

TOWARDS INCLUSIVE INSURANCE IN NIGERIA: AN ANALYSIS OF THE MARKET AND REGULATIONS



Authors

Denise Dias
Denis Garand
Donna Swiderek

Realisation

Stefan Mümpfer graphic works

Photos

Claudia Huber, Zouzou Wizman

Eschborn, June 2013

Abstract

In general, there is limited public awareness of insurance in Nigeria, and distrust by those who are aware of it, particularly in urban areas. There is plenty of room for improving business practices towards consumers and innovating to serve the retail and microinsurance segments. The very low penetration of insurance coupled with a large and growing population and economy, represent an attractively large potential market. The top priority for creating an inclusive insurance sector in Nigeria is improving public confidence, trust and awareness. This will

depend on strong investment in capacity building, innovative and cost-effective delivery channels, and alliances with partners who are closer to the potential clients. Insurers will need to create simple and affordable products and business models that, when achieving higher scale, can create a viable and sustainable operation. In addition to profound changes within the industry, the regulatory and policy framework and supervisory system need to support inclusive insurance.

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The Partners

The Access to Insurance Initiative (A2ii) is a unique partnership between international development agencies and the International Association of Insurance Supervisors (IAIS) with the mission to inspire and support insurance supervisors to promote inclusive and responsible insurance, thereby reducing vulnerability. www.access-to-insurance.org

The Partnership for Making Finance Work for Africa (MFW4A) is an initiative to support the efforts of African Governments and the private sector to boost economic growth and fight poverty by developing dynamic, well-run and efficient financial services and banking systems in Africa. The Partnership works to promote better cooperation, communication and coordination to maximise the impact of diverse, individual financial sector development efforts. www.mfw4a.org

The GIZ Program Pro-poor Growth and Employment Promotion in Nigeria (SEDIN) facilitates key state actors as well as members of the financial and business sectors in effecting reforms of the business and investment climate and in enhancing access to financial services for micro, small and medium-sized enterprises in Nigeria in line with Nigeria's national development strategy, the 'Vision 20:2020', and the Financial System Strategy 2020 (FSS 2020). One component of the program focuses on financial sector reform by supporting implementation of the FSS 2020, a review of the microfinance policy, regulation and certification of microfinance banks, and the introduction of micro-insurance and value chain financing.

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Acronyms

A2ii	Access to Insurance Initiative	MDRI	Market Development and Restructuring Initiative
ARIAN	Association of Registered Insurance Agents of Nigeria	MFB	Microfinance Bank
ATM	Automated Teller Machine	MFI	Microfinance Institution
bn	billion	MFW4A	Making Finance Work for Africa
BIG	Basic Income Guarantee	mn	million
CBHIS	Community Based Health Insurance Scheme	MNO	Mobile Network Operators
CBN	Central Bank of Nigeria	MOF	Ministry of Finance
CCT	Conditional Cash Transfer	NACCUN	National Association of Cooperatives and Credit Unions of Nigeria
CDD	Customer Due Diligence	NACRDB	Nigeria Agricultural Cooperative and Rural Development Bank
CFN	Cooperative Federation of Nigeria	NAIC	National Agricultural Insurance Company
CIIN	Chartered Insurance Institute of Nigeria	NAICOM	National Insurance Commission
COPE	Care for the People	NAMB	National Association of Microfinance Banks
CRIB	Council of Registered Insurance Brokers	NAPEP	National Poverty Eradication Program
CSO	Civil Society Organization	NBS	National Bureau of Statistics Nigeria
DFI	Development Finance Institution	NCC	Nigerian Communications Commission
ECS	Employee Compensation Scheme	NCIS	National Cooperative Insurance Society
EFINA	Enhancing Financial Innovation & Access	NGN	Nigerian Naira
FCT	Federal Capital Territory	NGO	Non-Governmental Organizations
FDI	Foreign Direct Investment	NHIS	National Health Insurance Scheme
FGD	Focus Group Discussion	NIA	Nigerian Insurers Association
FIS	Financial Inclusion Strategy	NIG ECS	Nigerian LGA Geodemographic Classification System and Profiler
FSS2020	Financial Sector Strategy 2020	NIPOST	Nigerian Postal Service
GDP	Gross Domestic Product	NMFPPC	National Microfinance Policy Consultative Committee
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH	NPC	National Planning Commission
HMO	Health Maintenance Organisation	NSITF	Nigeria Social Insurance Trust Fund
IAIS	International Association of Insurance Supervisors	OPP	Out of Pocket Payment
ICP	Insurance Core Principles	ORC	Override Commissions
ICT	Information and Communication Technology	PENCOM	National Pensions Commission
IFAD	International Fund for Agricultural Development	PMB	Primary Mortgage Banks
IFC	Islamic Finance Council	POS	Point of Sales
IFRS	International Financial Reporting Standards	PRAI	Poverty Reduction Accelerator Investment
ILAN	Institute of Loss Adjusters of Nigeria	ROE	Return on Equity
IMF	International Monetary Fund	VAT	Value Added Tax
LGA	Local Government Area	WHO	World Health Organisation
MDG	Millennium Development Goals		

Executive Summary



"A grossly untapped opportunity". This is how Nigeria's all-encompassing development plan, Vision 2020, describes the Nigerian insurance sector. With approximately 70% of the 150 million strong population living below the poverty line, over half of the population living in rural areas, 52.5% of adults being completely excluded from financial services, a growing economy amidst higher inflation, social unrest, poor basic public infrastructure, and concerns with corruption, Nigeria offers great opportunities and challenges for virtually any type of business.

It is not different for the insurance sector: only about 1% of the adult population is covered by insurance today, clearly showing the huge potential lying ahead of the industry. There is wide acknowledgment by the industry and other stakeholders of a largely unexplored world out there, since the Nigerian uninsured faces risks and needs the means to mitigate them better than what they can do with the informal mechanisms currently used. The potential market for microinsurance could be very attractive for providers, given Nigeria's young and large population.

Demonstrating a surprising apathy, the bulk of the insurance industry is accommodated in its focus on

corporate and compulsory contracts. It offers very little to retail customers beyond compulsory insurance. Moreover, its previous experience with voluntary retail products has been marked by practices such as not paying claims, which have tainted the industry's reputation, resulting in low levels of public confidence and the perception that insurance does not offer value to the insured. The strong emphasis in compulsory insurance at both the policy and industry levels may worsen this public perception.

This reality is challenging for the companies seeking to provide value insurance services to Nigerians and expand into new geographies and client segments. To succeed in microinsurance, interested providers will need to revamp the way they do business. Improving market practices will determine whether regulatory reforms will be fully effective. Generally, the path to sustainable microinsurance should be based on a pragmatic plan of action recognizing that microinsurance needs a gradual development, and that an enabling regulation is not enough to ensure expected results. Strengthening the industry and re-establishing public confidence is the priority for Nigeria, while policy, regulatory and supervisory measures should be sought to benefit and encourage first movers.

Introducing microinsurance in Nigeria (and even growing the voluntary retail insurance segment) will require capacity building across the entire insurance value chain, from underwriters to intermediaries. It should be underscored that, although the first impulse of some might be to advocate for and invest in consumer education to improve demand for insurance, this report argues that better and longstanding results can be achieved by focusing on changing the business environment. We recommend a shift to better products and services, and good marketing to awake consumer interest, instead of spending huge sums and time in consumer education without first changing the existing offer and market practices. In fact, pushing for insurance education and instigating insurance demand in the current market conditions may yield counter-productive results.

Microinsurance asks for a shift from the current market focus. First, insurers need to improve their understanding about microinsurance business and the potential client. The limited capacity and expertise in this market segment is reflected in the products offered today, which do not seem to fit the microinsurance concept of this segment, such as accessibility and affordability. A strong effort in capacity building, peer exchange and trainings will need to take place in Nigeria. Additional market research needs to be done by insurance companies and other stakeholders to form a precise profile of the potential microinsurance client in urban and rural areas.

With greater knowledge and enhanced skills, companies will be able to offer better value through adequate products which rely on a carefully crafted price structure that meets the profit needs of the company, fits the pocket of the client, and offers incentives for intermediaries to do a good job. Better product design will entail strategic alliances with service providers who have greater knowledge of the medium-low and low-income segments, their habits and financial needs. As seen in other countries, microinsurance is likely to start with simpler products such as credit life. As capacity and expertise build up, insurers will be better prepared to offer other products such as savings-linked insurance until getting to health insurance, one the most complex products. It is also natural to expect a gradual progression from

urban to rural areas, since urban areas offer a much less challenging infrastructure that is needed to offer microinsurance profitably, such as mobile communications, transportation, payment and health services. Also, some of the potential microinsurance intermediaries such as banks and microfinance banks are concentrated in urban areas.

To reach the microinsurance client and achieve greater operational efficiency, insurance companies will need to deploy different distribution models. This segment requires a large, efficient and diverse network of intermediaries that are closer to the client, and enjoy their trust. In Nigeria, this includes microfinance banks, microfinance institutions, cooperatives and informal financial services such as Esusus, and even banks. Insurance companies will need to choose good intermediaries, as not all in a given category are able and willing to do a good job. It will be also key to harness retail networks to facilitate premium collection and claims payments. The most promising and upcoming structure to answer this need are the emerging mobile payment networks.

Innovative approaches to microinsurance that can serve as a catalyst to the industry as a whole may not only come from the pool of existing insurance companies. A few other players may be interested and even better prepared to set up a sustainable and safe microinsurance operation, particularly if well regulated and supervised by NAICOM. Some potential underwriters could be microfinance banks, cooperatives, microfinance institutions and foreign insurers who are not yet operating in Nigeria.

In summary, the Nigerian insurance industry needs:

- Intensive capacity building and greater expertise in microinsurance and retail insurance more generally, with focus on voluntary products;
- Better product development, based on good market research;
- Effective marketing that speaks to the microinsurance client;
- Better service, such as honouring claims on a timely and easy manner; and
- Innovative intermediation models.

The most needed regulatory reforms highlighted in this report are:

- Creating a dedicated microinsurance framework to regulate microinsurance institutions and operations:
 - A framework for specialized (dedicated) microinsurance underwriters taking a variety of legal forms including cooperatives requires strict but proportionate entry and ongoing requirements, such as a lower minimum capital balanced by a limited scope of permitted activities, and an effective but highly efficient licensing and supervision process;
 - A specialized regulation for microinsurance operations applicable to dedicated microinsurers and diversified companies providing microinsurance, including:
 - a clear definition of microinsurance product to delineate microinsurance and facilitate segregated reporting;
 - allowing composite microinsurance (bundling of life and non-life coverage) products by any licensed insurance company;
 - improved consumer protection (e.g., set disclosure and advertising rules) and market conduct standards (e.g., deregulate microinsurance agent commissions) for all insurers, and effectively enforcing them;
 - risk-based capital requirements that are sensitive to microinsurance risks and can benefit all companies with a microinsurance portfolio. This will provide a level-playing field between specialized and non-specialized microinsurance underwriters;
 - clear rules allowing the use of individuals and legal persons to intermediate microinsurance and introduce flexibility to their commissions regime.
- Improving regulatory reporting and data dissemination by NAICOM to foster competition and enhanced market discipline through greater transparency, while keeping regulatory compliance costs down; and
- Building NAICOM's regulatory and supervisory capacity in microinsurance and retail insurance more generally.

There is a positive trend on the broader policy for inclusive insurance, but there is not a single policy for microinsurance development. The following steps (which are not solely within NAICOM's scope) could be considered:

- Creating a steering committee with participation of all relevant stakeholders, including insurance providers and potential microinsurance distributors, to discuss, design and implement an action plan for microinsurance.
- Assessing the impact of the subsidies (through the Nigerian Agricultural Insurance Company, NAIC) to agricultural insurance, on innovation and competition, with the purpose of creating a strategy for this market;
- Revisiting the prohibition by the Central Bank of Nigeria (CBN) for mobile network operators to offer mobile payments platforms directly, as this limits the potential for co-branding with microinsurance and reduces incentive for mobile operators to push for microinsurance products;
- Clarifying, from CBN's perspective, that CBN-regulated entities can be insurance intermediaries and are allowed to receive commissions for this service;
- Revising the national flat capitation rate for health service providers under the National Health Insurance Scheme (NHIS), to encourage health insurance in rural areas;
- Considering lifting NAICOM levies for microinsurance;
- Keeping an eye on next generation issues, such as taxation of microinsurance;
- Exploring the potential linkages between microinsurance and welfare programs such as government cash transfers.

Although it cannot push industry players to change their mindsets around a potential market segment, an enabling policy and regulatory environment, as well as a sound and effective supervisory system are absolutely key to allow such shift to occur and, most importantly, to make it possible for first movers to take the lead and serve as catalysts, proving the attractiveness, viability and sustainability of the microinsurance business.

