus sectors of the ERGP, it plays an important facilitative role to the success of the strategy. A well-functioning insurance industry minimises the risk associated with economic activity and enables the efficient allocation of risk in the broader economy. In doing so, it promotes entrepreneurial activities and protects innovators and investors from external shocks. The same holds for the role of insurance in household resilience.

The analysis has shown that, though insurance does already matter on these fronts, the potential role is much bigger. The sheer scale of the Nigerian market means that the untapped retail opportunities, in particular, are massive. However, a number of constraints in the functioning of the market and in the enabling environment and socio-economic context mean that this role is far from optimal yet and that trust in the industry is undermined. Should the insurance sector come to its own in fulfilling these business and household roles, it will simultaneously grow its role as institutional investor into the economy.

As many of the constraints are structural, change will not happen overnight. Regulation and market reforms are needed to consolidate the market, address business model constraints, build technical skills and put the industry on a growth trajectory towards Stage 3 of insurance market development. The table below summarises the cross-cutting imperatives to unlock opportunities for insurance market development in Nigeria:

- ***Improve market fundamentals.*** Mergers or exit of unsustainable insurers is required to limit the erosion of public trust by poor market performance and to build the capacity required to underwrite large industrial risks. Raising capital requirements, in itself, will not be sufficient to achieve this objective without better enforcement and a broader move to embed a risk-based approach to governance and greater professionalism in the market. Initial steps that could be taken by the regulator include providing the public with greater transparency with regard to the claims pay-out performance of insurers, ongoing tracking of key performance indicators[192] accompanied by proactive engagement

[190] A Contributory Pension Scheme (CPS) requires employers and employees to contribute to an employee's retirement; and at retirement, the accumulated savings of retirees can be utilised either in a Programmed Withdrawal or a Retirement Annuity.
[191] Accurately pricing annuities requires adequate data, matching liabilities with suitable assets, and meeting solvency requirements that protect against insolvency while maximising profits.
[192] Including indicators of client value, such as claims ratios.

between the regulator and industry, or engaging insurance boards on the professionalism implications in preparation for a move to risk-based supervision.

- ***Ensuring better value in the compulsory insurance market.*** Greater cross-agency collaboration is required to improve enforcement of compulsory insurance. The online vehicle insurance checking system, the Nigerian Insurance Industry Database Portal is an important first step[193], but better enforcement is also needed in other compulsory insurance lines. It would be important for government to lead by example via compliance for its own vehicles and buildings. Even more than enforcement, efficient consumer redress systems and increased claims ratios are necessary to enhance awareness of insurance and ensure better value for consumers. Furthermore, harsher enforceable punitive measures should be in place to penalise insurers that do not, or delay to, pay out claims on compulsory insurance.
- ***Broader distribution options.*** Agent and aggregator-based distribution is required to unlock the retail insurance market opportunities. The Microinsurance Guidelines already broaden the intermediation space beyond brokers and agents. An equivalent regulatory dispensation is needed in the market at large for the development of alternative distribution channels.
- ***Deal with unintended regulatory consequences.*** Government is already coordinating around some of the bottlenecks to mobile distribution. However, more needs to be done to achieve results and drive market development. Bancassurance regulation is perceived as too restrictive, product-approval processes are experienced as slow and inefficient, and indications are that microinsurance regulations do not create enough incentives to be taken up at scale. It is important to find a speedy resolution that will help to kick-start momentum in the market.
- ***Skills development***. The technical skills gap creates an imperative for a concerted skills development initiative to improve the ability of the insurance sector to cover risks appropriately. This includes underwriting skills, actuarial and cost management skills, alongside capacity in product design and delivery. The regulator and industry bodies should promote initiatives that will enhance the professionalism of the industry. There is a particular opportunity for development partners to provide longer-term training support to NAICOM as the Nigerian market moves toward risk-based supervision, as well as for corresponding risk-based supervision readiness training among market players.
- ***Revisiting implications of local content requirements.*** The ability of the local insurance industry to safely and sufficiently carry risks in the oil-and-gas sector is compromised by small balance sheets. The negative economic impact of insurance failure is greater than the upside of keeping premiums on-shore. The local content regulation is already being circumvented to a large extent via global reinsurance[194]. This indicates that the local industry recognises its own inability to carry the risk and asks for a reconsideration of how best to achieve local industry development policy objectives. This imperative requires attention at the policymaker level.
- ***Anchor inclusive insurance approach in broader insurance sector development imperative.*** A number of stakeholders, including NAICOM and NIA, are working to

[193] There are a number of cases in which the authorities were successful at transitioning the compulsory insurance market from non-compliance to compliance. For instance, Romania, through its CEDAM database, was able to improve enforcement of compulsory motor third-party liability insurance. For more information see: https://www.aida.info.ro/en/polite-rca. The Nigerian insurance industry database portal follows a similar model.

[194] And through risks insured at global level by multi-national corporations, according to anecdotal evidence.

promote inclusive insurance. While the opportunities for microinsurance are large, so are the challenges. Unlocking these opportunities requires a strong and innovative insurance market. The analysis shows that it is important to anchor the inclusive insurance focus in a broader understanding of the drivers and constraints to insurance market development.

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National Health Insurance Act, 2012

National Housing Fund Act, 1992

National Pensions Act, 2008

Nigeria Oil and Gas Industry Content Development Act, 2010

Nigeria Reinsurance Corporation Act, 2004

Nigerian Agricultural Insurance Corporation Decree, 1993

Pension Reform Act, 2014

Retirement Benefits Act, 1997

Frameworks, guidelines, regulations and rules

Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Regulation, 2013

Bancassurance Referral Operational Guidelines, 2017

Code of Good Corporate Governance for the Insurance Industry, 2009

Guidelines for Oil and Gas Insurance Business, 2010

Guidelines on Mobile Money Services, 2015

Market Conduct and Business Practice Guidelines for Insurance Institutions, 2015

Microinsurance Guidelines, 2018

National Health Maintenance Insurance Scheme Operational Guidelines, 2005

Prudential Guidelines for Insurers and Reinsurers in Nigeria, 2015

Revised Guidelines on Bancassurance Referral Model, 2017

Takaful Operational Guidelines, 2013

Stakeholder interviews

Date	Institution	Representatives	Type
29/01/2018	DFID Nigeria	Richard Sandall	Call
05/02/2018	GIZ	Dennis Fischer Kikelomo Collins-Chibeze	Call
05/02/2018	FSDA	Vimal Parmar	Call
06/02/2018	World Bank	Fiona Stewart	Call
08/02/2018	AXA Mansard Insurance	Marieme Ba; Matul Michal	Call
08/02/2018	EFINA	Folasade Agbejule Henry Chukwu	Call
12/02/2018	Sanlam Emerging Markets (West & East Africa)	Nelius Bezuidenhout Theuns Botha	Call
16/02/2018	Association for Small-Scale Agro Producers in Nigeria (ASSAPIN)	Charles Yarima	Call
21/02/2018	Market Development in the Nigeria Delta (MADE)	Olatunde Oderinde Olayemi Oluwakuyide	Call
23/02/2018	International Labour Organisation (ILO)	Miguel Solana	In-person
08/03/2018	Reinsurance Group America (RGA)	Ian Etheridge	Call
09/03/2018	FSDA	Evans Osano	Call
12/03/2018	The Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)	Opeoluwa Ogundipe	Call
12/03/2018	Association for Small-Scale Agro Producers in Nigeria (ASSAPIN)	Charles Yarima	In-person
13/03/2018	Consumer Protection Council (CPC)	Babatunde Irukera	In-person
13/03/2018	Insurance Brokers Nigeria (IBN)	Philip Ayedogbon	In-person
13/03/2018	Pensions Commission	Ekanem B. Aikhomu Ifedolapo A. Adewusi	In-person
14/03/2018	Nigerian Meteorological Agency (NiMet)	Engr. Mailadi Yusuf Abba Misau Akin Awojobi Haruna Zakari Mahmood T. Yakubu	In-person
14/03/2018	Securities and Exchange Commission	Reginald Karawusa Dr Afolabi Olowookere Dr Mo Omamegbe Efiok Ekpenyong	In-person

