Improving Nigeria's Insurance Penetration:
Legal, Regulatory and Market Considerations

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Introduction

According to industry statistics, Nigeria's Insurance Penetration Rate (IPR) in 2013 was 0.39%, declining from 0.48% in 2010. However, Nigeria's IPR worsened to 0.06% in 2016 - compared to South Africa (SA)'s 13.2%, the highest in Africa - whilst insurance sector contribution to Nigeria's real GDP was abysmally low at only 0.02%. Illustratively, according to a 2013 survey by NOI Polls, 86% of Nigerians polled do not have any form of health insurance cover.

The foregoing provides a good backdrop to headline Nigerian insurance sector's huge potential for growth – given positive demographics (of about 180 million people) and potential upward mobility of substantial segment of the populace. As the nation fights the current recession, will a boost in the IPR increase insurance contribution to Nigeria's GDP? This article discusses salient considerations to improving IPR in Nigeria.

Legal, Regulatory Considerations

IPR, by definition, indicates the level of development of insurance sector in a country, measured as the ratio of premium underwritten in a particular year to the GDP. This could be determined from the various life businesses (individual life insurance, group life insurance, pension), and general insurance business - motor vehicle, health, fire, marine, oil and gas, engineering insurance, etc., pursuant to *section 2 Insurance Act Cap I17, LFN 2004 (IA)*.

> ***"No person shall use or cause or permit any other person to use a motor vehicle on a road unless a liability which he may thereby incur in respect of damage to the property of third parties is insured with an insurer registered under this Act."***

The Nigerian government enacted various sectoral laws and established regulatory agencies to give effect to provisions of the *IA*, including*: Nigerian Council of Registered Insurance Brokers Act Cap N148 LFN 2004 (NCRIBA), National Insurance Commission Act Cap N53 LFN 2004 (NAICOMA)*, and (wait for it!) *Federal Road Safety Commission (Establishment) Act Cap F19 LFN 2004 (FRSCA)*. These play a considerable role in shaping the insurance industry through their various regulatory, monitoring, and sensitization initiatives.

Undoubtedly NAICOM - the sector regulator created and empowered under *section 85 IA* - has tried to work towards improving IPR in Nigeria. Some of NAICOM's policies and initiatives, such as *Prudential Guidelines for Insurers and Reinsurers in Nigeria, 2015*; *Code of Good Corporate Governance for the Insurance Industry in Nigeria, 2009*; adoption of *International Financial Reporting Standards* (IFRS) by insurers; 'No Premium No Cover' rule; prescription for increase in capital base of insurance companies in 2007, were to directly and indirectly enhance IPR in Nigeria. Furthermore, improved enforcement of the current framework of six compulsory insurance policies in Nigeria should also positively impact IPR. The compulsory insurance are: Builders Liability Insurance, Construction All Risks Insurance, and Occupier Liability under the IA, Employers Liability, (Group Life) under the *Pension Reform Act 2004*, Healthcare Professional Indemnity under the *National Health Insurance Scheme (NHIS) Act Cap N24 LFN 2004*, and the Motor Vehicle (Third Party) Insurance (MVTPIP) under the IA.

Recently (in 2016), Senator Salau Ogembe during the Senate's consideration of a motion on compulsory insurance, stated that the MVTPIP has only 4 million car insurance policies out of the over 16 million cars in Nigeria. This raises the questions: how did the remaining 12 million vehicles escape the Nigerian insurance database, how do we capture them and ensure that the other compulsory insurance schemes are complied with?

Section 68(1) IA, states that: *"No person shall use or cause or permit any other person to use a motor vehicle on a road unless a liability which he may thereby incur in respect of damage to the property of third parties is insured with an insurer registered under this Act."* Furthermore, *section 68(2) IA* provides that the insurance shall cover liability not be less than N1 million. The penalty provision of *section 68(4) IA* provides for a fine of N250,000 or one year imprisonment or both to violators. Additionally, the officials of FRSC pursuant to *section 10(4)(l) FRSC Act* are empowered to arrest and prosecute operators of motor vehicles with forged driving or insurance papers. Despite these laws and their varied levels of implementation, more still has to be done as there are huge potential in building and

construction, and the health sector, which are yet untapped.

Notably, *section 64(1) and (2) IA* requires that construction risks insurance cover must be obtained for any building under construction beyond two floors and violators will pay a fine of N250,000 or liable to three years" imprisonment or both. *Section 65 IA* on its own enjoins owners/occupiers of public buildings - tenement house, hostel, recreational/business buildings etc. - to insure their buildings against hazards of collapse, fire, flood etc., with fine of N100,000 or one year imprisonment or both, as sanction upon conviction.