No single measure among the above will bridge the insurance gap. Widening the reach of insurance services requires combining several fronts, with the firm commitment of stakeholders to build and implement a realistic plan of action. Small but purposeful, pragmatic and certain small steps that make sense

in the long-term will be most valuable for Nigeria. If the three dimensions – supply, demand and policy/regulation/supervision – move toward a common objective, Nigeria would be not far away from providing basic and good insurance to the majority of its population.

1 Introduction



Growing international experience increasingly shows that microinsurance is a viable business that can help closing the gap between the minority who has access to formal risk mitigation tools, and the large majority who is financially excluded. Well-designed and well-managed microinsurance helps individuals better deal with the risks they face, without falling in financial hardship usually attributed with informal risk mitigation means, such as selling assets and borrowing at high rates. Given the pervasiveness of poverty and financial exclusion in Nigeria, microinsurance has potential to contribute to improved living standards, and help the country achieve its ambitious economic and social development agenda, including the desire to fight social unrest and instability.

The International Association of Insurance Supervisors (IAIS) defines microinsurance as *“insurance that is accessed by [or accessible to] the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices”*. Microinsurance offers an opportunity for vast market potential, in grand scale. However, micro-

insurance requires a good combination of enabling factors, from the overarching policy environment, encouraging market dynamics and demand, to insurance regulation and its effective supervision.

The objective of this country diagnostic is to analyze whether the Nigerian context offers this enabling environment that would allow microinsurance to emerge, reach scale and achieve sustainability. In particular, it aims to explore the impact and identify barriers that the current policy, regulatory and supervisory frameworks have or could have on microinsurance development. In addition, the diagnostic approach is also aimed at catalyzing the development of local stakeholder strategies towards concrete actions.

This study was commissioned by the National Insurance Commission (NAICOM) which also financed the demand side research. The project was implemented with technical and financial support of the German Federal Ministry for Economic Cooperation and Development (BMZ), via the GIZ Nigeria/SEDIN program

and the Pan-African program “Promoting Financial Sector Dialogue in Africa: Making Finance Work for Africa (MFW4A)”. It counts with the methodology and technical contributions of the Access to Insurance Initiative (A2ii). Complementing original demand side surveys and a literature review, it benefits from in-country consultations with a range of stakeholders (see list of interviews conducted in Appendix 2).

This report is divided into six sections. **Section 2** describes the broad Nigerian context that may impact microinsurance development. **Section 3** describes

the current state of the insurance sector, which is most relevant to understand what is needed to implement microinsurance in Nigeria. **Section 4** complements the analysis of the supply side by highlighting insights from the original demand side research conducted specifically for this project, and previously available research. **Section 5** analyzes the relevant policy, regulatory and supervisory frameworks. Finally, **Section 6** summarizes the main findings and the recommendations of the diagnostic team¹.

¹ The views expressed in this report are those of the authors and do not necessarily reflect the position of NAICOM or any of the partners supporting the diagnostic study.

2 Broad country context



Understanding the broad country context helps assessing the potential for microinsurance in Nigeria, both by portraying with more precision the potential clients, but also the environment impacting their lives and the lives of potential microinsurance providers, such as the direction of the economy, the political fabric, the social dynamics and the level of access to basic services, including to financial services. This section briefly describes the main aspects of this broad setting, to the extent that they are relevant to the microinsurance diagnostic analysis.

2.1 Political and macroeconomic context

Nigeria enjoys some level of political stability, which is threatened by ongoing social unrest.

After independence from British rule in 1960 and 16 years of military rule, which ended peacefully in 1999, Nigeria is today a federal constitutional republic. The general elections of April 2007 marked the first civilian-to-civilian transfer of power in the country's history. Since the election of President Goodluck

Jonathan in 2010, Nigeria has observed a period of relative stability comparatively with previous turbulent periods. Tensions and instability still exist and are spurred by the various ethnic and religious tensions, which sometimes result in violent episodes.

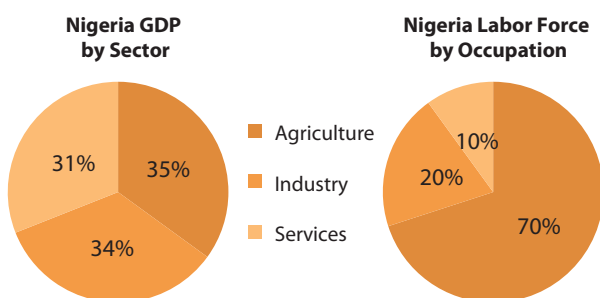
As the second largest economy in Africa, Nigeria aspires to be an important player in the international context. This aspiration is reflected in nearly all the government's policy documents, most notably, the Vision 2020 (see Section 2.4.1). Nigeria is rich in natural resources, particularly natural gas, petroleum, tin, and iron. Its economy is primarily based on exports of oil and gas, which provide 80% of budgetary revenues and 40% of the GDP². However, the majority (over 70%) of the workforce is employed in the agricultural sector³ (see Figure 1). The key drivers in the non-oil sector, in terms of growth, are telecommunications, commerce, manufacturing, agriculture and services. The growth of the telecommunications sector is particularly impressive, having averaged over 30% annually lately, with an increase of over 200% in the stock of Foreign Direct Investment (FDI) between 2005 and 2010⁴.

2 Nigeria Vision 2020.

3 CIA Nigeria Country FactBook.

4 African Economic Outlook 2011.

Figure 1: GDP by sector and labour force by occupation



Source: CIA Country FactBook

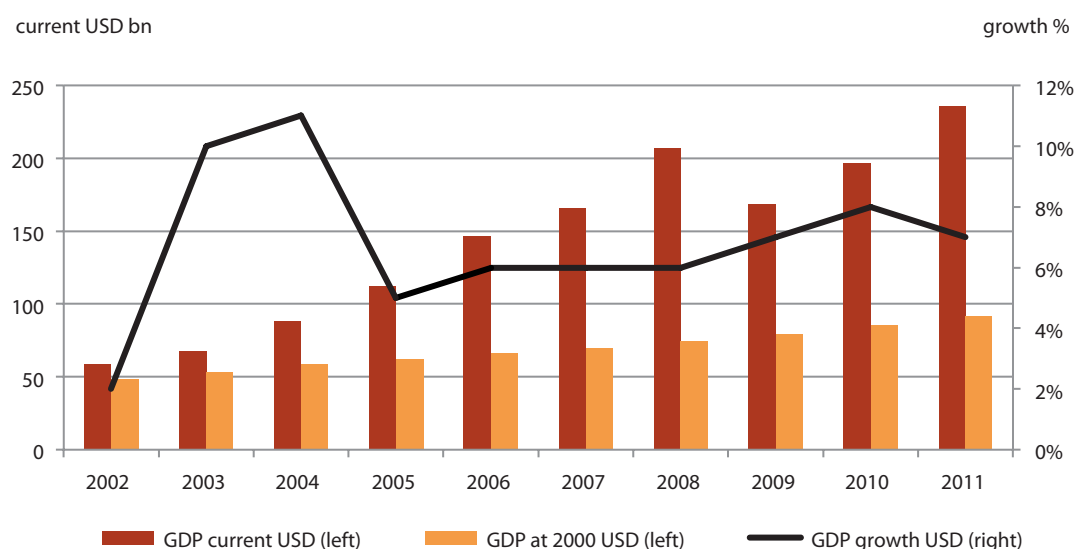
In general, the economic outlook is optimistic for the next few years, with expected growth in total output averaging 7%. Nigeria began restructuring its economy in 2008, showing more political will to implement market-oriented reforms, such as modernizing the financial sector, reducing government subsidies, and resolving regional disputes over the distribution of earnings from the oil industry. GDP rose strongly in 2007-11 at an average of 7% per year, pushed mainly by the increase in commodity prices. In 2011, the estimate is a real growth of about 7% (or slightly below, depending on the source of analysis). This positive trend is shown in Figure 2.

The inflation rate is above the average in Sub-Saharan Africa and there is an upward trend.

Inflation grew with the impact of the financial crisis, and continues in an upward trend, staying in a two-digit rate. The Central Bank of Nigeria (CBN) is taking measures to curb the trend. The annual rate in 2011 was 10.8%⁵.

Official underemployment rates are not available, but they are believed to be significant. According to the International Monetary Fund (IMF), the 2011 unemployment rate was 23.9% of the workforce⁶, following steady increase, as shown in Figure 3. A large proportion of the workforce is in the informal sector, such as subsistence farmers, traders, itinerant labourers and street vendors. Many Nigerians have more than one job in order to cover daily living expenses. Since there are no unemployment benefits, informal workers have little incentive to register with government agencies and help in creating official statistics. It is estimated that 70% of the unemployed are young people (15-24 years of age)⁷.

Figure 2: Nigeria GDP growth 2002-2011

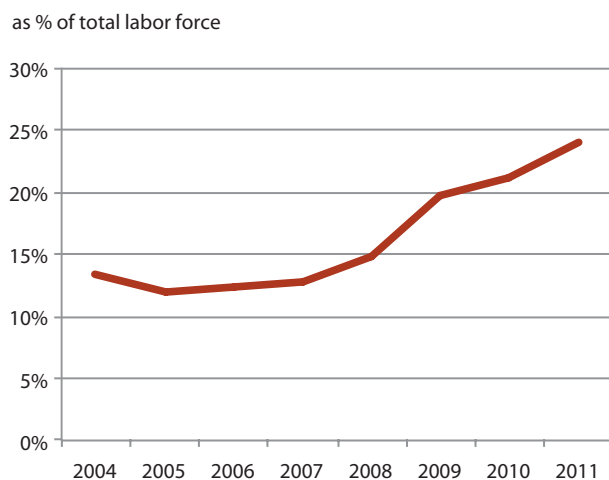


Source: World Bank.

⁵ CIA Nigeria Country FactBook.

⁶ Unemployment was 21% according to the CIA Nigeria Country FactBook.

⁷ Nigeria Vision 2020.

Figure 3: Nigeria historic unemployment rates

Source: International Monetary Fund.

In spite of the positive economic outlook, Nigeria continues being a challenging destination for investors. Highly influenced by the slow progress in diversifying the economy⁸ and addressing the remaining weaknesses in the political and institutional environment, the Doing Business 2012 report⁹ ranks Nigeria 133 out of 183 countries (no change from 2011's rank), with deterioration of indicators such as investor protection and access to credit.

Corruption and mismanagement is still a concern in Nigerian politics, although some progress has been achieved. Despite its pledge to institutionalize democracy, curb corruption and fiscal mismanagement, Nigerian politics continues tainted with corruption that affects the business environment and investors' appetite. The country has made progress in this regard, though, and some initiatives – such as recuperating illicit funds deposited in Switzerland by military rulers – have gained praise from the international community. In fact, Nigeria's Corruption Perception Index has consistently improved since 2001, but the country still ranks 143rd out of 182 countries assessed by Transparency International¹⁰.

2.2 Access to technology and public infrastructure

In 2010, Nigeria had the 12th highest usage rate of mobile phones in the world and the 9th highest use of the Internet. According to the National Commission of Communications (NCC) the number of mobile phone lines in April 2011 was 90.59 million, or a density of 64.7 phones per 100 lives¹¹ (111 phones per 100 adults over 14 years). Over 25 million of those with access to mobile phones are unbanked¹². Internet access is not as high as the number of mobile phone subscriptions, but in 2009 there were 44 million users¹³.

Poor infrastructure is considered a key impediment for greater economic growth and diversification. The largest cities of Lagos, Kano and Abuja enjoy better infrastructure than smaller cities and rural areas, but power outages are very common even in these cities, which increases the cost of doing business. There are 60 million generators in the country, which cost about NGN 7.3tn (USD45bn) per year. Even wireless communications is not fully reliable yet. Sanitation is poor and fresh water is not available to all.

Access to and quality of healthcare services are low, with inadequate infrastructure, limited coverage, weak referral systems, unavailability of drugs, inadequate health personnel (28 doctors for 100,000 patients) and other weaknesses. Overall, the health system is underfunded, needs better capacity, and suffers from weak governance, according to Vision 2020 (see Section 2.4.1).

2.3 Socioeconomic context

Nigeria is a populous, young, diverse country, still growing and seeing episodes of social unrest and violence. Nigeria is the most populous country

8 The diversification index has remained below 0.4% over the years. Source: Speech by Mr. Sanusi Lamido Sanusi, Governor of the Central Bank of Nigeria, at the 2nd General Dr. Yakubu Gowon Distinguished Annual Lecture, Lagos, 19 October 2012 (<http://www.bis.org/review/r121105f.pdf?ql=1>).