Date	Institution	Representatives	Type
14/03/2018	Chartered Insurance Institute of Nigeria	Seun Banwo	Call
14/03/2018	National Insurance Commission	Thomas O.S. Salami Rasaaq Obomeile Barineka Thompson Jaiyesimi Olugbenga Dr. Habila M Amos	In-person
14/03/2018	Oxfam	Abdulazeez Musa	In-person
14/03/2018	FCMB	Habib Isa-Dutse	In-person
15/03/2018	Small and Medium Enterprise Development Agency of Nigeria (SMEDAN)	Ibrahim Abdulmalik Wale Fasanya Moshood Lawal	In-person
15/03/2018	Jaiz Takaful Insurance	Momodou Musa Joof	In-person
15/03/2018	GIZ	Wyn Davies Dennis Fischer Kikelomo Collins-Chibeze	In-person
16/03/2018	Nigeria Deposit Insurance Corporation (NDIC)	Sunday Oluyemi Kingsley O. Nwaigwe Ahmad Hashim I.	In-person
16/03/2018	Ministry of Agriculture	Engo Owilabi Bamdidele Latif Adellabu Ayotunde John Taiwo Baye S.B	In-person
16/03/2018	Nigerian Agriculture Insurance Corporation (NAIC)	Mrs Folashade Joseph Bashir K. Martins Dr Victor N Ofovbe Philip Ashinze	In-person
16/03/2018	Venus Medicare	Dr. Aminu Mohammed Dr. Chidi Ugbogulu	In-person
16/03/2018	Propcom Mai-karfi	Kevin Gager	In-person
17/032018	Agro Nigeria	Richard-Mark Mbaram Abigael Ibikunle	Call
19/03/2018	Lagos Chamber of Commerce	Vincent Nwani	In-person
19/03/2018	Bank of Industry	Ayo Bajomo Akintola Oso	In-person
19/03/2018	Alexander Forbes	Sa'ad Jijji Emeka Okoji	In-person
19/03/2018	Vanguard Newspaper	Gbenga Adefaye Emeka Anaeto	In-person
19/03/2018	Seedvest	Kehinde Oyeleke	In-person

Date	Institution	Representatives	Type
19/03/2018	AXA Mansard Asset Management	Deji O Tunde-Anjous Rashidat Adebisi Marieme Ba Ibikunle Olatunji	In-person
20/03/2018	FBN Life Insurance	Johan Van Schalkwyk	In-person
20/03/2018	Association of Registered Insurance Agents	Olamerun Gbadebo Ademola Ifagbayi Ope' Osiyemi Moses Obigho Itoya Janet Alonge	In-person
20/03/2018	African Reinsurance	Temitope Akinowa	In-person
20/03/2018	Equipment Leasing Association of Nigeria	Akinde Obatuyi Olayemi Eniolawun	In-person
20/03/2018	AXA Mansard Pensions	Naomi Aduku	In-person
20/03/2018	Leadway Assurance	Ernest Aziagba Nnamdi Odozi	In-person
20/03/2018	DFID Nigeria	Richard Sandall	In-person
21/03/2018	Nigeria Stock Exchange (NSE)	Oluwatoyin Alake Olugbenga Kolawole Femi Onifade	In-person
21/03/2018	Total Health trust	Toyin Deinde	In-person
21/03/2018	MicroEnsure	Adeola Akinyode Ibraheem Kadiku	In-person
21/03/2018	PIL Cocoa Processor	Kunle Ayoade	Call
21/03/2018	Custodian Insurance	Ademola S. Ajuwon	In-person
22/03/2018	IGI Nigeria	Alfred Bassey Nnamdi Iwuoha Adeyemo Olakunle	In-person
22/03/2018	Fund Managers Association of Nigeria	Ononuju Irukwu Shuaib Audu	In-person
22/03/2018	Royal Exchange Insurance	Chukwuma Kalu	In-person
22/03/2018	World Bank – Fadama Project	Dr. Adetunji Oredipe	Call
22/03/2018	Hilltop Insurance Brokers	Olusegun Adekoya	In-person
22/03/2018	Rand Merchant Bank	Femi Badeji Oluwakemi Owonubi Obafemi Awobokun	In-person
22/03/2018	Nigerian Insurance Association	Yetunde Ilori	In-person

Date	Institution	Representatives	Type
22/03/2018	EFINA	Folasade Agbejule Henry Chukwu	In-person
23/03/2018	Nigerian Association of Small and Medium Enterprises (NASME)	Sir (Prince) 'Degun Eke U. Ubiji Orimadegun Agboade Solomon A. Aderoju	In-person
23/03/2018	American International Insurance Corporation (AIICO)	Gbenga Ilori	In-person
23/03/2018	College of Insurance and Financial Management (CIFM)	Yeside Oyetayo	In-person
23/03/2018	UBIMET	Ayodeji Soetan	In-person
16/05/2018	Prudential Africa	Catherine Clark	Call
08/06/2018	CBN	Teresa Peterburs	Call
14/06/2018	NESG/KPMG	Bisi Lamikarra	Call
12/07/2018	AIG	Melissa Curtin Ed Barron Lauren Scott	Call

Table 14: Stakeholder interviews

Source: Authors' own

Appendix A: Context drivers of market development

Key banking reforms in Nigeria

A number of key banking sector reforms have taken place in Nigeria:

Banking Ordinance of 1952

This Act marked the end of an era of bank self-regulation or "free banking". The Ordinance Act stipulated conditions for the establishment and operation of a bank which prevented the prolonged existence of unviable financial institutions. Minimum paid capital and reserve funds were established. The Act additionally promulgated the establishment of the Central Bank of Nigeria as the regulator of all banking activity within the borders of Nigeria.

Failed Banks (Recovery of Debts) and Financial Malpractices Act of 1994

This legislation enacted key mechanisms to resolve and promote the soundness of distressed banks in Nigeria. Enacted mechanisms referred to the establishment of due processes to trial failing banks, interest rate ceilings on debt and upward review of the stipulated minimum share capital requirements for banks. As a result, 30 banks were liquidated.

Universal banking reforms of 2001

In an attempt to liberalise the market, banks were reformed to become "one-stop-shops". Banks were empowered to conduct commercial, merchant, specialised and development banking. The reform encouraged the emergence of financial conglomerates through mergers and acquisitions.

2004 Bank Consolidation: 13-point agenda

In 2004, 13 regulatory guidelines were issued to streamline regulatory frameworks and strengthen bank supervision capacity, including: an increase in minimum capital requirement to NGN25 billion; phased withdrawal of public sector funds from banks; adoption of risk focused, rule-based and zero tolerance regulatory frameworks; the automated rendition of bank returns through the Financial Analysis and Surveillance System (e-FASS); establishment of a central bank URL; enforcement of contingency planning frameworks; revision and updating of relevant laws for effective corporate governance; and ensuring greater transparency and accountability in the implementation of banking laws and regulation.

Central Bank of Nigeria Regulation on the Scope of Banking Activities & Ancillary Matters of 2010

This regulation repealed universal banking to implement a three-tier banking model separated into commercial, merchant and specialised or development banking. This model further required banks to set-up separate subsidiary licences to conduct insurance business. It also introduced macro-prudential regulation and included the introduction of stress tests, risk management, corporate governance, consumer protection, payment system governance and electronic banking security measures. It required compliance with International Financial Reporting Standards (IFRS), the enforcement of the CBN Code of Corporate Governance for Banks in Nigeria, as well as the implementation of risk-based cross-border supervision. This regulation also established Asset Management Corporation of Nigeria (AMCON) and the Financial Stability Committee (FSC) and the reinvigorated Financial Sector Regulation Coordinating Committee (FSRCC).

Appendix B: Insurance providers

Premium history

Figure 42 shows the insurance premiums for life and general insurance in Nigeria as a percentage of GDP. This shows a broadly similar insurance growth trend to Figure 8. However, this indicates that there has been a decline in the relative importance of insurance since the 1980s when total insurance as a share of GDP was approximately 1% in comparison to 0.3% in 2016.

