Evolution or Extinction:

'Options Arising' from Technology Disruption in Nigeria's Insurance Industry

Thought Leadership | by Gabriel Fatokunbo

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g.fatokunbo@lelawlegal.com

Introduction

Nigeria's mobile telecommunications sector emergence in 2001 spurred the development of Information Communication Technology (ICT) businesses such as handsets and recharge card sales, online transactions (internet banking and digital marketing) whilst certain jobs erstwhile considered lucrative (manual marketers and cashiers etc.) became redundant, and some are on their way to extinction. Today, long queues in banks have reduced with the help of mobile banking apps and the ATM, which resulted in an average of 360 workers losing their job every week from January to June 2017 according to the Nigeria Bureau of Statistics' *Selected Banking Sector Data: Sectorial Breakdown of Credit, e-Payment Channels and Staff Strength: Q2 2017*. In May 2017, Ecobank Nigeria, a subsidiary of Ecobank Group merged 74 branches (thereby reducing physical locations) as a fall out of its digital channels strategy.

Likewise in the insurance industry ("the Industry"), with Nigeria's history of quick adaptation to technology, millennials are gradually shifting from the traditional sales of insurance products through brokers to a faster, direct and more 'customer friendly' approach to insurance product marketing through technological developments and solutions. These can be categorised under insurance technology (InsurTech), financial technology (FinTech), telematics/telemetry, roboadvisers, blockchain, sensor technology, big data and data analytics, wearables and internet of things (IoTs), etc.

According to Nigerian Council of Registered Insurance Brokers (NCRIB)'s website, Nigeria has over 550 registered insurance brokers. However, the National Insurance Commission (NAICOM) as at 2016, only certified (to be in good standing) 300 insurance brokers. Despite these developments, the Industry is still under-tapped considering Nigeria's huge population demographics and emerging market status. The Industry is fondly called a 'brokers' market' because brokers' premium income control is over 90% whilst the remaining 10% are controlled by insurance agents and insurers through direct marketing. The question arises: with the emergence of disruptive technology globally, will the insurance intermediaries' role be eroded, enhancing direct marketing possibilities for insurers? Or would the brokers and insurance agents leverage disruptive technologies to avoid extinction?

This article discusses the impending challenges insurance intermediaries would face courtesy of disruptive technology; its impact on insurers; and the various ways insurers and insurance intermediaries can blend with the looming developments.

Major Technology Disruption in the Insurance Industry

The advent of blockchain technology would disrupt the intermediaries' operations. This is because it amongst others: ensures efficient customer engagement, enables cost-efficient product offerings for emerging markets, and promotes a trustworthy and transparent way of sharing data within an enterprise or across a value chain due to its 'digital ledger'. An example of blockchain disruption is the *'Smart Contracts'* model, a self-executing protocol that works with a blockchain to enforce the performance of a contract across all counterparties, ensuring contract/identity verification among counterparties. Also with Smart Contract, claims data verification is made easy, thereby reducing fraud and ensuring immediate claim payment, potentially edging out intermediaries.

Currently, InsurETH, a UK Company, uses a Peer-to-Peer (P2P) flight insurance policy built in blockchain to market insurance products. These P2P insurances are operated via a mobile phone. Considering Nigeria's vast number and smart phones usage, blockchain in no mean time would have a

major breakthrough in the insurance industry. Some insurance companies in Nigeria are already collaborating with telecommunication giants to build similar systems. For instance, Cornerstone Insurance Plc and Airtel collaborated to offer *"Airtel Insurance"*, the first free life and hospital cash insurance policy, which provides insurance cover to Airtel subscribers within 18-65 years age via mobile phones. Subscribers were entitled to a cash pay-out in the event of death or hospitalisation depending on the amount recharged monthly. Similarly, Airtel/FBN Life Assurance's *"Padi4Life"* are reflective of anticipated influx of innovative and disruptive technology before 2020 in Nigeria. Incidentally, the Nigerian Communications Commission (NCC)'s *Monthly Internet Subscribers Data* for June 2017 reveals that Nigerian internet subscribers had hit 91.6 million mark.

FinTech becomes handy to further reduce intermediaries' relevance. The emergence of *Remita, Interswitch, OneFi, Paga* etc. which offers digital banking (online lending, collection and payment services etc.) in Nigeria will have ripple effect on staff employment levels and operations in the insurance industry. Insurers now engage FinTech experts to drive their marketing and services strategy. For instance, through InsurTech (a branch of FinTech), premium collection and claim payments are now done online. Similar example is the FinTech 'black boxes' in motorists' cars for premium calculation and claim response. In fact some insurers use the IoTs to connect physical devices, vehicles and other items embedded with electronics, sensors, software etc. that enables the objects to collect and exchange data.