9 The Doing Business Report is prepared yearly by the International Financial Corporation (IFC) and the World Bank.

10 Source: Transparency International (<http://transparency.org/>). A corroborating view on the high level of corruption can be found in the Speech by Mr. Sanusi Lamido Sanusi, mentioned in footnote 8.

11 Based on a population of 140 million.

12 EFINA Access to Financial Services 2008 survey.

13 CIA Country FactBook.

in Africa with approximately 150 million people. It is the 7th most populous in the world, and still growing by about 2.5% per year¹⁴. The median age is 19.2 years and life expectancy of 52 years. Half of the population are in rural areas, most of them engaged with subsistence agriculture. Sixty-eight percent of the population is literate, and the most widely spoken languages are English, Hausa, Yoruba, Igbo, and Fulani. About half of the population is Muslim and about 40% is Christian. The North and the South of the country are mostly Muslim, while Christians concentrate in the East. The country has observed increasing tension since 2002, with various episodes of social unrest and violence, particularly linked to growing Islamic fundamentalism in the North¹⁵, creating a general feeling of insecurity.

While GDP per capita in 2011 stood at USD2,600¹⁶, it is estimated that around 70% of the population lives below the poverty line. The National Bureau of Statistics (NBS) reports¹⁷ that over 75% of the households had a monthly income of under NGN20k (USD124) in 2009. With the exception of Lagos and Abuja, 50% of households in all other states showed an income below that. Also, over 80% of the working population is either self-employed or informally employed. Based on a 20 working days per month assumption, 23.6% of all adults earn less than NGN6K per month (USD37), while 10.9% receive no income at all. Only 12.6% of adults receive wages/salaries, whilst 23% of adults depend on their own business for income, 18% depend on family and friends and below 2% depend on pensions and investments. Establishing a good understanding of the income profile of Nigerians as well as other aspects of their lives such as insecurity and access to basic services, will help insurance providers create better strategies for market expansion and product design, and quantify business opportunities (for instance, see Section 4.2.4).

2.4 Development policies and social protection programs

2.4.1 Key national economic and social development policies

Nigeria has set ambitious goals for economic and social development in its “Vision 2020”. Considering the current level of poverty and the deficiencies of the basic public infrastructure affecting the lives of the majority of Nigerian households, as well as the dependency on oil revenues, the Nigerian government, through the National Planning Commission (NPC), has articulated the Vision 2020, a comprehensive plan covering all areas of economic and social development, including the improvement of living standards and diversification of the country’s income sources. It has sectoral programs including one for the financial sector. The ambition is to place Nigeria amongst the top 20 economies in 2020 (the plan was launched in 2010) with a minimum GDP of USD 900bn (which would require average annual growth of 13%)¹⁸.

In addition to the goals established by Vision 2020, there is a wealth of government interventions in the financial sector, including guarantee schemes, direct provision of services through government-owned institutions (development financial institutions, or DFIs), subsidized interest rates, interest rate rebates, matched funding, and compulsory investment in microfinance by banks. There is little information about the impact of these interventions and if they have achieved expected outcomes.

Some progress has been made toward the Millennium Development Goals (MDGs), but much remains to be done. The MDGs cover the years 2000-2015 to achieve a wide range of objectives involving poverty reduction, education, gender equality, health, the environment, and international development cooperation. The MDG 2004 Update found

14 CIA Nigeria Country FactBook.

15 The Boko Haram is a group of militant jihadists who seek to establish Sharia law in Nigeria, and have been linked to several of the violent demonstrations.

16 CIA Nigeria Country FactBook.

17 Social Statistics in Nigeria 2009.

18 From 2003 to 2007 Nigeria attempted to implement the National Economic Empowerment Development Strategy (NEEDS). NEEDS gave birth to state-level initiatives (SEEDS). These strategies covered several deficiencies, but the impact was minimal. Hence, many of the goals stated in NEEDS are now listed as goals in the Vision 2020.

that the country still fell short on many goals. It had advanced in providing universal primary education, but lagged behind on eliminating extreme poverty and hunger, reducing child and maternal mortality, and combating diseases such HIV/AIDS and malaria.

A good understanding of the reality at the Local Government Authority (LGA) level may be useful for strategies to increase access to financial services, including insurance. The government provides a tool, known as the Nigerian LGA Geodemographic Classification System (NIG ECS¹⁹) that allows detailed disaggregation of the 774 LGAs according to their levels of development in a variety of aspects. NIG ECS could be a wonderful market analysis tool for targeted microinsurance interventions, as well as other developmental purposes.

2.4.2 Social protection programs

There is no single overarching social protection policy in Nigeria, but many initiatives are underway. The government has introduced, in the last years, various initiatives aimed at improving the social security system, including the pensions reform, the National Social Insurance Trust Fund (NSITF), the National Health Insurance Scheme (NHIS), the Virtual Poverty Funds (VPF), the National Poverty Eradica-

tion Program (NAPEP) and conditional cash transfers. Many of these programs have underperformed, and the government, through its Vision 2020, has pledged to change this reality, with the ambition to reduce poverty from 65% to 50%.

There are two federal government-led social protection programs that could potentially be linked to microinsurance and other financial services: a) Care of the People (COPE), managed by NAPEP, and b) the Community-Based Health Insurance Scheme (CBHIS).

There is potential to harness social protection programs for financial inclusion, but this potential is currently limited due to the state of development of such programs. In addition to be directly related to the government's goal to extend health insurance to the informal sectors through NHIS and CBHIS, financial inclusion (and more specifically microinsurance) can ride on bulk government payments, such as COPE and pension schemes. For example, two of the largest CCTs in the world (those of Mexico and Brazil), have incorporated microinsurance as a development component of the CCT programs. These regular payments may offer a gateway for financial services²¹. In the case of Nigeria, however, initiatives linking financial inclusion to social protection may stumble – at least in the short run – on the

Box 1: Two major social security programs in Nigeria²⁰

COPE is a conditional cash transfer (CCT) program reaching 22,000 extremely poor households (less than 0.001% of total poor households). Households receive a monthly Basic Income Guarantee (BIG) for one year and then a lump sum Poverty Reduction Accelerator Investment (PRAI). BIG ranges from USD10 to USD33 depending on the number of children in a household. A further USD50 is withheld as compulsory savings which is provided as the PRAI to the head of the household. Transfers are subject to two conditions: the enrolment and retention (80% attendance rate at school) of children in basic education and participation in all free health care programmes.

CBHIS, which is in its initial phase of implementation, aims to protect the informal sector and marginalised groups against the burden of high out-of-pocket health expenditures by pooling risks within a community. A similar program was implemented before in Nigeria with little success. The new pilot program will be implemented in 12 states to provide a safety net for at least 60,000 people from the informal sector. When fully rolled out, it intends to cover 112 million people.

19 <http://www.nigerianlgaclassification.com>.

20 Jessica Hagen-Zanker and Rebecca Holmes, 2012. Social protection in Nigeria. Synthesis Report. Overseas Development Institute. February.

21 See an analysis of the potential linkage of financial inclusion to CCTs in Bold, Chris, David Porteous, and Sarah Rotman. 2012. "Social Cash Note 77. Washington, D.C.: CGAP, February.

Table 1: Concentration of bank branches in Abuja and Lagos

State	Bank branches per 1 million inhabitants	ATMs per 1 million inhabitants
	Branches of UBA, GT Bank, Intercontinental, Stanbic, IBTC, Diamond, and First Bank	ATMs of UBA, GT Bank, Intercontinental, Diamond and First Bank
Abuja	77	92
Lagos	56	60
Kano	6	5
Katsina	3	2
Jigawa	2	2
All States	13	13

Source: EFINA Financial Sector Landscape 2010, with OPM survey data.

weaknesses of the protection schemes themselves, such as inadequate statistical information on the target population; absence of tracking system; corruption and lack of transparency in the management of public funds²², limited coverage (in the case of COPE), and limited institutional capacity.

2.5 The financial sector and the extent of financial exclusion

2.5.1 Brief overview of the financial sector

The banking sector continues to implement profound structural reforms. The sector remained relatively resilient and stable in 2011, despite the crisis in advanced economies²³. In the African context, it is only second to South Africa's in asset size, and it has spawned to 16 countries on the continent. The Central Bank of Nigeria (CBN) continues to implement profound reforms in the sector, which started back in 2005. The previous perception of highly risky banks has changed considerably, and much is in progress to improve risk management and governance and to clean up banks' balance sheets (by 2009, non-performing loans across banks ranged from 2.7% to a bewildering 88%²⁴). The reforms include increasing

the minimum capital and mandating divestment from non-banking activities, including insurance. To enhance public confidence, CBN is also working to reduce the incidence of frauds and forgeries in bank transactions. Reported fraud cases have been reduced from 5,960 cases in 2010 to 2,527 in 2011²⁵.

Banks have an extensive distribution network, but it is concentrated in urban areas. There are 21 banks delivering their services through a network of about 5,810 branches, concentrated in and around Lagos, Abuja and Kano. Banks operate 9,640 ATMs, and their usage has increased by 86.7% in number of transactions in 2011, compared to 2010²⁶. There are about 11,000 Point of Sale (POS) devices installed in retail merchants. Table 1 shows the concentration of bank branches and ATMs of some of the largest banks. See analysis of the potential role of banks in microinsurance distribution in Section 3.6.

Islamic banking is emerging. According to our interviews, CBN has recently licensed the first Islamic Bank, Jaiz Bank. This could open new options for the majority Islamic population or even new partnerships with the insurance sector targeting Muslim groups.

Microfinance banks (MFBs) still struggle to achieve sustainability and regain public confidence. MFBs

22 Nigeria Vision 2020, Volume II.

23 Central Bank of Nigeria, Annual Report 2011.

24 Assessment of the regulatory environment and performance of the Nigerian Banking Sector, January-June 2010. The African Development Bank, April 2011.

25 The EFINA 2010 survey notes that despite the pervasive issue of fraud, the banking sector does not suffer from low levels of public confidence. The EFINA 2008 survey showed that people trust banks much more than microfinance banks and even savings clubs. Only 5% of adult said they do not trust banks or other institutions.

26 Central Bank of Nigeria, Annual Report 2011.

Box 2: Problems of microfinance banks, according to CBN's Microfinance Policy 2011

According to the CBN's Reviewed Microfinance Policy 2011, microfinance banks suffer from:

- **Weak institutional capacity.** Incompetent management, weak internal controls, poor corporate governance, and lack of a deposit insurance scheme.
- **Absence of technological platform to drive down costs and achieve scale.**
- **Weak capital base** to provide cushion against the microlending risks.
- **Limited outreach to the unserved market.** Aggregate microcredit facilities in Nigeria account for 0.2% of the GDP only.
- **Poor banking culture and low level of financial literacy.** Microfinance clients see MFBs as a mere source of loans, not as partner in business.

have been transformed from previously unlicensed community banks as part of CBN's Microfinance Policy (launched in 2005 and revised in 2011)²⁷. With the license, the community banks were allowed to take deposits, provide credit, payments and other services. There are today 870 MFBs, down from over 900 when they were first licensed. This reduction is a result of CBN sanitizing the system, which suffered from several failures that tainted public confidence. Part of the problems in the MFB sector is related to the fact that many of the commercial banks adversely affected by CBN's banking sector reforms converted into MFBs, without a good understanding of the microfinance business. Other MFBs transferred to the new licensed company the inefficiencies they already had as community banks²⁸. In addition, or as a result of such problems, MFBs are unable to attract investors, a situation that was intensified by the global crisis. CBN has started an intensive capacity building program, coupled with onsite examinations, to inculcate good microfinance management practices in MFBs.

MFBs are concentrated in affluent urban areas and offer limited distribution capacity in rural areas. Only 0.6% of all adults have an account with MFBs²⁹. CBN's Microfinance Policy intends to increase the share of microcredit as percentage of total credit to the economy from 0.9% in 2005 to at least 20% in

2020, and 5% of the GDP. Also, CBN wants two thirds of the LGAs being served by MFBs. However, MFBs today are concentrated in affluent urban nodes³⁰, being disproportionately absent in the poorest areas.

Some MFBs are achieving sustainability and a few, such as LAPO, have reached scale. CBN will continue sanitizing the MFB sector and a third to half of MFBs may disappear in this process³¹. With the purpose of developing the microfinance sector as a whole (including providing a path for unregulated entities to apply for a regulated status) and implementing its Microfinance Policy, CBN has instituted the National Microfinance Policy Consultative Committee (NMFPC), housed at its Development Finance Department. The government plans to establish the Microfinance Development Fund to support MFBs. CBN has also supported the creation of the National Association of Microfinance Banks (NAMB).