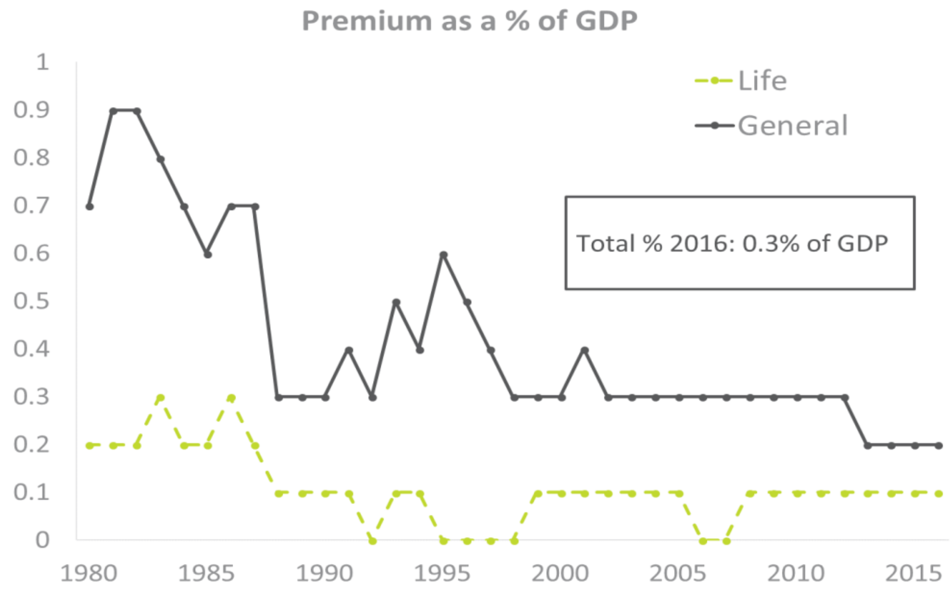


Figure 42: Insurance premiums in Nigeria as percentage of GDP

Source: NAICOM, 2016

Recent insurance mergers and acquisitions in Nigeria

Year	Investor	Investor origin	Seller	Target acquisition	Name change	Investment holding (%)
2010	MMI Holdings	South Africa	United Bank for Africa Plc	UBA Metropolitan Life		50.0
2010	Sanlam Group	South Africa	First Bank of Nigeria	FBN Holdings	Joint venture creating FBN Life	35.0
2011	NSIA Participations	Cote d'Ivoire	Diamond Bank Plc	ADIC Insurance	NSIA Insurance	96.2
2011	Assur Africa Holding	Mauritius	GT Bank	Guaranty Trust Assurance Plc	Mansard Insurance	67.7
2013	Mutual & Federal Insurance Company	South Africa	Oceanic Bank Plc	Oceanic Insurance Company Limited	Old Mutual General Insurance Nigeria	70.0
2013	Old Mutual Nigeria	South Africa	Ecobank Group	Oceanic Life Assurance Limited	Old Mutual Nigeria Life Assurance	70.0
2014	Societe Beaujon AXA	France	Assur Africa Holding	Mansard Insurance (via Assur Africa Holding)	AXA Mansard Insurance	77
2015	FBN Life (Sanlam as part of a joint venture)	Nigeria (South Africa)	–	Oasis Insurance	FBN Insurance	100
2015	New India Assurance Company	India	–	Prestige Assurance Plc	–	69.5
2016	MMI Holdings, South Africa	South Africa	United Capital Plc	UBA Metropolitan Life	United Metropolitan Nigeria Life Insurance Limited	100

2016	Sunu Assurances Vie	Cote d'Ivoire	–	Equity Assurance Plc	Sunu Assurances Nigeria Plc. (2018)	60
2017	Allianz, Germany	Germany	–	Ensure Insurance	–	98.0
2017	Liberty Holdings	South Africa	–	UNIC Insurance[195] Plc	Acquisition failed. UNIC under curatorship	75.0
2017	Prudential	United Kingdom	Zenith Bank	Zenith Life	Zenith-Prudential	51%
2018	Williamsville	America	–	African Alliance Insurance	–	60%

Table 15: Mergers and acquisitions of Nigeria insurers by foreigners

Source: Authors' own

[195] This resulted in the Nigerian Stock Exchange lifting its full suspension of UNIC. However, UNIC took over management in 2018 (Onuoha, 2018)

Appendix C: Insurance for household resilience

Gender skews in risks experienced.

To consider the differences in male and female risk experiences, Figure 43 shows the different risks experienced in the last 12 months. The shares represent the percentage of the respondents that were male and female.

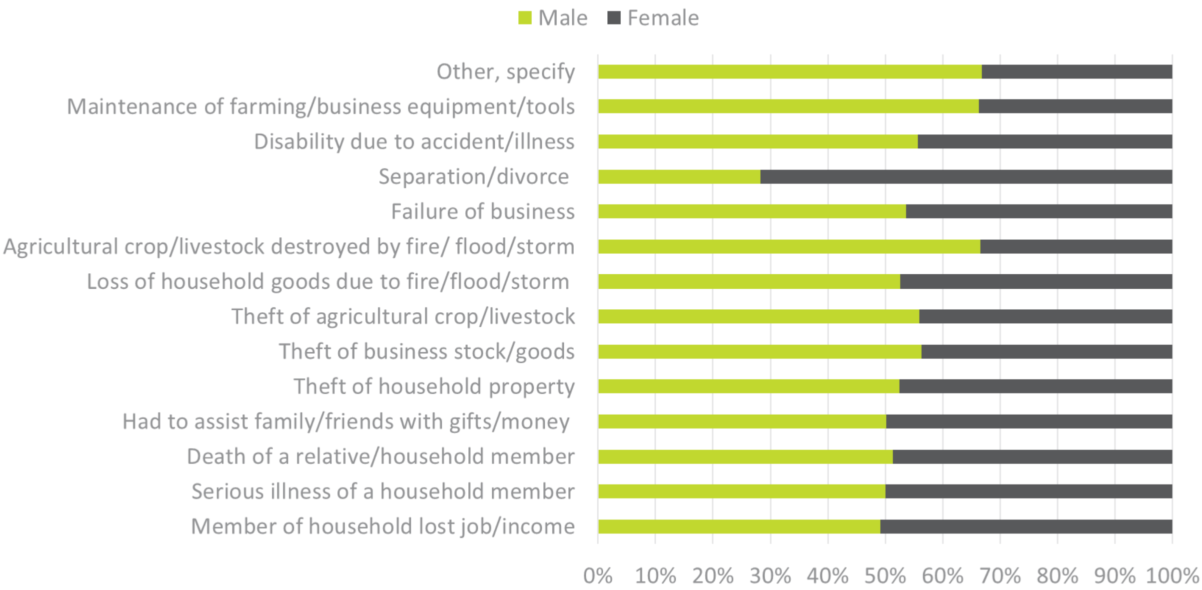


Figure 43: Gender skews in risks experienced

Source: EFInA, 2017

Insurance uptake by various target group segmentations

Table 16 below showcases insurance uptake per segment of the target groups. After identifying the target groups, each were first segmented by whether respondents were urban on rural. Large segments (more than five million adults) were further segmented by whether respondents had access to a bank account. If segments were still large (more than five million) they were further segmented by whether respondents had higher than secondary education.

	Uninsured (adults)	Insured (adults)	Total (adults)	Insured (%)
Salaried, urban	4,215,858	660,299	4,876,157	13.5
Salaried, rural	2,891,295	178,306	3,069,601	5.8
Dependant, urban, banked	3,697,446	111,879	3,809,325	2.9

	Uninsured (adults)	Insured (adults)	Total (adults)	Insured (%)
Non-agri business, urban, banked	9,508,835	272,958	9,781,793	2.8
Dependant, rural, banked	1,679,904	40,814	1,720,718	2.4
Agri-business, rural, banked	1,262,966	29,648	1,292,614	2.3
Informal, urban	2,886,271	49,132	2,935,403	1.7
Non-agri business, rural, banked, higher than secondary education	4,707,030	83,479	4,790,509	1.7
Farmer, rural, banked	2,447,505	36,601	2,484,106	1.5
Agri-business, urban	1,992,992	28,835	2,021,827	1.4
Dependant, urban, unbanked	4,482,755	60,838	4,543,593	1.3
Farmer, urban	1,898,062	20,213	1,918,275	1.1
Informal, rural	2,445,672	23,076	2,468,748	0.9
Non-agri business, urban, unbanked, lower than secondary education	3,362,212	20,418	3,382,630	0.6
Farmer, rural, unbanked, lower than secondary education	11,068,236	50,439	11,118,675	0.5
Non-agri business, rural, unbanked, lower than secondary education	7,980,423	30,442	8,010,865	0.4
Agri-business, rural, unbanked	6,385,196	27,927	6,413,123	0.4
Non-agri business, rural, unbanked, higher than secondary education	3,545,537	10,391	3,555,928	0.3
Dependant, rural, unbanked, higher than secondary education	2,028,691	4,836	2,033,527	0.2
Farmer, rural, unbanked, higher than secondary education	2,874,316	5,450	2,879,766	0.2
Non-agri business, urban, unbanked, higher than secondary education	2,641,148	3,023	2,644,171	0.1
Dependant, rural, unbanked, lower than secondary education	9,122,575	0	9,122,575	0
Total	**93,124,925**	**1,749,004**	**94,873,929**	**1.8**

Table 16: Insurance uptake by segment of target group

Source: EFInA, 2017

Appendix D: The role of insurance in business resilience and enterprise development

Large claims in oil-and-gas insurance

	Name of company	Name of insured	Amount paid (NGN)	% of total oil and gas claims paid
Damage	Custodian & Allied Plc	AMNI Intl Petroleum Dev. Ltd	543,362,918	11.7
	Sovereign Trust Insurance Plc	AMNI Intl Petroleum Dev. Ltd (USD205,134.35)	80,687,618	1.7
	Linkage Assurance Plc	Depthwize Nigeria Ltd	15,639,000	0.3
	Custodian & Allied Plc	Depthwize Nigeria Ltd, Megadrill Serv Ltd	6,832,000	0.1
	Mutual Benefits Assurance Plc	Niger Delta Power Holding Coy Ltd	7,161,592	0.2
Property damage	AXA Mansard Insurance PLC	AMNI Intl Petroleum Dev. Ltd	201,043,471	4.3
	UnityKapital Assurance Plc	NNPC	22,116,075	0.5
	AXA Mansard Insurance PLC	Depthwize Nigeria Ltd, Megadrill Serv Ltd	3,710,144	0.1
Pipeline damage	Regency Alliance Insurance Plc	Total E & P Nigeria Ltd [OML 58 project CAR]	5,252,314	0.1
	UnityKapital Assurance Plc	Depthwize Nigeria Ltd, Megadrill Serv Ltd and others	4,697,000	0.1
	AIICO General Insurance	Depthwize Nigeria Ltd	3,812,100	0.1