These laudable provisions can enhance the IPR if relevant Federal and State MDAs aligns with NAICOM and other regulators to enforce them. For example, proof of an insurance cover should be made condition precedent for applicable construction approvals. For effective regulatory oversight, government officials should carry out unannounced visits/inspections of construction sites until completion and respective public buildings to ensure that insurance certificates obtained and presented are valid, current and from approved channels. Of course the monitoring system must be transparent, and designed to minimize corruption by such officials. Foundational to this is that there is an awareness gap – there should be continued massive public sensitization of these mandatory insurance schemes as a prelude to invigorated enforcement.

The Nigerian Insurance Industry Database (NIID)' car insurance verification database, which FRSC uses to detect car insurance defaulters, should be expanded to the other five compulsory insurance schemes in order to determine which contractor, owner of building etc., have not complied with the law on its database, which will assist in enforcement by MDAs. Can we operate a modified version of New Zealand's auto-insurance scheme, whereby in Nigeria premium for motor insurance will be included in vehicle registration taxes? This in itself (if not properly managed), could birth administrative bottlenecks and may signify inability of the industry to push compulsory insurance products independently, but the potential IPR benefits may make it an option worth considering.

Beyond NAICOM's usual request for insurance institutions' books, accounts, and documents for inspection purposes, it need to be more proactive by using its Inspectorate Department as provided under *section(s) 31 and 33 NAICOM Act* to enforce the IA and ensure that insurance institutions comply with the *Code of Corporate Governance,* which will boost the public's confidence in the insurance institution.

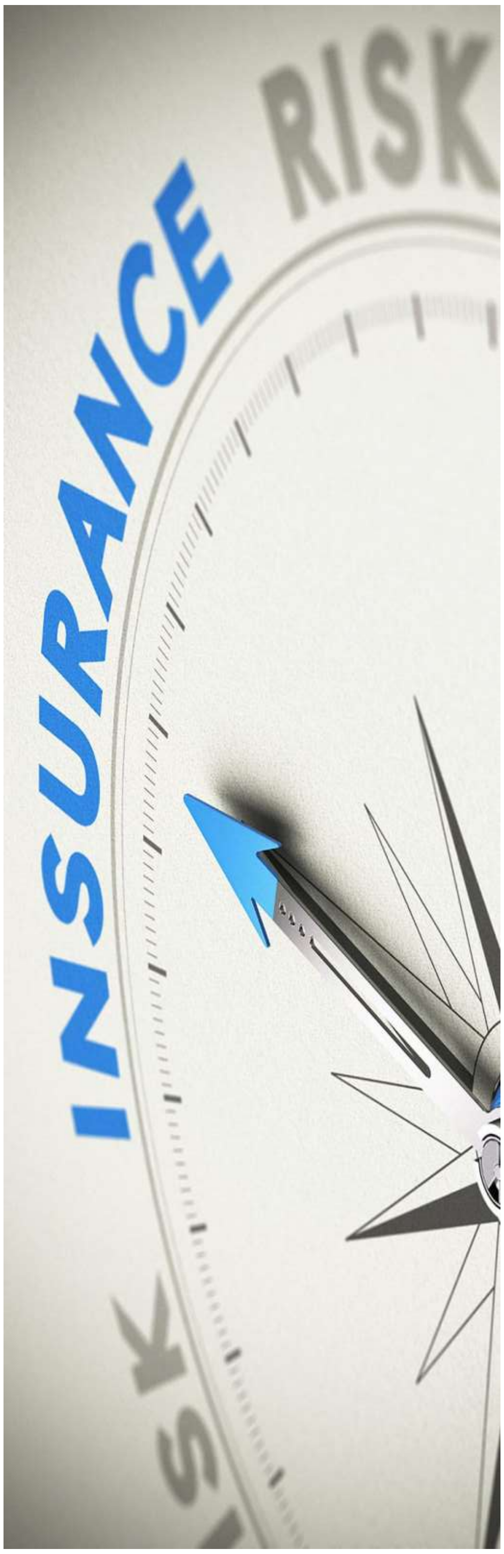
NAICOM's obligation to approve/reject new products within thirty (30) days of receiving applications pursuant to *section 16 IA* needs to be strictly complied with, rather than being the exception due to regulatory queries and bureaucracies. Insurers can also help in this regard by making sure they have fully thought through their products and as such comply with requisite basic requirements for NAICOM's approval. NAICOM should have a fast track approval mechanism to further encourage conceptualization of innovative insurance products in the industry. The recent appointment of Deputy Commissioner Technical at NAICOM (given his industry advocacy background) should provide a fillip in this regard.