Other financial institutions play a limited role in financial inclusion, even when having extensive physical presence. Other financial entities regulated by CBN are primary mortgage banks (PMB), discount houses, finance companies, bureaux de change, and development financial institutions (DFIs), as organized in Table 2. These companies play a limited role in fighting against financial exclusion³². DFIs are government-owned entities established to

27 Available online at www.cenbank.org.

28 CBN's Reviewed Microfinance Policy, 2011.

29 MicroBanking Bulletin 2012. Exploratory Analysis of Local Geographies of Need and the Proximity of Microfinance Service Providers in Nigeria.

30 Urban nodes is a definition used by NIGECS. They are scattered across the country and do not necessarily concentrate in any geopolitical zone. However, the North and East have fewer urban nodes. (Source: MicroBanking Bulletin 2012. Exploratory Analysis of Local Geographies of Need and the Proximity of Microfinance Service Providers in Nigeria).

31 EFINA Financial Sector Landscape 2010.

32 EFINA Financial Sector Landscape 2010.

Table 2: Selected financial institutions regulated by CBN

Type of Institution	Number of institutions	Number of touchpoints
Deposit Money Banks (Banks)	21	5,810 branches
Microfinance Banks (MFBs)	870	N/A
Finance companies	81	N/A
Development Financial Institutions	5	N/A
Mobile Payment Companies	15	>19,000 agents
Bureaux de Change	20	N/A
Discount Houses	5	N/A

Source: Central Bank of Nigeria website, accessed in October 2012, and interview with providers.

finance priority development objectives in the agriculture, commerce, and industrial sectors. There are five DFIs, of which the Nigerian Agricultural Cooperative and Development Bank (NACRDB) deserves a brief analysis, below.

NACRDB's extensive rural network could be an asset for financial inclusion, but the institution presents many challenges. NACRDB was established by the federal government³³ in 2000 through the merger of three microfinance institutions to grant credit facilities to individuals and cooperative groups. It has an extensive network of 201 branches in rural areas and its loan portfolio is equivalent to 11% of the portfolio of all MFBs. However, NACRDB is undercapitalized, has poor information systems, low capacity, a poor public image, and high levels of non-performing loans partly due to political use of the bank, and a long-standing conflict among shareholders³⁴. In addition, there is no clear regulatory and supervisory framework for NACRDB.

2.5.2 The non-regulated formal and informal sectors

There is a range of formal and informal entities providing financial services in Nigeria and which are not regulated or supervised by CBN. The formal sector is comprised of financial cooperatives and microfinance institutions (MFIs), while informal providers vary widely in outreach, form and shape³⁵. The coopera-

tive sector is organized into a 4-tier structure depicted in Box 3.

Box 3: The 4-tier structure of the cooperative sector

- Tier 1** – Community primary cooperative society – 10 or more individual members with common bond, limited geographically. The average membership is 25.
- Tier 2** – Secondary society – 774 unions of cooperatives, at local government authority (LGA) level.
- Tier 3** – State level – sectoral apexes (e.g. Bauchi State Cooperative Financing Agency) and state cooperative federations.
- Tier 4** – National level – national sectoral apexes (e.g. NCIS).

The National Department of Cooperatives is the regulator and supervisor of all cooperatives.

The national sectoral apexes, such as the National Cooperative Insurance Society of Nigeria (NCIS)³⁶ are directly supervised by the National Department. Under the National Department, each state has a State Director of Cooperative, who is in charge of supervising secondary and primary societies, as well as state level apexes such as the Bauchi State Cooperative Financing Agency and the Oyo State Cooperative Union.

The cooperative sector is large, but sector statistics vary widely depending on the source. There are no official numbers being published by the national or

³³ It is owned by the federal government, with Ministry of Finance holding 60% of the shares, and CBN 40%.

³⁴ EFINA Financial Sector Landscape 2010.

³⁵ In this report, "informal" means entities operating without a formal license from a public authority such as register of companies.

Not all non-regulated entities are informal.

³⁶ See description of NCIS in section 3.4.

state level Directorates or the Cooperative Federation of Nigeria (CFN). CFN estimates there are 50,000 cooperative societies with 20 million members, covering 5 million households³⁷. The National Department of Cooperatives³⁸ estimates that there are 120,000 financial cooperatives in operation (of which 30% are agricultural) covering about 1.4 million members and mobilizing NGN800mn (USD4.9mn) in deposits. The loan portfolio of the whole system is negligible, according to the National Department.

While probably large, the cooperative sector presents many structural challenges. There are many small independent cooperative societies not affiliated to the CFN, making it difficult for the country to form a strong unified system. According to the National Department and other stakeholders consulted for this study, the cooperative sector has structural problems and is challenged with inadequate management capabilities, weak governance, weak finances, limited capacity and deficient information systems.

There are efforts to improve the cooperative sector, but progress is slow. There are some revitalization programs in place, including programs with support from the International Fund for Agricultural Development (IFAD) and there are already plans to transform the future sustainable cooperatives into MFBs. Also, the National Department is working to harmonize the regulatory regime across the different state level supervisors to improve quality of oversight.

MFIs also provide services to Nigerians, in much smaller scale than financial cooperatives. MFIs include non-governmental organizations (NGOs) and other institutional forms such as associations. They are not regulated by CBN but are being encouraged to report to CBN on a regular basis as part of CBN's Microfinance Policy. In 2005 the Corporate Affairs

Commission had 45,000 NGOs on its register, but there is no information on how many of these are MFIs³⁹. Likewise, there are no official statistics about the size of the credit portfolio and the number of borrowers.

Nigerians without access to or unable to use formal financial services use informal options for their savings and credit needs. Informal choices such as moneylenders and Esusus are dominant in rural areas, but exist in the urban setting as well. Esusu is the oldest form of savings clubs in Nigeria. The majority operates with unwritten laws, based on oath of allegiance and mutual trust. Esusu associations contribute a fixed amount periodically and give all or part of the accumulated funds to one or more members in rotation until all members have benefited from the pool⁴⁰. The Esusu collector goes to the client's home or workplace to collect the contribution, which is very convenient for low-income business people, and allows Esusus to know their clients. The interest rate is usually lower than those of banks, MFIs and MFBs. According to the interviews conducted, a new Esusu needs to follow some basic rules and register its business name with the relevant authorities. Statistics about these informal schemes are unreliable⁴¹. Our consultations suggest that in Ibadan alone there are over 20 Esusus. Altogether, the four Esusu heads interviewed in Ibadan serve around 900-1050 people. They estimated that 20-30% of Nigerians used Esusus and over 40% are in rural areas. There are plans to form an Esusu national association.

2.5.3 The extent of financial exclusion and usage of services

Financial exclusion is high and the gap between urban and rural adults is wide. Around 30% of total adults have an account at a formal financial institution (banks and others).⁴² According to the World

37 Source: Mr Tom Tar, Executive Secretary of Cooperative Federation of Nigeria, at International Cooperative Alliance (ICA) Africa meeting, Nov10-11th 2008. This estimate is likely to include the Esusus formed as cooperatives.

38 Interview with the National Department of Cooperatives, May 2012.

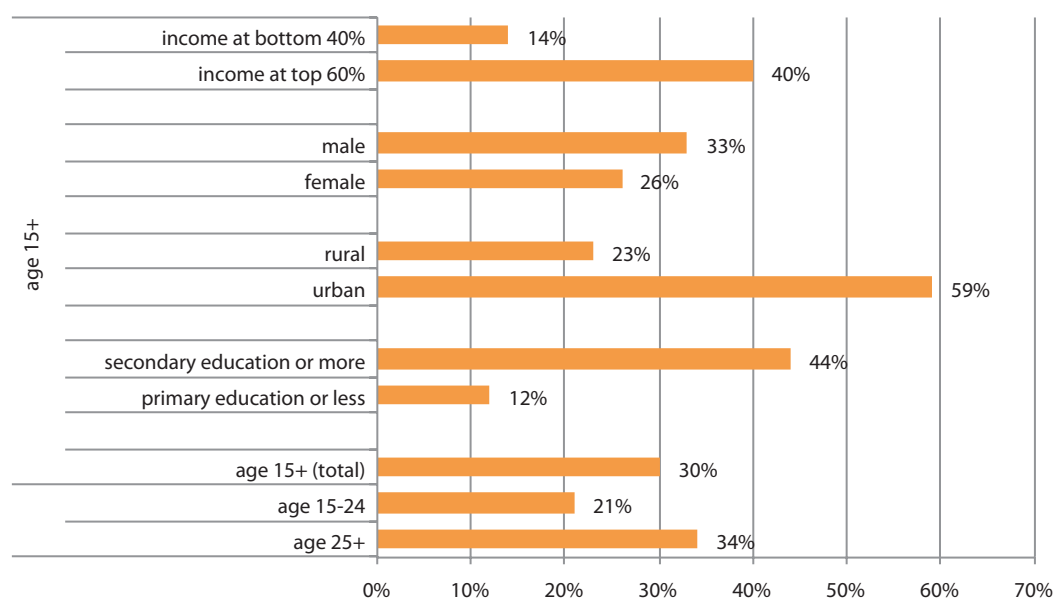
39 http://www.ngoregnet.org/country_information_by_region/Sub_Saharan_Africa/Regulation_in_Nigeria.asp.

40 <http://www.microfinancenigeria.com/other-news/Esusu-expanding-nigeria%E2%80%99s-financial-services-frontier/>.

41 According to Cenfri 2011 Opportunities for Insurance Inclusion in Nigeria, "Informal associations seem to be effective and trusted: nearly a quarter of those who save belong to an informal society/savings club, while 13% indicated that they save with a village association. Furthermore, 45% of savers save at home". The World Bank (Financial Inclusion Global Index, 2011 survey) has different data stating that approximately 40% saved using a savings club in the past year. This would mean 67% of savers used savings clubs last year.

42 The World Bank's Global Findex Database (<http://go.worldbank.org/1F2V9ZK8C0>) found that 30% of adults have access to formal financial institutions, while this statistic is 36.3% in EFINA's Financial Access Survey 2010. Part of the difference between the two studies is explained by the fact that while the World Bank classifies "adults" as 15 and above, EFINA's survey counted only adults 18 above.

Figure 4: Account in formal financial institution (% age 15+)



Source: Asli Demirguc-Kunt and Leora Klapper, 2012, "Measuring Financial Inclusion: The Global Findex Database," World Bank Policy Research Paper 6025.

Bank, 52.5% of the adult population is completely financially excluded (46.3% according to EFINA Financial Access 2010 Survey). Intermediation is highly skewed toward the public sector⁴³ and while 59% of urban adults have an account at formal institutions, only 23% have one in the rural areas⁴⁴. Eighty-six percent of the unbanked population are rural dwellers⁴⁵. The lowest income segments face worse conditions according to the World Bank: only 14% of the bottom 40% has an account. Access also is constrained by the level of education, as depicted in Figure 4.

According to EFINA Financial Access 2010 Survey, 67% of the unbanked adult population has never been banked before⁴⁶. The large majority (93%) of the 30% of banked adults use savings accounts, a good proportion (62.5%) has an ATM card, and 25% have a current account (7.5% of total adults, or 6.5 million people). It is interesting to note that 50% of the banked adults are clients of two banks: UBA (27%) and First Bank (23%). Both banks have set up partnerships with insurance companies.

Cost of bank accounts is not an access but a usage barrier. The EFINA survey concludes that entry costs such as minimum balances do not immediately exclude the lower income client because they are usually low, but bank services end up being too expensive. This is due to transaction costs such as monthly charges and transaction fees, as well as indirect costs such as transportation expenses and time spent in queues. These costs are disproportional to the income profile and job situation of EFINA's survey respondents. To compensate for this problem, 17.4% of total adults in this survey use exclusively informal services such as those provided by Esusus and moneylenders.

2.5.4 Innovations that may contribute to financial inclusion

Mobile payment services could spur innovative products and delivery channels for financial services including insurance. There are 15 mobile payment providers in operation since late 2011, which have in May 2012 recorded a total transaction value

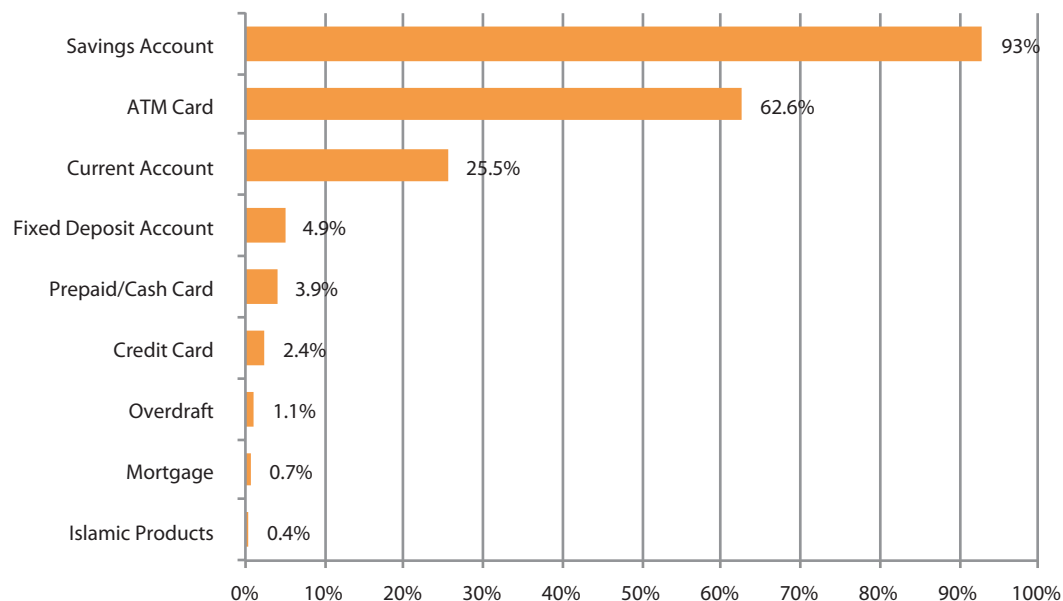
43 EFINA Financial Sector Landscape Survey 2010.