Gas fire incident	Custodian & Allied Plc	Total E & P Nigeria Limited	42,178,532	0.9
	AXA Mansard Insurance PLC	ELF Petroleum & Total Upstream Nig. Ltd	33,931,490	0.7
	AIICO General Insurance	Total E & P Nigeria Limited (Contract Staff)	27,873,470	0.6
Wrongful act	Custodian & Allied Plc	Access Bank PLC	8,640,477	0.2
Flooding	Custodian & Allied Plc	NNPC-CIP	76,511,202	1.6
	International Energy Ins. Plc	NNPC	35,475,626	0.8
	Sovereign Trust Insurance Plc	NNPC ($168824.36)	33,427,223	0.7
	AIICO General Insurance	NNPC-CIP	29,075,308	0.6
	Standard Alliance Insurance Plc	Total E & P Nigeria Limited	22,050,210	0.5
	Custodian & Allied Plc	Total E & P Nigeria Limited	20,246,741	0.4
	AIICO General Insurance	Total E & P Nigeria Limited (Contract Staff)	13,379,957	0.3
	Standard Alliance Insurance Plc	NNPC / Total	8,868,906	0.2
	AXA Mansard Insurance PLC	NNPC	6,780,033	0.1
	Great Nigeria Insurance Plc	NNPC	5,160,399	0.1
	Custodian & Allied Plc	Total E & P Nigeria Limited	4,049,381	0.1
	Prestige Assurance Plc	Total E & P Nigeria Limited	3,807,926	0.1

Table 17: Large claims in oil and gas

Source: NIA, 2016

Historic overview of government agricultural credit schemes

There have been at least eight official agricultural credit schemes and institutional arrangements in Nigeria, beginning with the establishment of the Bank of Agriculture in 1973. The schemes aim to contribute to Nigeria's agricultural development agenda by enabling smallholders and commercial enterprises to undertake productive risk-taking, while incentivising lending institutions to allocate resources towards the development of the sector. A brief chronology of notable agricultural credit schemes is as follows:

- ***1973: Bank of Agriculture (BOA)196.*** Primarily established to provide agricultural credit to support all agricultural value chain activities.
- ***1977: Agricultural Credit Guarantee Scheme (ACGSF).*** NGN3 billion scheme established to provide credit guarantees in respect of loans granted by any bank for agricultural purposes.
- ***2002: Interest Drawback Programme (IDP).*** Primarily set up to assist farmers borrowing under the ACGSF, to reduce their effective borrowing rates.
- ***2006: Agricultural Credit Support Scheme (ACSS).*** NGN50 billion scheme established to develop the agricultural sector of the Nigerian economy by providing credit facilities to farmers at single-digit interest rate.
- ***2009: Commercial Agricultural Credit Scheme (CACS).*** NGN200 billion fund primarily established to provide credit facilities to commercial agricultural enterprises at single-digit interest rates.
- ***2010: Nigeria Incentive-Based Sharing System for Agricultural Lending (NIRSAL).*** USD500 billion facility established to ensure that banks confidently lend to the agricultural value chain and encourage them by offering strong incentives and technical assistance.
- ***2012: Refinancing and Rediscounting Scheme (RRF).*** Primarily established to encourage medium and long-term bank lending to the productive sectors of the economy.
- ***2015: Anchor Borrowers' Programme (ABP).*** Primarily established to connect out-growers (the smallholder farmers) to the local processors (the off-takers).

Sources: Abdulhameed (2016); ActionAid Nigeria (2017); CBN (2006)

Risks and constraints faced by specific agricultural value chains

Cash crops	
Cocoa	• Farmers have limited access to credit to fund new farms and procure farm equipment. • Limited domestic agricultural mechanisation for agricultural producers. • Logistical problems related to warehousing and transportation.
Cashew	• Insufficient investment in local cashew processing. • Lack of awareness of the economic value of cashews and its related by-products. • Lack of funding for research.
Cotton	• Labour and capital intensive to grow and produce. • Limited access to credit to purchase inputs and materials equipment. • Under-utilisation of mills due to lack of adequate raw materials.

[196] Formerly, Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB)

Palm oil	• Lack of investment in palm oil extraction technology. • Lack of technical competence and training required. • High cost of labour.
Food crops	
Rice	• Low-quality inputs. • Farmers and processors have low capital base, making it difficult for them to buy necessary equipment or obtain credit.
Maize	• Small farmers are dependent on commission agents for credit. • Financial institutions are often not willing to provide credit to producers due to the high transaction costs and disaggregated producer pools.
Cassava	• High cost of labour and transportation. • Capital intensive processing. • Structural deficiencies (i.e. hard to access markets and obtain financing).

Figure 44: Non-insurable risks and constraints for selected cash and food crops

Sources: Authors' own based on stakeholder interviews; ABVV-FGTB/Horval et al. (2015); African Cashew Initiative (2011); Harris (2016); FOSSCCIMA (2016); ICAC (2007); Elekwachi and Fadare (2012); Adeniji (2007); Putri et al. (2015); PWC (2017); Hady (2015); UNCTAD (2016); DAI and USAID (2009); Deloitte (2017); FAO (2013a, b; c); Nextzon, 2017)

Subsidised and commercial crops and livestock insured under the National Agricultural Insurance Scheme (NAIS)

Subsidised crops	
Cereals	Maize (small scale)
	Millet
	Rice
	Sorghum
	Wheat
Fruit	Melon
Legumes	Groundnut
	Sesame
	Soya beans
	Cowpeas
Roots and tubers	Cassava
	Irish potato
	Sweet potato
	Yam
Vegetables	Fluted pumpkin
	Vegetable
Mixed crops	Mixtures of any of the above

Commercial crops	
Beverage crops	Cocoa
	Coffee
	Tea
Bioenergy crops	Jatropha
Fibre crops	Cotton
Fruits	Avocado
	Banana / plantain
	Date palm
	Guava
	Mango
	Paw-paw
	Pineapple
Spice crops	Ginger
	Gum arabic
Treenuts	Cashew
Cash crop	Tobacco
	Sugar cane
	Other tree crops (citrus rubber, plantain, palm tree, kola nuts, etc)

Subsidised livestock
Cattle[1]
Poultry[2]
Turkey[3]
Ducks[3]
Pigs[4]
Sheep, Ram & Goats[5]
Fishery
Rabbitery[3]
Grasscutters[3]
Snailery
Beef Keeping

Commercial livestock
Dogs
Horses
Zoo Animals
Ostriches
Donkeys
Camels
Cats

Notes

1. Dairy, fattening
2. Parent stock, layers, broilers, cockerels
3. Meat, breeders
4. Fattening, breeders
5. Fattening

Figure 45: Subsidised and commercial crops and livestock insured under NAIS

Source: NAIC (2018)