The IoTs further connect customers, partners and suppliers thereby bridging the gap and eliminating intermediaries. A typical example is the *Microsoft Azure*, an informational infrastructure developed collaboratively by Industrial Scientific and Cisco operators, which has a dashboard to remotely monitor people, equipment and air quality in real time mining project. Although, IoTs in insurance is uncommon in Nigeria but the health sector is gradually embracing the IoTs which in the nearest future would likely spiral to the insurance industry. For instance, on December 12 2016, Vodacom in partnership with Novartis and the Kaduna State Ministry of Health, launched a mobile technology based healthcare program *"SMS for Life 2.0"* to improve access to medicine, increase disease surveillance and promote e-learning for local healthcare workers.

Regulatory Overview on Disruptive Technology in Nigeria's Insurance Industry

So far, the Industry regulator, NAICOM and the various Insurance laws - ***Insurance Act (IA) Cap. I17, LFN 2004; NCRIB Act, Cap. N148, LFN 2004; NAICOM Prudential Guidelines For Insurers and Reinsurers in Nigeria 2015;*** **and *NAICOM Operational Guidelines on Market Conduct and Business Practice 2015*** amongst others - have not made any specific provisions regulating the various disruptive technologies that may change the Industry's dynamics. The closest is ***NAICOM's Statement of Regulatory Priorities for 2017*** (published in January 2017), which reveals that: *"the Commission is currently consulting on the membership of an Information Technology Working Group (ITWG) that will develop a framework for balanced adoption of technology driven innovation in the industry...opportunities in InsurTech, RegTech and strategies for cost effective deployment of Information Technology."*

The reasons for nil or minimal Industry IT regulation could be the nascent stage of data collection and data analytics in Nigeria. Interestingly, insurance technology regulation, though not expressly stated in the Nigerian insurance laws, would arguably be regulated by NAICOM being an aspect of insurance business. ***Section 4(1)(2) IA*** provides for registration with the Commission before any insurance business is carried on in Nigeria, and the Commission may not grant approval if in its view, such does not benefit public interest, interest of policyholders or persons who may become policy holders. Thus, no Industry technology innovator/investor can launch an insurance related product without NAICOM's approval.

To ensure a more regulated market space, it is prescient that NAICOM does the needful by making regulations and where the scope for these would be inadequate, to champion enactment/amendment of industry relevant laws in line with current realities as stated in *NAICOM's* ***Statement of Regulatory Priorities for 2017.***

Other issues that arise are: whether National Office of Technology Acquisition Promotion (NOTAP) approval will be required for foreign technology transfer agreements pursuant to ***Paras 3.6.1*** and ***3.6.7 NOTAP Revised Guidelines 2011?*** And would there not be any regulatory conflicts between NOTAP and NAICOM in respect of insurance technology operations? NOTAP's recent practice of refusing registration of MSAs in the financial services industry (a view we think could be successfully challenged) implying a departure from NOTAP's earlier practice of deferring to sectoral regulators may contradict industry facilitative arrangements with foreign technical input, already approved by NAICOM.

On the flip side, the Federal Government's recent Executive Order on '*Support for Local Contents in Public Procurements*' and the local content initiatives in the ICT industry (vide the ***Nigerian Content Development in Information and Communication Technology 2013*** (ICT Guidelines), pursuant to the ***National ICT Policy, 2012*** may provide justification for deployment of local resources/capacity in meeting the technological needs of InsurTech.

Section 2 IA listed the various classes of insurance business and InsurTech is obviously not included. Such lacuna gives room for tech companies to edge out intermediaries. This raised the question, would an insurance software developer be required to register with NAICOM? Answer here may be in the affirmative because NAICOM reportedly introduced new guidelines aimed at regulating the activities of service providers (insurance aggregators, independent agents and associations etc.) via the *Web Aggregators Operational Guidelines, Independent Agents Operational Guidelines, and Mutual Organisation, Association, Community Based, Micro Guidelines*, (*The Punch, 25/9/ 2017*).

This will further drive increased insurance penetration and potentially reduce brokers' relevance only to very complex insurance portfolio. Whilst the average insurance broker could feel threatened, nothing stops them from closely studying and venturing into that space, for example by investing in insurance/web aggregator start-ups.

Digital Future of Nigeria's Insurers and Brokers- Way forward

Insurers and Brokers, would however need to partner with FinTech and InsurTech companies as a leverage to reaching prospective customers. They can also employ individuals with FinTech expertise to boost their business strategy; by building an ecosystem whereby Insurance companies will not exist as a community alone (serving its own customers without reaching other climes) rather it connects with - customers, partners, suppliers, competitors etc. to drive its business penetration.

Conclusion

It is anticipated that InsurTech could be the springboard for insurance penetration in Nigeria before 2020. With the Commission's current collaboration with the ITWG, we expect a more technology-driven and regulated Industry. However, issues of cybercrime, low internet penetration and financial inclusion need to be addressed to make the Industry safe and more attractive for millennials. Insurers and Brokers need to upgrade their technology savvy by adopting cutting edge technologies through strategic collaboration with tech companies. Failure to do so would result in loss of market share and possibly eventual extinction. All these require well thought out legal and regulatory action steps, involving: contracts, negotiations and statutory provisions (including delegated legislation). With the right stakeholder involvement, InsurTech could launch Nigerian insurance industry to new heights, especially in achieving the long desired significant improvements in insurance penetration.