44 World Bank Findex Database.

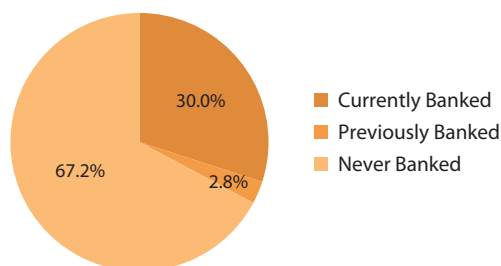
45 EFINA Financial Sector Landscape Survey 2010.

46 In EFINA's survey, "banked" means having an account at a money deposit bank only. It does not count other formal financial institutions such as microfinance banks.

Figure 5: Banking profile of adult population and use of banking facilities



Banking Profile



Source: EFINA Access to Financial Services in Nigeria 2010 Survey.

of NGN4.67bn based on 468,312 transactions⁴⁷. The transactions are conducted mainly through a network of about 20,000 agents (concentrated in Lagos). So far these mobile payment providers have attracted 1.87 million subscribers. According to the EFINA survey, this sector faces challenges such as high level of fraud and the tendency to focus on services to the existing banking customer base instead of expanding the clientele.

Banks are also piloting the use of retail agents similar to the agents used by mobile payment providers. This channel is still a novelty in the bank-

ing sector; it will take some time for it to become a major avenue for banks and bank clients. So far, bank clients mostly use branches and ATMs to conduct their transactions. For instance, almost 100% of deposits are still handled at the bank teller⁴⁸.

CBN expects a gradual integration of mobile payments platforms – and their retail agents – to the bank sector, which would allow clients to shift to electronic transactions conducted outside bank branches, using technology-enabled devices such as mobile phones and POS. The combination of retail agents and mobile technology has great potential to

47 See CBN's statement online at <http://allafrica.com/stories/201207200110.html>.

48 Asli Demircuc-Kunt and Leora Klapper, 2012, "Measuring Financial Inclusion: The Global Findex Database", World Bank Policy Research Paper 6025.

facilitate sales and distribution of financial services, as it cuts transaction costs significantly, for both clients and providers. These initiatives could address the fact that 24% of adults in Nigeria do not use banks because they are far away and 10% because the costs to go to the bank are high. Physical access is an issue⁴⁹.

CBN is also exploring how to harness the extensive network of 7,000 post office branches, which penetrates into the rural areas. Out of the 774 LGAs, only 237 (30.6%) do not have post offices. Nigeria Postal Services (NIPOST) is seen by the government as a key player for social promotion, financial and digital inclusion. As other parts of the Nigerian public

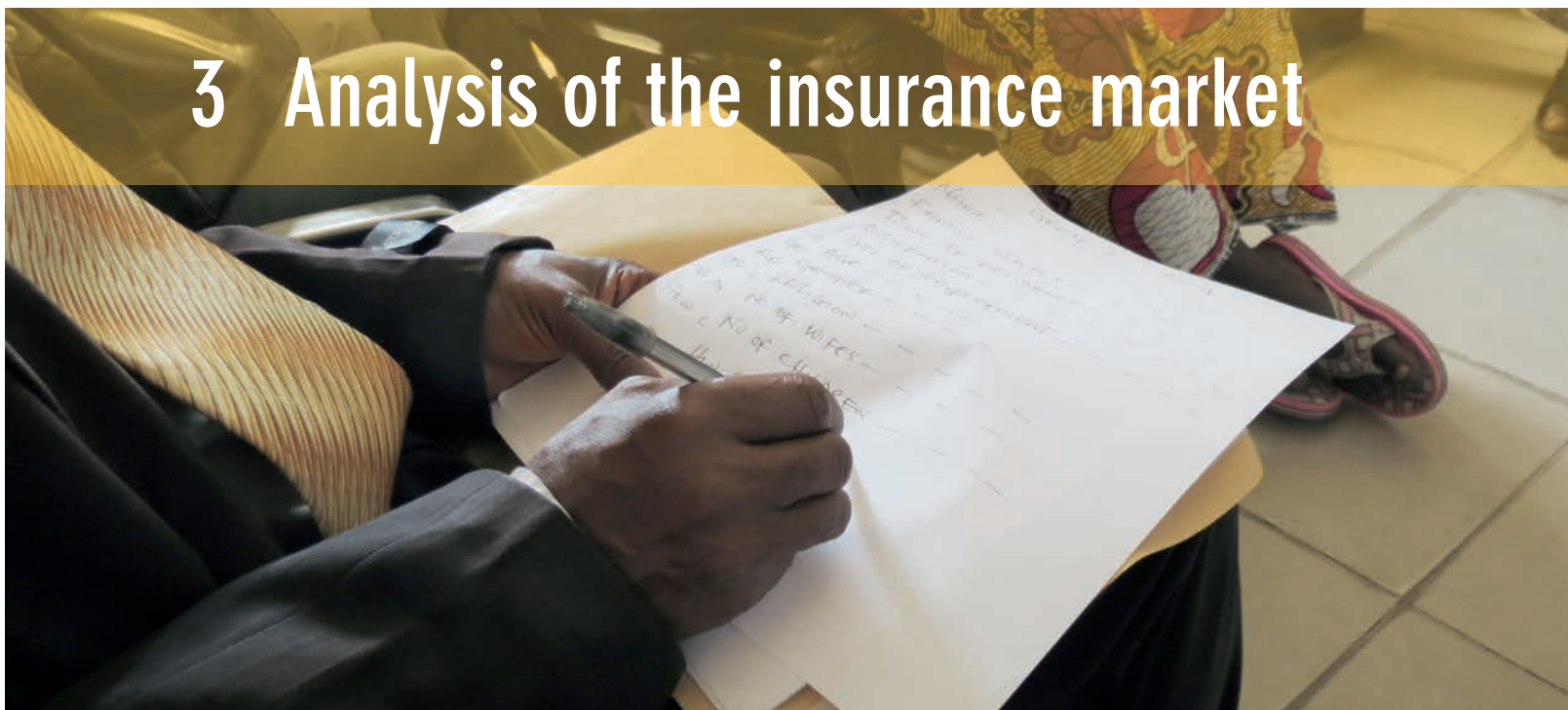
apparatus, NIPOST⁵⁰ has been undergoing restructuring to achieve financial viability, but the Vision 2020 has described the level of investment in the network in the last years as “in comatose”, and the reforms “at snail speed”.

Other interesting small-scale experimentations are a few banks, such as First Bank (the largest bank in number of clients), replicating the Esusu model to collect deposits, by using a network of agents who carry handheld electronic devices to capture transactions remotely.

49 EFinA Financial Sector Landscape 2010.

50 NIPOST is under the Bureau of Public Enterprise.

3 Analysis of the insurance market



This section delves into the current offerings and overall state of the insurance industry. It analyses the strengths, weaknesses, challenges and opportunities lying ahead of microinsurance.

Compared to some other African markets and considering the country's economic growth and the business potential, the Nigerian insurance industry shows a unique potential to expand to new markets. As noted in the Vision 2020, the sector needs further development in the areas of product innovation, skills and manpower, and public perception.

In general, the insurance industry is overly reliant on corporate and compulsory accounts. The sector has only a small portfolio of voluntary products (e.g., less than 1.5 million individual voluntary policies in total), which could be grown via several distribution sources, including bancassurance. The offerings are quite basic and commoditized. Insurance companies have low claims ratios (around 25%), indicating the low value of their offerings. Expense ratios are high in many companies, which is influenced by market practices such as high commissions paid to win large corporate accounts and general operational inefficiency. This contrasts with high profitability

(33% of gross premium), which could be partially explained by the low claims ratio. Overall, there are too many competitors focusing on too few clients, pushing operating expenses (particularly commissions) up. Although a few providers are experimenting with microinsurance through strategic alliances, the microinsurance market is virtually unexplored.

The insurance industry can be divided into four groups: a) those regulated by the National Insurance Commission (NAICOM), forming the largest group; b) health insurance, which is regulated by the National Health Insurance Scheme (NHIS); c) agriculture insurance, provided almost exclusively by the Nigerian Agricultural Insurance Corporation (NAIC)⁵¹; and the cooperative sector, which offers insurance to their members.

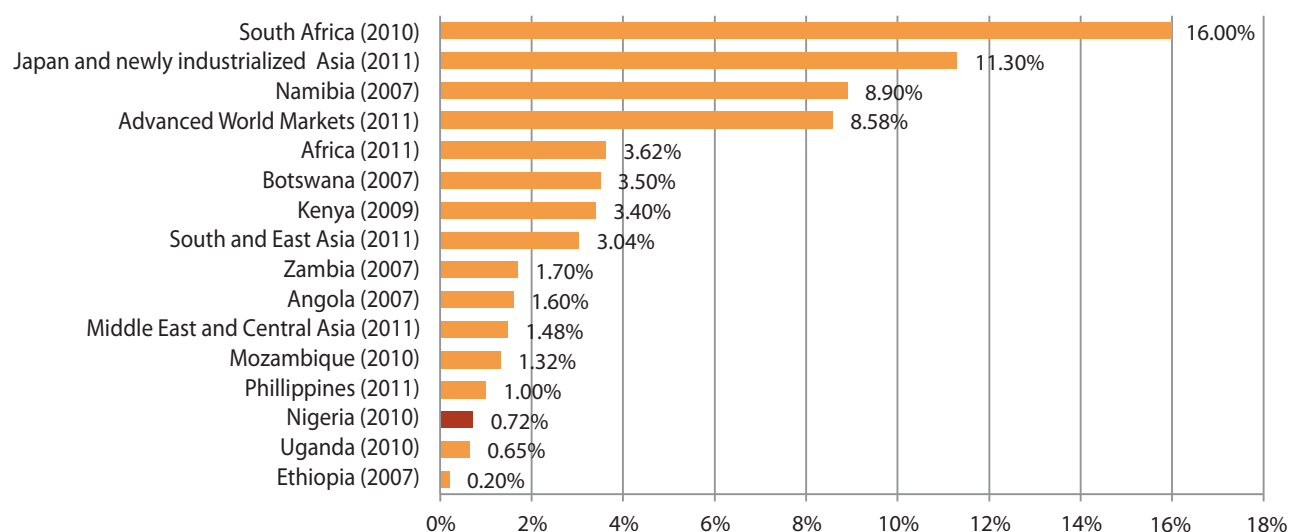
3.1 Overview of NAICOM regulated sector

The NAICOM regulated insurance sector makes up only 0.72% of Nigeria's GDP⁵², which is very little compared to many countries (see Figure 6), but still comparable to some developing countries, such as the Philippines, where insurance premium reaches 1% of GDP, and Ethiopia.

51 NAIC provides subsidized and commercial agricultural insurance. NAICOM regulates only the commercial portfolio.

52 NAICOM's website, accessed in April, 2012.

Figure 6: Premium as a percent of GDP



Source: Sigma World Insurance in 2011, Swiss Re.

Only 1% of the adult population has an insurance policy, which is lower than other developing countries such as the Philippines, where insurance covers 7% of the population.⁵³ If the market expanded to levels comparable to those of Kenya, it would be nearly four times larger than its current size. Another useful comparison is the island nation of Barbados, which has a gross premium equivalent to 25% of the gross premium of the Nigerian insurance sector. However, Barbados' population is only 260,000 versus 150 million in Nigeria. This clearly shows the potential for growth, but also suggests the magnitude of the challenge ahead for the industry.