Cash crop value chain

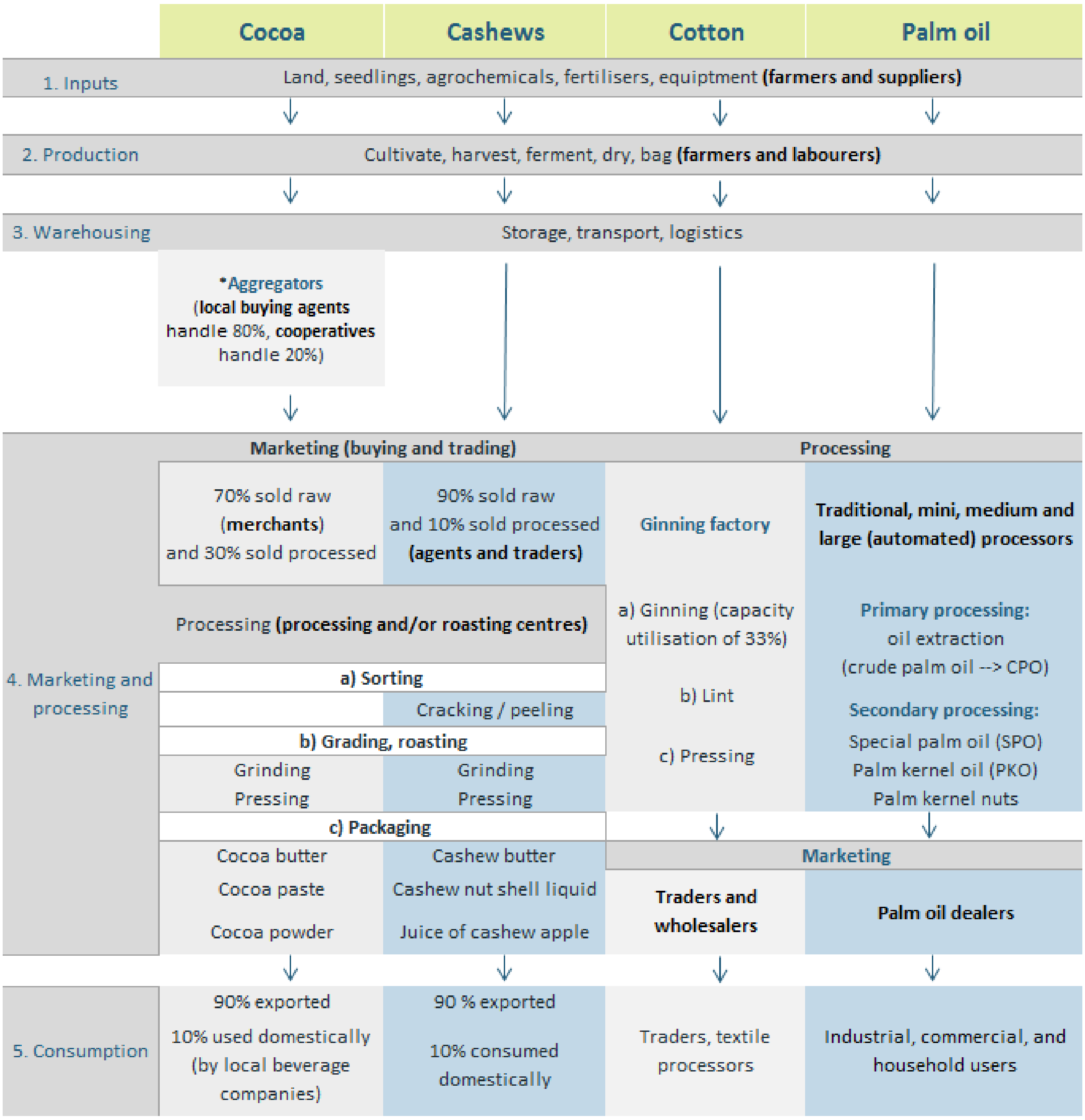


Figure 46: Cash crop value chain

Sources: Authors' own based on ABVV-FGTB/Horval et al. (2015); African Cashew Initiative (2011); Harris (2016); FOSSCCIMA (2016); ICAC (2007); Elekwachi and Fadare (2012); Adeniji (2007; Putri et al. (2015); PWC (2017); Hady (2015); UNCTAD (2016)

Food crop value chain

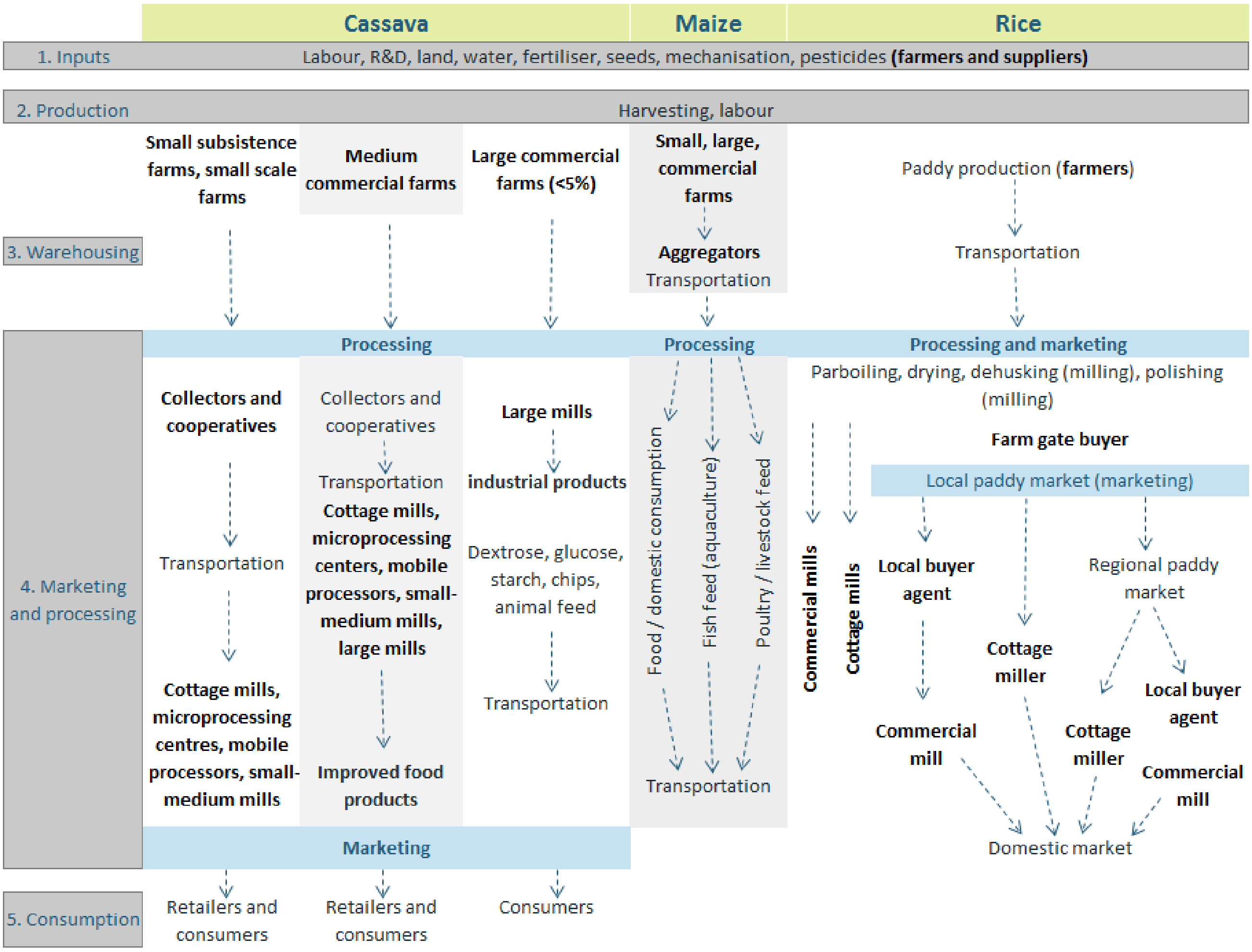


Figure 47: Food crop value chain

Source: Authors' own based on DAI and USAID (2009); Deloitte (2017); FAO (2013a, b; c); Nextzon, 2017)

Appendix E: The intermediation role of insurance

Transmission mechanisms from the financial system to the real economy

Figure 48 below depicts the five functions of financial markets and the transmission mechanisms from the financial system to the real economy.

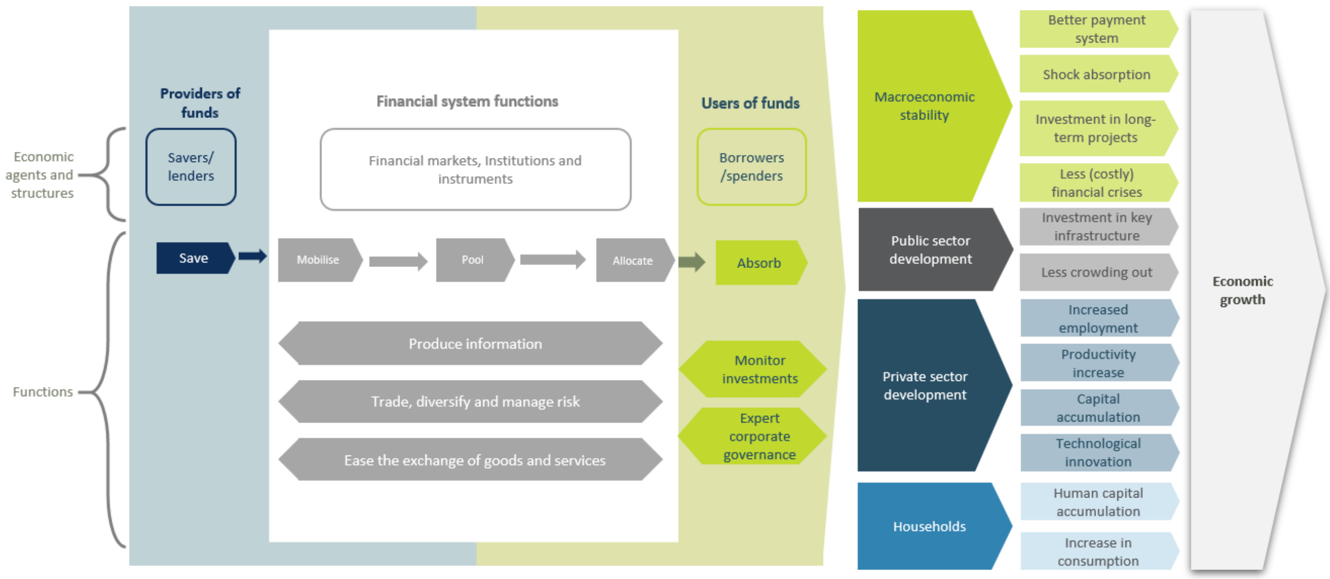


Figure 48: Transmission mechanisms from the financial system to the real economy

Source: Authors' own, adapted from Levine (2005), Zhuang et al. (2009)