Successful implementation of the Solvency II initiative in Nigeria, which is still at its introductory phase, will help to improve the existing risk based model insurance, consumer protection, reduce insolvency risk, and account reporting etc. Solvency II, an EU Directive, focuses on the amount of capital EU insurance companies must hold to reduce the risk of insolvency. This will boost Nigerians' confidence and participation in the insurance sector thereby improving the IPR.

Market (Competitiveness) Considerations

Experience has shown that unhealthy competition amongst underwriters, resulting in premium rate undercutting against prescribed/standard industry rates, is not the way to go in improving IPR. Rather, creative and value added insurance products that scale a skeptical public's trust barriers to deliver positive customer experiences will better make the case for insurance in general and IPR in particular.

Also, partnership with foreign insurers can be leveraged to enhance IPR. For example, Sanlam Group's investment in FBN Insurance, means the latter – can in addition to its indepth knowledge of the local market - access the former's institutional knowledge, experience and business strategy, spanning decades of managing life insurance businesses on four continents. Such synergies resulted in 35% and 44% year one year gross premium growth in 2013 and 2014 respectively. AXA Mansard is another example where foreign investment has yielded impressive performance, making the Nigerian market very attractive to prospective foreign entrants; Morocco's Saham recently acquired a stake in Continental Re. Space constraints discussion of other foreign players, and imminent regulatory induced sector consolidation may further make Nigerian entry compelling for some others. Home grown insurers, too have fared very well, including those that have also received foreign investment like Leadway (IFC/Atlantic Insurance), Cornerstone (ACA), Custodian & Allied (IFC) etc.
Social media has proved to be a veritable tool in significantly scaling advertisement/sale of online insurance packages to Nigerians. Collaboration with telecoms operators has yielded impressive results and can further exponentially drive IPR, given Nigeria's pervasive mobile penetration rate. Examples of recent collaborations include Cornerstone/Airtel's free life and hospital



cash insurance policy, and Airtel/FBN Life Assurance's Padi4Life, etc. Incidentally, Cornerstone/Airtel's pioneering insurance product won AfricaRe's 2016 award for innovation.

Promoters of the NHIS' Community Based, Voluntary Contributors, and Tertiary Institutions Social Health Insurance Schemes can collaborate with the various primary health centres, private and general hospitals as conduits to ensure that health insurance products are affordable and accessible. Despite the fact that health insurance is now outside NAICOM's primary purview, educating the populace on the risk management benefits of insurance and also the tax benefits (tax deductibility of premiums paid) should position insurance as a sound commercial proposition, help to improve IPR.

Another initiative can be micro-group insurance arrangements. In Kenya, a micro-insurance health product, Linda Jamii involving a partnership between Britam Insurance, mobile telecom operator Safaricom and Chagamka Micro-insurance was scaled down from individual to group buyers, recording huge success. Recently, the Nigerian Bar Association introduced optional (life and professional indemnity) insurance for its members (partnering Leadway Assurance) with premium paid along with annual practicing fees. This could be embraced by other professional bodies. In SA for instance, the legal and health professionals are required to procure professional liability insurance cover as condition precedent to professional practice.

Insurers need to ensure that claims are paid promptly when insurable events happen. Insurers and brokers should be more technologically driven in their operations in order to penetrate the upcoming millennial generation and effectively compete with the rising fintech companies. These could help push the boundaries and make up for loss of NAICOM's "jurisdiction" over Group life, employees' compensation and health insurance businesses respectively to Pencom, NSITF and NHIS. Maybe a requirement mandating insurance of pension assets or investments like mutual funds can further drive IPR? But would this not create circular problem and result in additional costs, as premiums could be significant given volatility of capital markets? This may be illustrative that it is better for the industry, whilst striving to upscale IPR (with regulatory support) via the compulsory insurance window, to focus on more impactful and sustainable results through creative product development, marketing and demonstrable value-addition to the insuring public.

IPR: Cursory look at South Africa

SA, credited with the highest IPR in Africa, did not achieve this feat by chance. SA's regulatory regime induced developments in the insurance sector such as the *Short-Term Insurance Act (Act 52 1998)* prescription for non-life indemnity insurance, *Long-Term Insurance Act (Act 53 1998)* for life and investment products. The industry regulator, synergizes with sister agencies on a host of actions to prevent insurance fraud, encourage transparency and accountability which has increased policyholders' trust in the insurance industry and improved purchase of insurance products.

Conclusion

Nigeria's low IPR – despite her huge population and imminent economic growth that will drive the need for insurance products consumption - represents huge potential for insurers, and investors. Achieving the feat of transformational IPR levels would involve NAICOM upgrading its policy implementation strategy especially in enforcing the compulsory insurance scheme and implementing the Solvency II model; fast tracking innovative product approval, and synergizing with the MDAs and stakeholders in the industry to educate and incentivize people who voluntarily obtain insurance cover.

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