3.1.1 Evaluating the strength of the industry

The insurance industry has gone through a strong consolidation and recapitalization process initiated in 2003. The second recapitalisation phase imposed by NAICOM in 2005 led to considerable consolidation and reduced the number of insurance companies from 107 to 51 by 2007. Also, in 2010 CBN required banks to divest from non-banking activities, including insurance. While most banks formed economic groups to keep their insurance activities in a separate company, some actually dropped com-

pletely from the business, according to the country interviews. As of April 2012, there were 59 insurers and 2 reinsurers, which is a large number for a market producing a total gross premium of NGN201bn (USD1.25bn) in 2010.

Table 3: Licensed insurance companies in Nigeria

Category	Number of companies
Life	17
Composite	10
Non-Life	32
Reinsurance	2
Total	61

Source: NAICOM's website, accessed in April, 2012.

The low claims ratio of 24% shows the industry offers very little value to insurance clients. According to NAICOM Insurance Statistics Report 2010, the average claims ratio (gross claims over gross premium income) for all companies (including reinsurance) stood at 24.2%. The minimum ratio recorded by individual companies was 1.96% and the maximum 57.97%. Most companies have ratios between 10-30%, as shown in Table 4.

⁵³ EFINA Financial Sector Landscape 2010.

Table 4: Claims ratios in the insurance sector in Nigeria

Claims ratio	Number of companies
<10%	4
10-20%	12
21-30%	18
31-40%	5
41-50%	2
51-60	1
No ratio provided	2
Total	44
Median	23.1%
Mean	24.2%
Maximum ratio	57.97%
Minimum ratio	1.96%

Source: NAICOM Insurance Statistics Report, 2010.

The claims ratio is also low when compared to other countries, including other African countries (see Table 5). In developed economies, the norm for property and casualty products is a claims ratio in the range of 60%-95%, depending on the product and distribution channel. For example, in 2010, the Canadian general insurance industry reported an average claims ratio of 70%⁵⁴. Other African countries with a

comparable level of development such as Egypt and Ethiopia reach much higher ratios as well. According to our consultations in Nigeria, it was noted that corporate claims ratios could reach 40% while the ratio for individual policies may be about 3%⁵⁵. A higher rate of claims payments could improve customer perception and public confidence, two pre-conditions for market development. Clients need to be certain that their claims will be paid.

The Nigerian insurance industry falls within a normal range of expense ratio, i.e., between 20-35%, depending on the product. It is interesting to note that some companies have very high and others very low expense ratios. Table 6 shows that 19 companies have expense ratios that are less than 20% and 9 have expense ratios over 40%. The high ratios might be indicative of the commissions paid in order to obtain business. The lower ratios in the "<10%" range may be indicative of reporting errors as such low ratios are not common in the insurance industry in other countries. When seen in isolation, the overall 20.4% expense ratio is not high; however, had the industry attained higher claims ratio and lower premiums, the expense ratio would be much higher. This indicates expenses might be actually high compared to more developed markets.

Table 5: Industry claim's ratio in selected countries

Country	Reporting year	Claims ratio	Ratio description
Nigeria	2010	24.2%	Entire industry
Kenya	2010	59.4%	Entire industry
Tanzania	2010	50-60%	Entire industry
Uganda	2010	Life: 62.65% Non-Life: 44.2%	Entire industry
South Africa	2010	61%	Short term insurance
Egypt	2010-11	Direct claims: 73% Net retained: 82%	Entire industry
Mozambique	2010	59.4%	Entire industry
Ethiopia	2008	65%	Entire industry

Source: Annual reports from insurance regulators in each country. All are identified as claims ratios, however they all do not use the same formula. Some use net premiums, others use gross premiums.⁵⁶

⁵⁴ Canadian Underwriter magazine, June 2011 Statistical Issue, available online at www.canadianunderwriter.ca.

⁵⁵ Several of the insurance companies interviewed expressed surprise with the fact that other countries may have much higher claims ratios, and questioned the ability of the industry of achieving profitability were such ratios a reality in Nigeria. This indicates that the industry requires a shift in their understanding of insurance business, particularly retail insurance.

⁵⁶ Definition of claims ratios in Performance Indicators for Microinsurance 2nd Edition: "the incurred claims ratio indicator is defined as the incurred claims in a period divided by the earned premium for the same period. The period can be a fiscal year or any other accounting period."

Table 6: Number of companies in each expense ratio range

Expense ratio range	Number of companies
<10%	8
10-20%	11
21-30%	7
31-40%	6
41-50%	4
51-60%	2
61-70%	1
71-80%	1
81-90%	0
91-100%	1
No ratio provided	3
Total	44
Median	20.4%
Mean*	19.55%
Maximum ratio	91.3%
Minimum ratio	1.5%

Source: NAICOM Insurance Statistics Report, 2010. Expense Ratio is defined as Management Expenses in the Gross Premium.

* Our own calculations result in 26.7%.

The underwriting profit of the industry in 2009 was a high 33.29%⁵⁷. Per individual company, the minimum profit experienced was 0.03% and the maximum was 108.92%. In NAICOM's industry report, "profit" is defined as the underwriting profit as percentage of gross premium. If this definition follows the international standard (earned premium minus incurred claims expenses), it is a very high return rate. In mature markets, the underwriting profit is usually much lower from 0% to 10%. A capital level at 40% of gross premium, and a profit after tax of 13.3% of gross premium results in a 33% return on equity (ROE) after tax, a very high return compared to mature markets.

There is lack of transparency in commissions paid and low reliability of financial data. In addition, the financial statements are not very transparent. Underlying reasons are not entirely clear (e.g. low quality of audit, reporting standards not being followed, etc.), but these characteristics might be impacting competition and perpetuating inaction in the market.

⁵⁷ NAICOM Insurance Statistics Report, 2010.

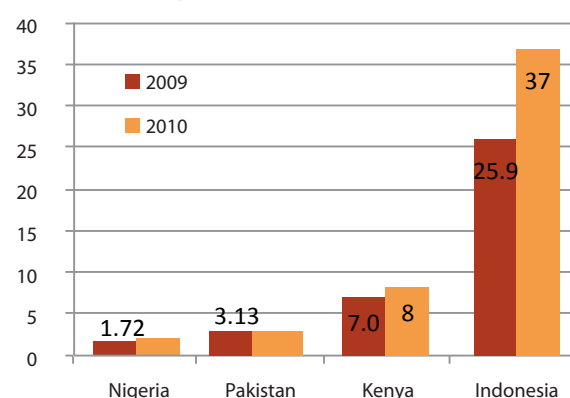
⁵⁸ In this report, co-insurance arrangements are agreements by several companies to share a large account. Other definitions of co-insurance may be used for other purposes.

The industry recognizes its current reputation and the lack of public trust and awareness of insurance. Several insurance companies attribute mistrust to too many co-insurance arrangements⁵⁸, poor record of paying claims or too many obstructions in the claims procedures, frauds (e.g., fake insurance and fake insurance agents). They believe the industry needs to improve its image, meeting the client expectation that claims is a certain and easy process. This would require consumer education and awareness building.

There is limited product diversification: the sector focuses on mandatory and corporate insurance.

The insurance portfolio is dominated by mandatory insurance, large government contracts and insurance for the oil and gas industry. There are at least six insurance products that are mandated by law in Nigeria, and offered by insurance companies. There is a noticeable opportunity to expand the voluntary agricultural insurance market.

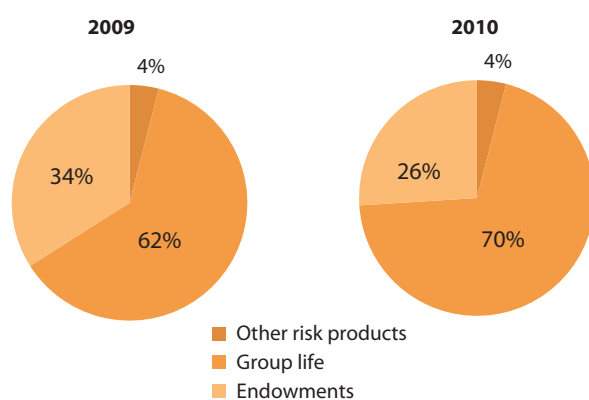
The life segment is very small and it is difficult to find information on it. Life premiums make up 26% of all sales but there are less than 1.5 million voluntary individual policies. Due to difficulties in obtaining data, the best comparison we can make is using a life density comparison. Nigeria's life density, which is life insurance premiums per capita, is very low compared to some other developing countries. This indicates once again a market that has been ignored and has an opportunity to grow.

Figure 7: Life density (life insurance premium per capita) – country comparison (USD)

Source: BMI Nigerian Insurance Report 2012.

Most life insurance in the market is related to compulsory coverage by employers. "Group Life business is broker-driven and typically issued on a co-insurance basis, hence the product content is generic, lacking differentiation and riders. This format is expected to continue until the insurers are big enough (in capital, influence etc.) to break the stranglehold of the brokers."⁵⁹ As seen in Figure 8, group life business dominates, having increased from 62% to 70% between 2009 and 2010.

Figure 8: Premium income distribution of life products (excluding savings business)



Source: HR Nigeria 2011 Nigeria Microinsurance Market Analysis.

There is little retail sales or individual business written. This creates an opportunity for insurance companies to capture the untapped individual life

market. Service standards and claim payments need to improve along with sales force skills at actually selling insurance and creating value for the customers. However, instead of focusing on more compulsory insurance, the sector should try to diversify their portfolios by designing voluntary products and entering new customer segments.

Table 7 shows the distribution of non-life premium by type of product. Overall, even though life sales has increased its share of the overall gross premium, sales are still very small considering the size of the country.

Motor insurance has a disproportional participation in the non-life gross premium. Figure 9 pictures the non-life segment only, showing the predominance of motor insurance. Motor is followed by Miscellaneous and General Accident. Given the efforts put into selling to the oil and gas sector, it is surprising that it was second to last in sales. In 2007, oil and gas made up less than 1% of total non-life gross premium; in 2008 it was 15%; in 2009 it increased to 23%; and in 2010 it dropped to 18% of non-life gross premium. This seems to conflict with our interviews and background reading indicating that the industry focuses on oil and gas. This apparent inconsistency might be explained by the fact that there are few claims in this segment, which renders the contracts very profitable and therefore attractive. Also, the regulation requires 70% of oil and gas insurance to be underwritten domestically, putting extra emphasis in this sector.

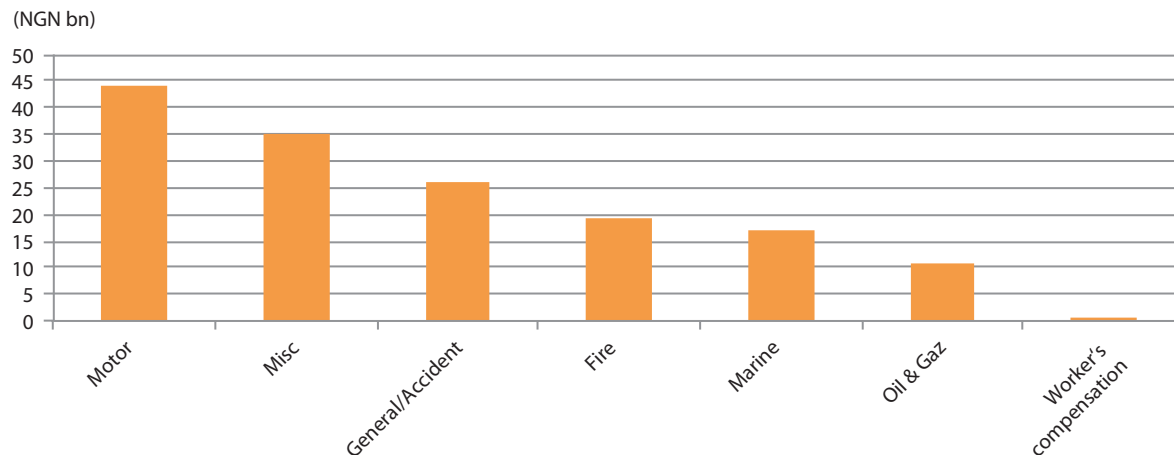
Table 7: Gross premium by segment (NGN billion)

Type	2009 Gross premium	2009 Participation in total premium	2010 Gross premium	2010 Participation in total premium
Life	36,833	19.35%	52,242	25.9%
Non-life	153,477	80.65%	149,217	74.1%
Total	190,310	100%	201,459	100%

Source: NAICOM 2010 Annual Report.