Capital market performance of the insurance sector

There has been limited increase in the market value of the insurance sector. Within the financial sector there are several sub-sectors for investors to choose from, such as: banking; insurance; microfinance; mortgage and other individual or group holdings. As at December 2017, financial services stocks accounted for 13.9% of total NSE market capitalisation. More specifically, insurance stocks represented 0.64% of total NSE market value, while banking stocks accounted for 10.9%. From December 2016 to December 2017, insurance companies' stock market value increased by 8.6% from NGN135.5 billion to NGN147.3 billion (NSE, 2017)[197]. In contrast, banking stocks market value increased by 72.4% from NGN1.44 trillion to NGN2.49 trillion.

[197] Following the NSE's adoption of a new pricing methodology on 29 January 2018 that effectively removed the share price floor of Kobo 50, insurance stocks' market capitalisation decreased by 4.8% to NGN140.2 billion for the six months ending 22 June 2018, whereas bank stocks' market capitalisation decreased by 21.6% to NGN194.8 trillion.

Listed insurance companies have small market capitalisations. The growth potential of a small cap stock is constrained by the company's ability to raise additional capital to pursue opportunities that may arise. Figure 49 below compares the market capitalisations of the top tier identified in Section 4.2 and other insurance companies listed on the NSE[198]. Top tier insurance companies typically have higher market capitalisations than other listed insurers.

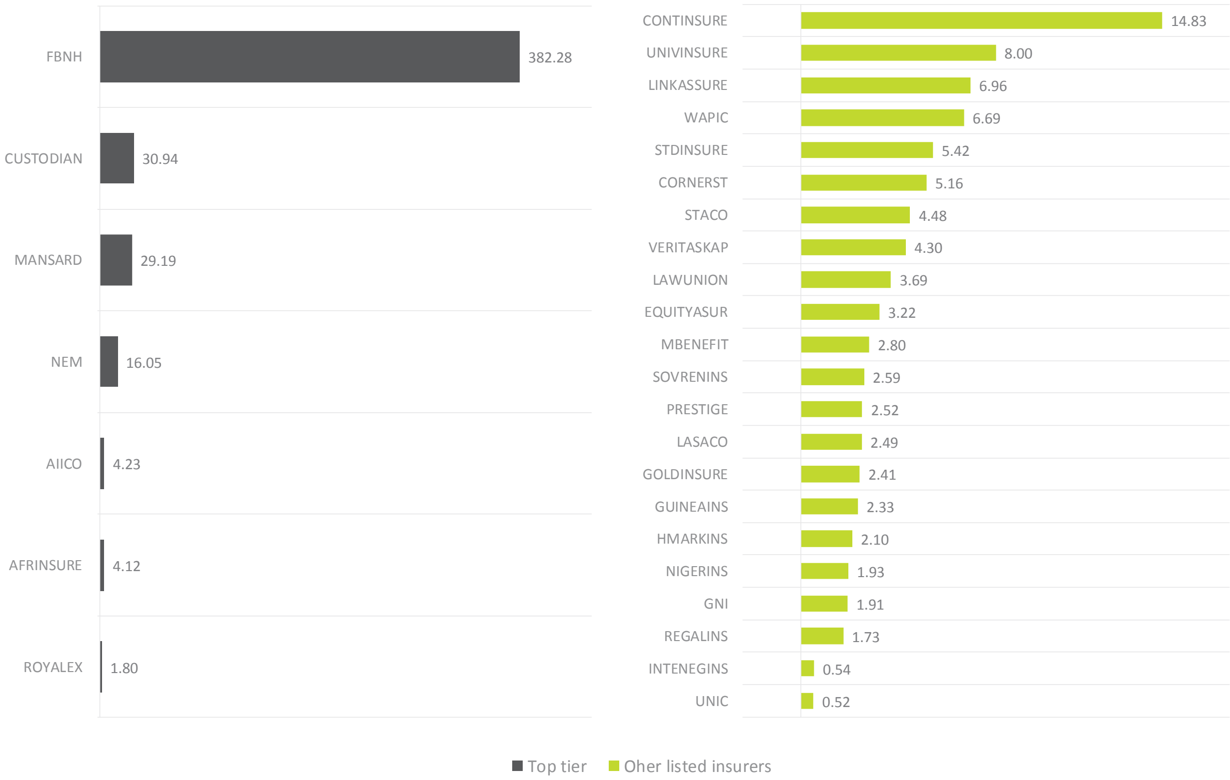


Figure 49: Market capitalisations of insurance companies, NGN billion as at 22 June 2018

Source: Authors' own (NSE data)

Limited movement in insurance company share prices. Many of the listed insurance companies in Nigeria traded as penny stocks[199] and exhibited limited variability in share price movements over a three-year period from June 2014 to December 2014. Figure 50 graphically depicts the minimum, maximum and average share prices of insurance companies since 2014. Up until December 2017, many insurance stocks were trading flat at the minimum par value of 50 Kobo. Price discovery was challenging, and insurance company valuations were not based on relevant information. Following the removal of the price floor, some company share prices fell to as low as 18 Kobo. The average share price for top tier insurers was between 66 Kobo to NGN7.16 over the period, while for other insurance companies average share prices ranged between 0.47 to 0.57 Kobo. Currently, potential investors have more appropriate information to better evaluate investment prospects.

[198] Insurance companies as well as insurance groups. Some of the top-tier insurance companies are presented as part of the listed group holding companies, for example FBN Holdings (ticker = FBNH) is listed on the premium board of the NSE, while Custodian and Allied (ticker = CUSTODIAN) and Royal Exchange (ticker= ROYALEX) are listed under other financial services.

[199] According to Bradley et al. (2006) there is no precise definition of the term "penny stock"; however, the definition may be based on the listing requirements. Hence, in this context, penny stocks mean shares trading at the par value of 50 Kobo set by the NSE.

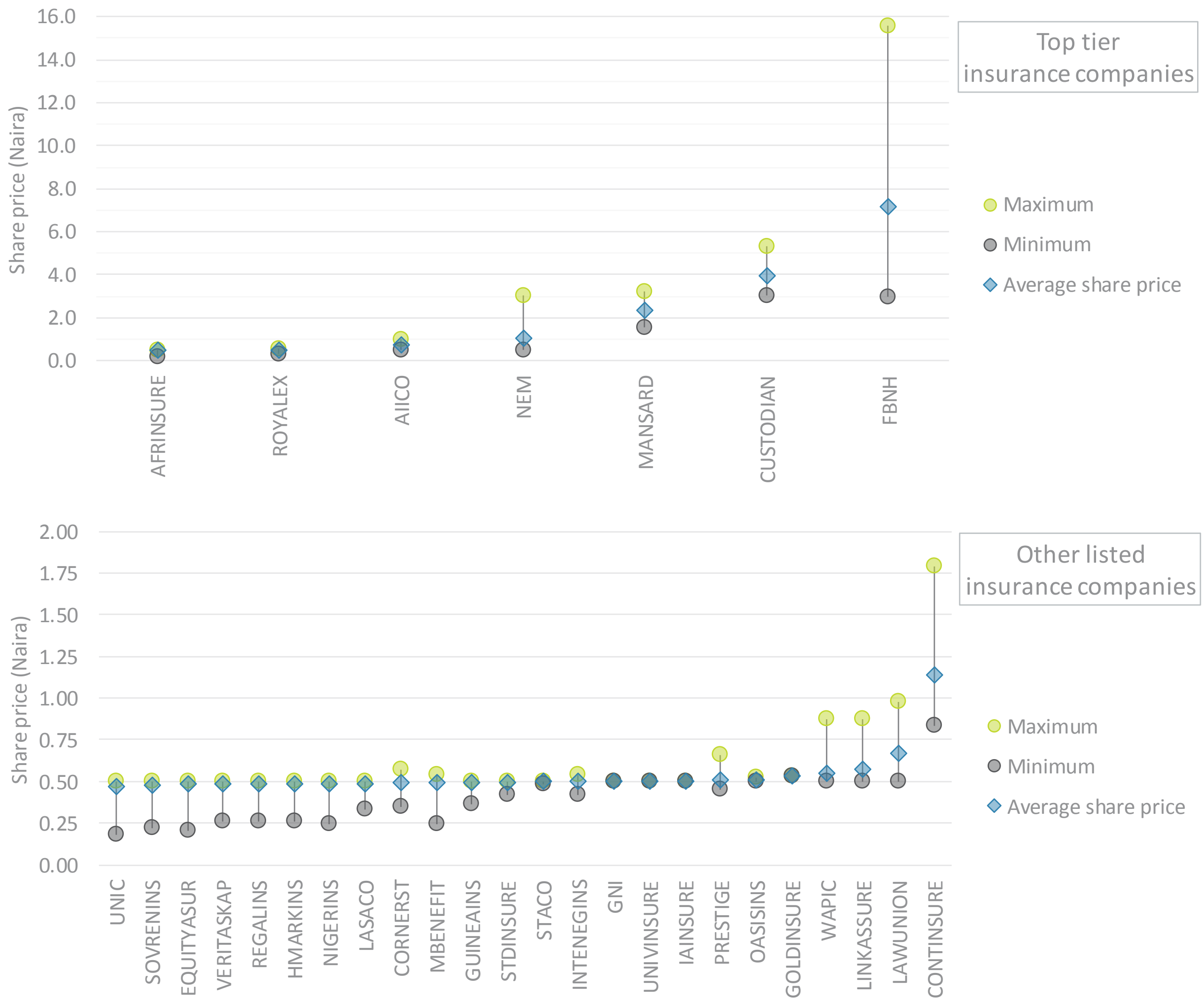


Figure 50: Share price characteristics of listed insurance companies June 2014 – June 2018

Source: Authors' own (NSE data)

Higher risk not always indicative of higher returns. For investors looking to commit capital to the insurance sector, an examination of the risk-return characteristics of insurance stocks can give us a better sense of the relative attractiveness of the various listed entities. An investor might be incentivised to commit capital for the prospect of a fair return that commensurately compensates them for the risk of their investment. Figure 51 below shows the risk-return profiles of listed insurance companies over the four-year period from June 2014 to June 2018. The findings suggest that average monthly returns increase commensurately with increases in share price volatility, represented by the standard deviation of monthly share price returns.

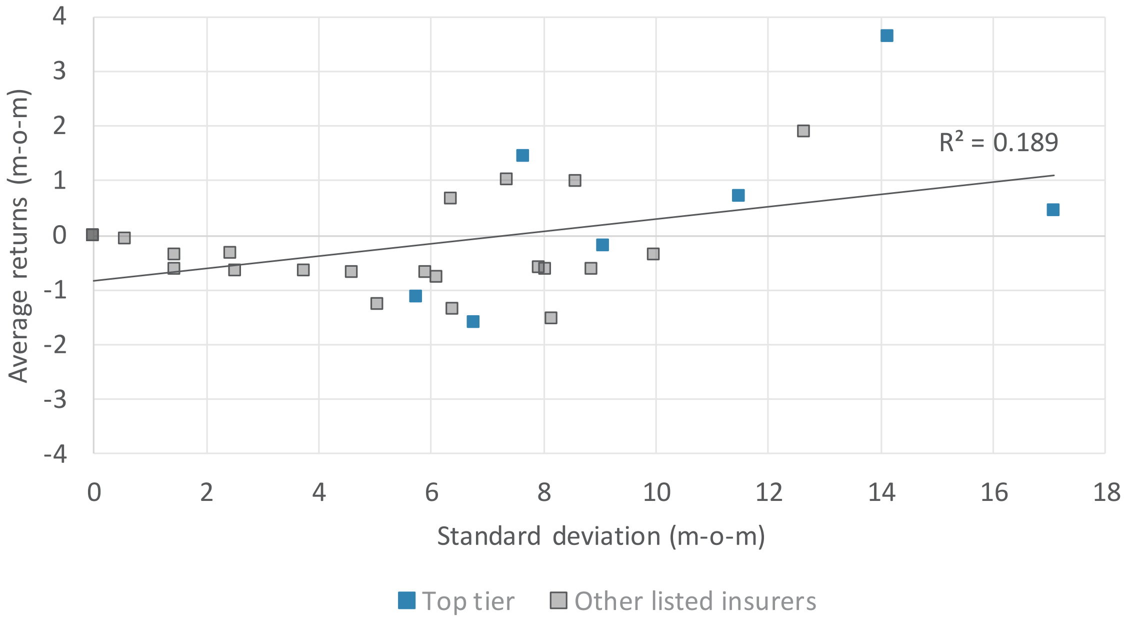


Figure 51: Risk-return profile of insurance company shares, June 2014 to June 2018

Source: Authors' own (NSE data)

Nigeria pension market dynamics and comparison with selected SSA countries

Dynamics of the Nigerian contributory pension scheme. In Nigeria, the retirement system is a Contributory Pension Scheme (CPS) that covers all public service, private sector and self-employed individuals (PENCOM, 2018). The CPS is a defined contribution (DC) scheme, wherein the benefit is not promised[200]. The pension scheme is governed by the Pension Reform Act of 2014 (PRA 2014) and the National Pension Commission (PENCOM) is responsible for regulating and supervising all pension activity in Nigeria. Retirement savings are accrued by the following mechanisms:

- Every employee is required to open and maintain a Retirement Savings Account (RSA) with a Pension Fund Administrator (PFA)[201] of their choice.
- Employees and employers make monthly contributions towards the employee's pension at retirement.
- These pension contributions are deducted at source and remitted by employers to a pension fund custodian (PFC)[202].

Retirement options. Upon retirement, the holder of an RSA may utilise their accumulated funds for the following benefits: i) lump sum withdrawal, ii) programmed withdrawals, iii) retirement annuity:

[200] Scheme participants bear the risk of investing, while pension sponsors do not bear financial liability (PENCOM, 2014; Tschampion et al., 2007).

[201] PFAs are responsible for the management, administration and investment of the pension funds.

[202] PFCs keep the pension funds and assets safe, carry out transactions on behalf of the PFA and remit realised returns on investment to the RSA.

- Lump sum withdrawal is permitted from the total amount credited to the RSA, provided that the amount after the lump sum withdrawal be sufficient to procure a programmed fund withdrawal or annuity for life.
- Programmed withdrawal is a mode of retirement benefit withdrawal by which a retiree receives a pension through his PFA on a monthly or quarterly basis over an estimated lifespan.
- Annuity is a stream of income purchased from a life insurance company. It provides a guaranteed periodic income (pension) to a retiree throughout their life after retirement. Under the CPS, annuity is guaranteed for 10 years.
- Under both withdrawal modalities, the funds are held by PFCs. Transition from programmed withdrawal to annuity is currently permitted, but not the other way around.[203]

***Interplay of insurance and pension markets in other SSA country experiences*.** The interplay between insurance and pension markets is not uncommon in developed and developing markets:

- In **Ghana**, retirees are permitted to purchase annuities for life from life insurance companies using their accrued retirement benefits; and insurance companies are permitted to serve as custodians (NPRA 2008).
- Upon retirement in **Kenya**, retirees can purchase an annuity (RBA 2016). Insurance companies are permitted to serve as administrators, carrying out administrative duties, such as keeping member records, for a fee.
- In **South Africa**, retirees from pension funds or retirement annuity funds are required by law to take a minimum lump sum of two-thirds of the retirement benefits as a compulsory pension or annuity, which can be purchased from long-term insurance companies (SAICA 2008; Chwegwidden and Moran, 2016).

[203] The PRA 2014 permits retirees to change their annuity contract after a period of two years.

Relative returns across selected asset classes

Asset class	Investment instrument	Tenure	2016	2017	2018 YTD[204]
Equity[205]	All Share Index	-	-6.2	42.3	-1.0
Fixed Income[206]	Treasury bills	91 days	10.4	14.3	11.9
		182 days	13.6	18.7	13.4
		364 days	16.1	22.1	14.5
	FGN bonds	5 years	13.9	15.8	13.3
		10 years	14.4	15.8	13.5
		20 years	14.7	16.4	-
	Sukuk bonds	7 years	-	16.5	-
	Green bonds	5 years	-	13.5	-
Collective investment schemes[207]	Ethical funds	-	0.6	18.0	1.4
	Mixed funds	-	-	16.9	5.3
	Fixed income funds	-	0.6	53.9	63.9
	Equity-based funds	-	-51.7	6.4	3.9
	Real estate funds	-	0.2	2.5	0.5
	Money market funds	-	-27.0	165.8	54.7
	Bond funds	-	-	26.3	9.8
	Exchange traded funds	-	-11.1	87.3	3.9

Table 18: Relative returns across selected asset classes in Nigeria

Source: Authors' own (NSE, CBN)

Nigerian **equities** have capital appreciation potential in the long-run, however, equity investment returns are subject to significant volatility in the short-term. The NSE All Share Index reported a positive return of 42.3% in 2017, compared to a negative return of 6.2% in 2016.