59 HR Nigeria 2011 Nigeria Microinsurance Market Analysis.

Figure 9: 2009 industry Non-Life gross premiums by market segment

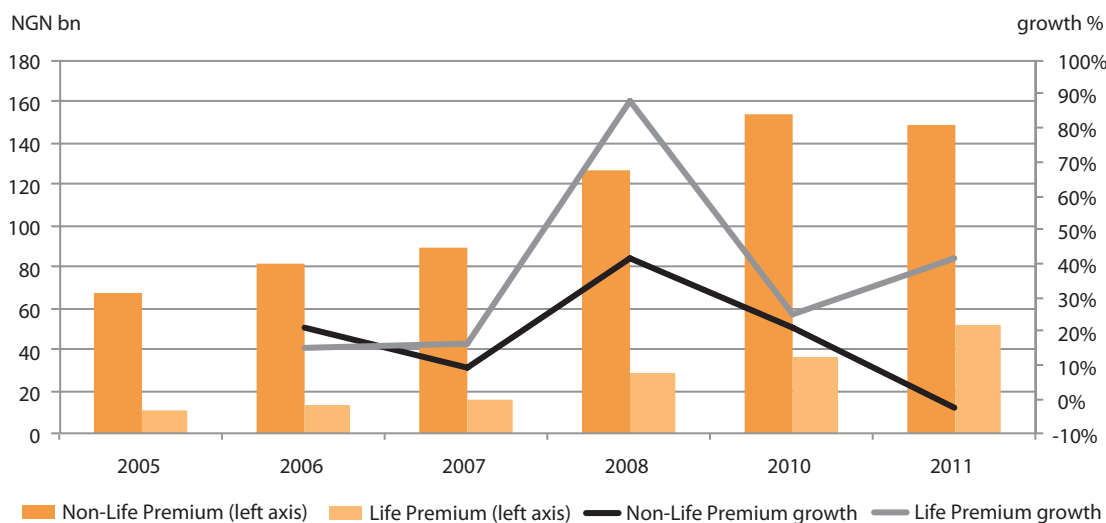


Source: NAICOM 2010 Annual Report & Audited Accounts.

Trends in growth, claims, sales. Figure 10 shows the trends in gross premium, growth and claims. It is clear that the industry, although growing at reasonable rates since 2005, could do better considering the potential size of the market that has not yet been untapped. For instance, the total gross premium has been erratically increasing since 2005 with no pattern to the growth rate. (Note that there is inconsistency across the 2010 total gross premium reported in different parts of NAICOM Annual Report and between this report and other NAICOM publications.)

Table 8 shows that 36% of the total claims are from the motor segment. This is expected, since the motor segment has the highest premiums. To understand the claims dynamics for each segment, the claims ratios have been calculated. They range from 9% in the Oil and Gas industry up to 42% in the Miscellaneous category. Motor and Fire are at 31% and 33% respectively. The low Oil and Gas claims ratio supports the industry's enthusiasm to obtain these profitable contracts. However, were a claim to be made in the Oil and Gas market, it could overwhelm the industry, in the absence of appropriate reinsurance.

Figure 10: Total gross premium



Source: 2010 NAICOM Annual Report.

Table 8: Claims ratio by Non-Life segment

Segment	Gross claims (NGN mn)	Non-Life gross premium (NGN mn)	Claims ratio
Fire	7,762	23,247	33%
Accident	6,327	26,933	23%
Motor	13,168	42,440	31%
W/c	281	1,453	19%
Marine	2,922	20,126	15%
Misc	3,138	7,391	42%
Oil and gas	2,549	27,450	9%
Total	36,150	149,042⁶⁰	24%

Source: Adapted from NAICOM 2010 Annual Report & Audited Accounts.

Penetration of insurance is very low, at 1% of adult population. As mentioned earlier, insurance sales revenues make up only 0.72% of Nigeria's GDP⁶¹. According to the EFINA survey⁶², it is estimated that only 1% of the adult population (about 800,000 people) have insurance. Out of these, 58.8% (0.47 million) have compulsory motor insurance and 21.6% (0.173million) have life insurance.

3.1.2 Insurance providers (including intermediaries)

According to NAICOM there are 59 insurance companies and 2 reinsurers. As shown in Table 9 the top 3 companies have approximately 26% of the market share while the others fairly evenly share the remaining market. In short, the table indicates there are too many companies sharing a small market. The top 2 companies each have approximately 9% of the total gross premium of the industry. The remaining companies each have approximately 1-5% of the market share, each. NAICOM has been encouraging companies to purchase smaller companies rather than issuing new licenses.

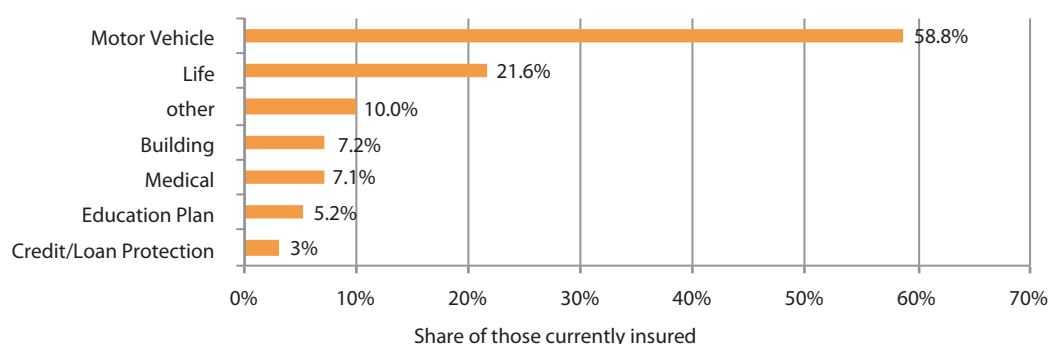
60 There is inconsistency between different official sources for the Total Non-Life Gross Premium: NAICOM's 2010 Annual Report reported 149,217 NGN bn while the 2010 NAICOM Insurance Statistics and Directory reported 149,042 NGN bn.

61 NAICOM's website accessed in April, 2012.

62 Access to Financial Services in Nigeria 2010 survey.

Table 9: Insurance providers and their Non-Life market share

Company	2010 Non-Life gross premium (NGN)	Market share
Leadway	14,207,700,000	9.5%
Custodian	13,724,293,568	9.2%
Continental Reinsurance	10,253,976,000	6.9%
AIICO	6,737,521,791	4.5%
NEM	6,220,433,000	4.2%
Guaranty	5,449,721,181	3.7%
Staco	5,248,456,000	3.5%
Sovereign	4,761,272,600	3.2%
International Energy	4,571,526,000	3.1%
Zenith	4,543,784,000	3.0%
Law Union and Rock	4,046,012,000	2.7%
Standard	3,988,893,532	2.7%
Royal Exchange	3,709,487,049	2.5%
Prestige	3,618,937,218	2.4%
Unitrust	3,431,551,000	2.3%
Goldlink	3,429,720,536	2.3%
Mutual Benefits	3,367,834,000	2.3%
Intercontinental	3,269,207,000	2.2%
Cornerstone	3,237,804,000	2.2%
Consolidated Hallmark	3,152,049,111	2.1%
Oceanic	2,734,830,000	1.8%
Insurance PHB	2,670,823,000	1.8%
Crusader	2,667,128,843	1.8%
A&G	2,368,997,718	1.6%
Niger	2,329,904,564	1.6%
Union	2,298,104,000	1.5%
ADIC	2,143,449,000	1.4%
Equity	2,139,771,335	1.4%
Linkage	2,135,962,000	1.4%
Lasaco	2,044,865,000	1.4%
Sterling	1,817,329,725	1.2%
Regency	1,803,727,578	1.2%
Nigerian Reinsurance	1,543,178,088	1.0%
Nicon	1,394,418,803	0.9%
FinSurance	1,253,029,085	0.8%
Oasis	1,226,181,052	0.8%
Great Nigeria	1,062,095,000	0.7%
Anchor	1,026,488,000	0.7%
Guinea	1,012,624,000	0.7%
Unity Kapital	941,068,000	0.6%
NAIC	866,473,911	0.6%
The Universal	591,589,197	0.4%
Industrial and General	N/A	0.0%
Invest and Allied	N/A	0.0%
Total	149,042,217,485	100%

Figure 11: Distribution of types of insurance in Nigeria

Source: EFINA Access to Financial Services in Nigeria 2010.

With 706 brokers and 1668 agents, Nigeria has a vast agency network comprised of 1,668 agents. It appears that the brokerages are less efficient than agents in terms of premium per agent/broker. As seen in Table 10, the premiums generated by each agent are the highest compared to other countries. The premiums generated by each broker, however, are the lowest. The focus on the large corporate and government accounts results in paying override commissions (ORC) in order for a company to win a contract from a broker. The ORC can be up to 50% of the premium.

Experience from other countries suggests that traditional brokers and agents are not the best way to reach the microinsurance market.

Currently agent commissions are typically 12.5% for motor and 20% for others. It is difficult to compare with other countries since they vary according to whether or not commissions are defined in the regulations. For example, in the Philippines, there is no defined commission maximum, but in India regulations limit commissions to 10% of the premiums in

Table 10: Comparison of premium per agent and broker in selected countries

	Nigeria	Mongolia	Kenya	Philippines
Insurance companies	61	17	47	147
Premium in local currency (Life and Non-Life)	NGN 201 billion	MNT 31.8 million	KSH 35.36 billion	Pesos 81.18 billion
Premium in USD	1.25 billion	23.21 million	421 million	1.95 billion
Brokers	706	9	161	90
Agents	1668	2061	3931	39211
Loss Adjusters	60	N/A	21	54
Premium per agent (USD)	747,309	11,263	107,085	49,648
Premium per broker (USD)	1,765,597	2,579,333	2,614,611	21,630,695

Source: NAICOM's website, accessed in April, 2012 and 2010 Annual reports from the various countries' insurance regulators

Life single, 20% in non-single Life and 15% in non-life. Furthermore, in CIMA countries the regulations state that limits in agent commissions are set by each member country.

3.2 Health insurance under the NHIS

3.2.1 Overview of the market

The National Health Insurance Scheme (NHIS), created in 1999, is the regulator of health insurance.

It is charged with improving the health of Nigerians at an affordable cost, protecting families from financial hardship of medical bills, limiting the rise in cost of healthcare services and maintaining high standards of health care delivery.⁶³ NHIS regulates the Health Maintenance Organisation (HMOs).

The health insurance market is practically limited to the mandatory coverage of formal companies with more than 10 employees.

Mandatory NHIS health insurance covers a total of 3 million employees. The Millennium Development Corporation covers an additional 1.6 million (mostly poor pregnant women and children under 5 years old). There are two smaller voluntary schemes under NHIS, covering less than 2,000 people. For the NHIS schemes employers, associations for the self-employed and rural community user groups collect premiums and choose a HMO which is affiliated with a healthcare provider. Individual HMOs are small.⁶⁴ For example, Healthcare International (HCI) covers 15,000 people through the NHIS compulsory program.

For covering only the formally employed, HMOs leave the majority of the Nigerian population uncovered.

The formal sector is mostly comprised of federal employees. This sector collects premiums equivalent to 15% of the employee's basic salary: the employer pays 10% and the insured contributes 5%. The cover extends to a spouse and four children. However, as most of the Nigerian population is active in the informal economy, HMOs have a very limited coverage, leaving the large majority without health insurance.

The current programs to cover the informal sector are small and have not yet proved sustainability.

There are a few MFBs such as LAPO providing health coverage for the informal market, which we estimate at less than 1 million people. PATHS2 is in a study phase to develop a voluntary health coverage via MFBs. PharmAccess is working with Hygeia (an HMO) to cover 90,000 clients in Lagos and 7,000 in a rural setting. PharmAccess' premiums are highly subsidized (75%-93%) so it seems difficult to become self-sustainable. In addition, Hygeia has experienced challenges in sales and making people renew their policies. Renewal rates are as low as 43% in Lagos, even with a subsidy of 75%. In general there is a need to upgrade health care facilities and capacity in Nigeria to provide quality health care.

Developing health microinsurance products

would be very beneficial for the Nigerian population, although very challenging.

The World Health Organization (WHO) indicates a 59% Out of Pocket Payment (OPP) for health expenditures in Nigeria (see

Table 11: Out of pocket (OPP) payments as a percentage of total health expenditure in selected countries

Country	OPP as % of private expenditure (A)	Private expenditure as % of total health expenditure (B)	OPP as % of total health expenditure A x B = C
Nigeria	95%	62%	59%
India	87%	71%	62%
Bangladesh	97%	67%	64%
Canada	50%	30%	15%

Source: World Health Organisation website, accessed in July 2012.

⁶³ NHIS website, accessed in July 2012.

⁶⁴ NHIS website lists the names of all registered HMOs.

Table 11). Private plans and NHIS usually cover only 7% of the OPP, leaving the vast majority of the population with their own resources for the remainder, which reflects the high demand for health insurance. This OPP is similar to India or Bangladesh. It indicates that healthcare is a great concern to poor Nigerians, which is confirmed by previous demand side research in the country.