Fixed income instruments yielded relatively stable returns and considerably less variability than equity instruments. In 2017, treasury bills dated 91 to 364 days reported returns ranging from 14.3%

204 Year to date is June 2018 for equity and fixed Income instruments and May 2018 for Collective Investment Schemes.

205 **Equity:** Return on All-share index was calculated using the year-on-year growth rates.

206 **Fixed income:** Returns on Treasury Bulls and FGN Bond were calculated based on average yield over the period. Returns on Sukuk Bonds and Green Bonds represent return quoted at bond issuance. For more information on the Sukuk offer see https://www.dmo.gov.ng/fgn-bonds/sovereign-sukuk/2187-all-you-need-to-know-about-the-sovereign-sukuk/file and for more information on the Green Bond offer see https://www.dmo.gov.ng/fgn-bonds/green-bond/2292-green-bond-pricing-supplement/file

207 **Collective Investment Schemes:** Returns on Collective Investment Schemes was calculated using the year-on-year growth rates on respective net asset values (NAV).

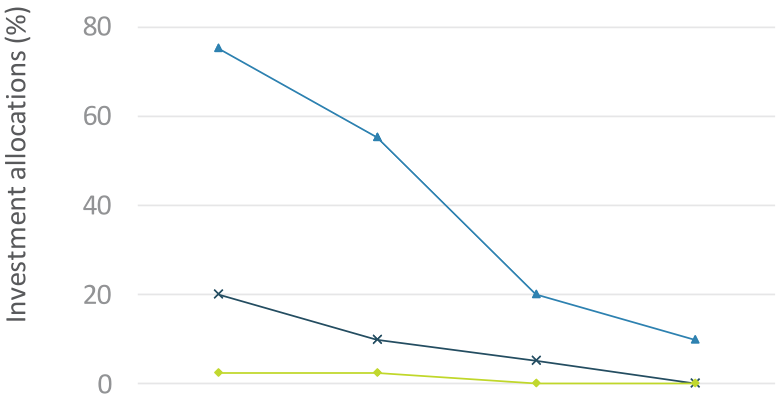
to 22.1% (10.4% to 16.1% in 2016). FGN bonds dated five to 20 years yielded returns of 15.8% to 16.4% in 2017 (13.9% to 14.7% in 2016).

Like the equity market performance, **collective investment schemes** (CIS) exhibit significant variability between 2016 and 2017. Notable CIS returns for 2017 are money market funds (+165.8%), exchange traded funds (+87.3%), fixed income funds (+53.9%) and bond funds (+26.3%).

Investments in the **direct property** market are considered attractive by institutional investors. According to Dabara et al. (2016) investments in direct property over the 10-year period from 2005 to 2014 yielded the highest weighted average return (22.5%) and highest risk (8.72%), when compared to other asset classes[208]. Over the same period, indirect property investments in the Nigerian capital market yielded the second-highest return of 3.97% and commensurate risk of 4.49%.

Multi-fund pension fund structure

Figure 52 below graphically depicts the multi-fund pension fund structure. Across Fund I to Fund IV, there are minimum and maximum limits imposed on investment allocations to traditional (or variable) asset classes and alternative investments[209].



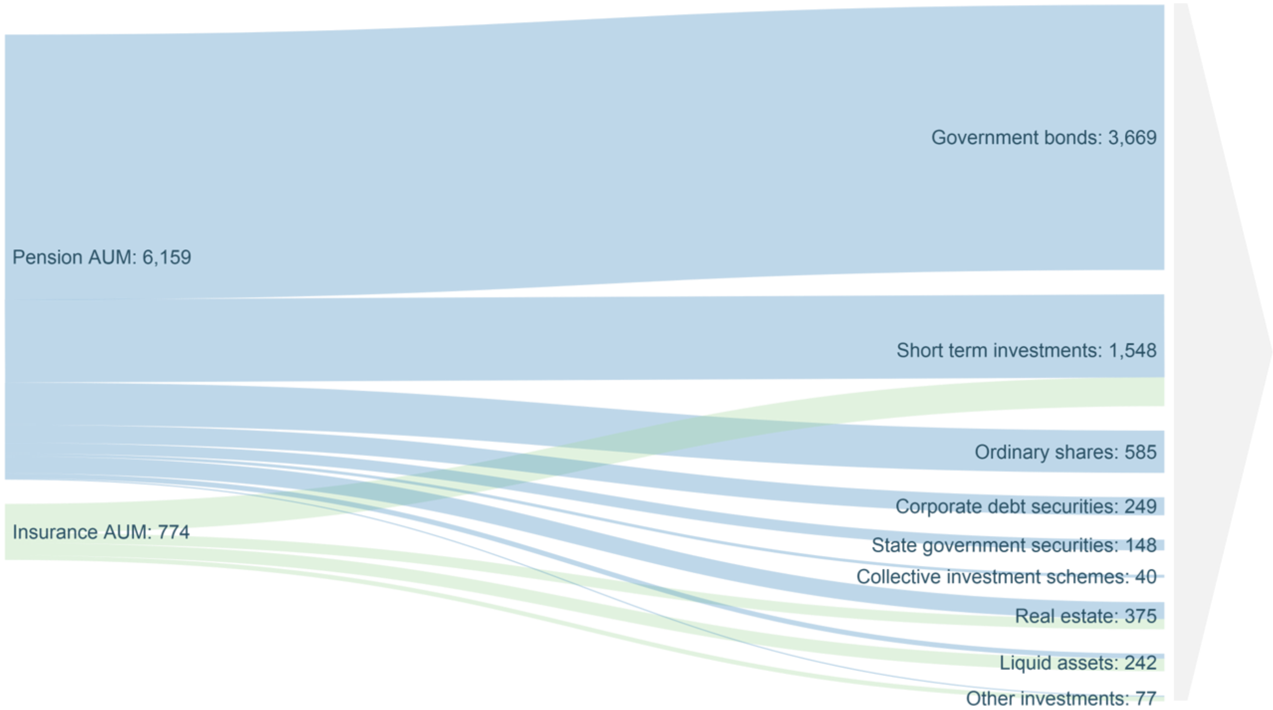
		Fund I	Fund II	Fund III	Fund IV (Retiree)
Variable Income	Maximum	75	55	20	10
	Minimum	20	10	5	0
Alternative investments	Minimum	2.5	2.5	0	0
	Contributors	Formal request	49 and below	50 and above	RSA retirees only

Figure 52: Multi-fund pension fund structure

Source: Authors' own (PENCOM)

208 Comparison asset classes include average dividend and share prices of indirect property listed on the NSE and average shares of Nigerian banking, manufacturing, oil and gas and agricultural sectors, respectively.

209 The exposure to variable income instruments is defined by PRA (2014) as the sum of a PFA's investments in: ordinary shares and participation units of open, close-ended and hybrid funds; real estate investment trust; infrastructure funds and private equity funds comprising its current holdings and any future financial commitments to the acquisition of participation units in these funds.



Investment allocations for pensions and insurance assets under management

Figure 53 below shows a Sankey diagram that graphically depicts the flow of institutional investment funds from the type of investor to the available assets[210]. The source of institutional investment funds highlighted are the pension and insurance assets under management, NGN6.16 trillion and NGN774 billion in 2016 respectively. Notable investment allocations include:

- Federal government bonds account for NGN3.7 trillion or 52.9% of total institutional investment allocations.
- Short-term investments comprise treasury bills, local and foreign money market securities, commercial papers and other liabilities. These account for NGN1.5 or 22.3% of total institutional investments.
- Ordinary shares and real estate represented 8.5% and 5.4% of total asset allocations respectively.
- Less than 5% of institutional allocations are invested corporate bonds.

Figure 53: Investment allocations of pension and insurance assets under management in 2016, NGN billion

Source: Authors' own estimates (SEC, NIA, CBN)

[210] Insurance company reporting by the Nigeria Insurance Association (NIA) was aggregated and not suitable to determine asset allocations. Total investment information from NIA was supplemented with historical insurance balance sheet data sourced from CBN, which was used to estimate the allocations across various asset classes.

About Cenfri

Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About DFID

The Department for International Development (DFID) leads the UK's work to end extreme poverty. It is tackling the global challenges of our time, including poverty and disease, mass migration, insecurity and conflict, with the aim to build a safer, healthier, more prosperous world for people in developing countries and in the UK.

About the Centre for Disaster Protection

The Centre for Disaster Protection finds better ways to stop disasters that devastates lives and economies. It does this by supporting countries to better manage disaster risk.

About FSD Africa

FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or "FSDs" across SSA called the FSD Network.

About the World Bank

The World Bank Group is a global partnership of five institutions that are working for sustainable solutions that reduce poverty and build shared prosperity in developing countries. It is one of the world's largest sources of funding and knowledge for developing countries.