Healthcare providers are usually paid either by capitation (contracted fixed fee paid by the insurance provider to health service providers per each covered person), fee for service, per diem (daily amount for hospitalization) or per-case payment (payment by type of medical case). NHIS establishes a standard capitation rate of NGN750 per month (USD4.65) which is set on a national basis, regardless of where the health services are delivered.

3.3 Agriculture insurance and NAIC

Nigerian Agricultural Insurance Corporation (NAIC) is the exclusive provider of the government subsidized mandatory agriculture insurance, which must be contracted by farmers for selected crops and livestock when they apply for loans with the formal financial sector. The government subsidizes up to 50% of the premium with the federal and state governments splitting the subsidy by 75% and 25%, respectively. This insurance scheme could be considered microinsurance to the extent that it reaches small landholders and farmers. According to NAIC's 2010 Annual Report, gross premiums were approximately NGN897mn (USD5.5mn) and claims were just over 10% at NGN91.6mn (USD568k).

NAIC's experience with voluntary products indicates farmers are resistant to insurance. NAIC also offers non-subsidized agriculture insurance and reports that farmers do not usually see the value in having insurance, considering the premium as an additional cost on their business. Most farmers are taking insurance simply because it is mandatory.

In addition, some sectors may be resistant specifically to deal with NAIC; they start to create their own insurance schemes. For instance, two cooperatives interviewed stated that they have recently

started to impose insurance on members applying for agricultural loans. After a large education campaign to inform the farmers about insurance and its value, the farmers reportedly became more willing to listen to the cooperative and may be more willing to take insurance from the cooperative.

3.4 The cooperative insurance sector

National Cooperative Insurance Society Nigeria Limited (NCIS) is both the regulator and provider of cooperative insurance. NCIS was established in 1977 as the only national cooperative insurance apex to perform the dual function of issuing certificates of practice to cooperative societies wishing to underwrite insurance and also insure cooperatives and their members. NCIS estimates their membership at 3 million members, a number lower than CFN's estimates. NCIS currently provides motor liability coverage to 70,000 members via 103 primary cooperatives.

NCIS's dual mandate creates challenges stemming from conflicts of interest, and may impact performance and operations. NCIS is required to provide insurance through primary and secondary cooperatives, and provide capacity building on all aspects of insurance management to the cooperatives. However, claims are managed at the national level and NCIS is short of staff (it employs only 30 people). In addition, NCIS's Board is attempting to repair reputation damage which resulted from past financial misappropriation and poor financial decisions of the organisation.

3.5 Current and potential microinsurance landscape

3.5.1 Existing microinsurance products

Overall, the majority of the small microinsurance offer does not appear to fit the microinsurance definition and there is a shortage of expertise in the market. As in most African countries, Nigeria has an incipient microinsurance market. Aside from a few exceptions (see Box 4), portfolios are small and micro-

insurance knowledge is very shallow. For instance, what companies currently label as microinsurance is not really what a microinsurance definition would include: products offered and administered very similarly to traditional insurance, with slightly lower premiums, but not priced following good practices in microinsurance. Premium to sum insured ratio is similar to regular insurance. In other countries, microinsurance premiums do not exceed 3% of the annual income of the client, but many offers in Nigeria are way above that, being unaffordable to the poor. Moreover, the supply is still virtually limited to the urban setting and some of the large companies are not interested in this market at all. For instance, one of the largest insurers has done extensive research, finding out that the necessary investment in IT and distribution for microinsurance would be too high to justify entering this market. The project was shelved.

However, these new offers may signify a growing interest in the retail business by insurance companies, which is a positive development. Even though most of these products cannot be considered microinsurance in its strict definition, they demonstrate growing commitment by insurers to expand their portfolios into the middle-income segment. This is positive to the extent that it increases competition

and helps providers build knowledge and expertise beyond corporate accounts.

Some companies are starting to move away from the traditional agent systems to use alternative distribution channels such as Esusus and MFBs.

Developing alternative distribution systems is one of the key elements to succeed in microinsurance and some participants have made progress in finding a distribution system that reaches the targeted microinsurance client. Yet, there is much more to develop. Halal Takaful (part of Cornerstone Insurance) is using Esusus to reach its clients, who actually demanded the insurer to use this channel. A few MFBs have had success in partnering with insurance companies to offer credit life. Yet, insurance companies are hesitant to offer credit life and MFBs in general seem to be unaware of the possible partnerships that could be forged with insurers. Other MFBs are reluctant to establish such partnerships, given the inflexibility of insurance companies in changing product features to fit the demand of the microcredit borrower. For such reason, a few MFBs have started underwriting insurance themselves, to avoid partnerships.

Box 4 summarizes some of the microinsurance programs found in Nigeria.

Box 4: Information on microinsurance initiatives in Nigeria

LAPO. LAPO probably has one of the best structured and managed microinsurance operations in Nigeria. LAPO is an MFB with 560,000 clients, mostly women. It provides credit life and has recently added a benefit for C-sections and malaria⁶⁵. Their claims ratio is approximately 40% for all insurance lines, indicating that it is a viable operation. LAPO has partnered with Goldlink Insurance and would like to set up a microinsurance company if the capital requirements were not as high as they are today (see regulatory discussion in Section 5.3). They are also challenged in building knowledgeable staff to operate insurance.

Mutual Benefit. Mutual Benefit has 100,000 life microinsurance clients. The company has partnered with cooperatives, trade unions, community based organisations, self-help groups and savings and credit societies to target this client segment. Mutual Benefit has come to realize that the lack of management skills in the partner organizations is an obstacle for the business. Therefore, it has been putting significant effort into helping strengthen management skills of cooperative societies. Insurance is also distributed via two truckers associations (NURTW and RTEAN) which have over 1.5 million members. This is at a very early stage, as the associations are still building their membership database. Mutual Benefit has created a specialized microinsurance unit to lead these businesses. Mutual Benefit has also spent a great deal of effort and time gaining knowledge on Takaful and has established an independent company, Mutual Takaful. They have allied with Takaful Ikhlas of Malaysia for practical skills building, attended international conferences and organized a workshop in Abuja. The plan is to develop four Takaful products – credit life, travel, auto and home insurance.

65 In addition to financial services, LAPO also has ancillary activities, such as health promotion campaigns.

Acción. The MFB operates in the Lagos area and has a loan portfolio of NGN1.6bn (USD9.9mn) with approximately 13,000 active loans. Credit life, fire and burglary are mandatory insurance to borrowers since 2008. The premium is 1% of the loan value and is underwritten by Cornerstone Insurance. Overall in the 3 years of operation 30 to 40 claims have been registered, and none were rejected. The success of this program is encouraging Acción to extend voluntary microinsurance to savers, which will start in July 2012. The product will cover burial, funeral and health. Health covers outpatient, some admissions and all illnesses if clients go to a doctor. The product is a bundle: health is provided by Multishield, an HMO, and the remaining is backed by First Life. The premium is NGN600 (USD3.72) per month and increases to NGN1,000 (USD6.20) if maternity is added. To sell this product Acción will organise client forums, branch meetings, and have sales people in the field. Acción reports that the brand of the insurer does not add value in promoting these products.

First Bank and First Life. First Bank has 7 million accounts holders, representing the bank with the largest customer base in the sector. The bank believes bancassurance will play a major role in developing insurance in Nigeria and that its bancassurance business will not be limited to the affiliated First Life Insurance.

First Life has some microinsurance initiatives:

- The partnership with Acción, described above, to provide life bundled with health and funeral.
- Credit life insurance in partnership with Microcred MFB, FBN MFB (the microfinance arm of First Bank) and MPF MFB (police MFB).
- Partnerships (in initial stages of development) with mobile payment networks for mobile insurance.

Main challenges highlighted by First Bank and First Life are building an extensive and reliable agent network, reliability of mobile communications, product design, and having an efficient claims management process.

Nicon. Nicon reports it offers four microinsurance products:

- Life hybrid with target savings and an investment link. The premium (savings portion) is NGN5,000 (USD31) per month. When NGN60,000 (USD372) are collected, the total sum (including the interest accumulated) rolls over after 12 months. Upon death, a benefit of NGN30,000 (USD186) plus the premium and interest is paid to the beneficiary. The target clients are those with regular streams of income or groups. Since its inception 4 years ago 50,000 policies have been sold.
- Pillar is a savings product with life and accidental death insurance covering 3, 4 or 5 years. Premiums are determined by the client with a minimum premium of NGN800 (USD4.97) per month. Over 7 years, 200,000 policies have been sold. No values were provided on premium to sum insured ratio, but discussions indicated that the premium to sum insured ratio is comparable to a regular product suggesting it is not a product priced following microinsurance good practices.
- Mortgage protection that covers the loan and also includes fire insurance in case of death.
- General insurance:
 - a) Accident Insurance for urban workers and rural farmers;
 - b) Student Welfare Insurance – for a premium of NGN500 (USD3.11) per school year, it pays the school fees in case the adult dies, plus medical and other expenses. It also gives awards for high performance at school. School fees in Nigeria range from NGN1,000 (USD60.20) to NGN35,000 (USD217) depending on the state. The Minister of Education facilitates sales of this product through the Parent Teacher Association;
 - c) Localized Travel Insurance will be rolled out soon with coverage for loss of baggage and accidental death;
 - d) Advanced Management Insurance covers life, property damage and other at celebrations held in rural areas (e.g. coming of age parties, a new car, birth of a baby, local festivals, etc.).

3.5.2 The view of providers not engaged in microinsurance

The companies that have plans or have tried to enter the microinsurance market are seeking to increase knowledge. Some are aware of the challenges and changes that need to occur within their organizations in order to do microinsurance. Becoming informed through books, online workshops, conferences and peers from other countries are the main sources of knowledge gathering. Many recognize that entering some segments of the microinsurance market will be a longer-term capital intensive project. Information technology needs to be improved and expanded to help with client communication in remote areas. It will be necessary to adjust administration practices and source actuaries versed in microinsurance to ensure appropriate pricing. It will be necessary to undertake market research to understand the new client segment and its preferences. Some organizations are torn on whether microinsurance is worth the time, effort and investment.

These companies recognize that establishing trust with potential microinsurance clients will require a change in business practices, distribution channels and product design. Geographical access barriers need to be overcome, insurance awareness increased, and the products need to be tailored to the new segment. Some companies recognize that selling skills need to improve. Selling microinsurance will require companies to show the value to the customer, communicate with him and speak to his education (literacy) level. Some providers recognize that they need to drop formalities and fancy suits, and go where the client is. They also know that efficient and cost-effective premium collection is absolutely key. Affiliated associations, MNOs, agent offices in towns and others will be necessary to make microinsurance work. One insurance company, for instance, believes that microinsurance will focus on grassroots, through intermediaries such as clubs, associations, churches, and MFIs. They believe they will need to use "foot soldiers". Another company is currently piloting a motor coverage for ladies and has learned that policies need to be very simple and adjusted to the illiterate.

Other challenges were raised by these companies, including:

- **The different licenses required for life and non-life products** (and the related capital requirements) are a major deterrent for those carrying a non-life license. An insurance company, for instance, plans to offer microinsurance and Takaful life products, but is not able to offer bundled products without applying for a life license, or buying an existing life insurer⁶⁶. Partnerships with other insurers to form bundled products are considered very difficult.
- **Takaful offers organisational challenges**, for requiring a Sharia Board and separate accounting.
- **Cultural aspects are a challenge.** Some companies believe that the majority of Nigerians do not prepare for the future, and that the extended family structure typical of the country acts against insurance, as they are a source of emergency funds.
- **There is little awareness of microinsurance by top management at insurance companies.** Credit life insurance may be seen, by top management in some companies, as corporate insurance, as the service is provided to an MFB. This shows the limited microinsurance knowledge today.
- **Health care infrastructure is underdeveloped** and there is shortage of skilled health care professionals; this makes it more challenging to develop appropriate micro health insurance products.

3.6 Potential distribution channels for microinsurance and broader market development

There are a variety of intermediaries and channels that could be involved in microinsurance distribution. The current distribution network of the insurance industry is highly concentrated in a few cities and regions and the business is focused on corporate accounts and mandatory insurance using the broker-agent model. Using additional channels and distributors that already have outreach to the uninsured in rural and urban areas is key for microinsurance to

⁶⁶ There is a strong and widespread belief by the insurance companies that NAICOM does not issue composite licenses any longer, but this policy has not been confirmed by NAICOM and is not explicit in its regulation.

emerge, reach sustainability, and expand geographically, while offering value and convenience to clients. In other countries microinsurers use intermediaries to distribute microinsurance to large numbers of people through common touch points.

MFIs, cooperatives and MFBs are examples of potential partner agents, to the extent that these entities have gained the trust of the potential microinsurance clients. Good partners need to have effective and efficient client communication, enrolment capacity and in some cases claims settlement skills. Touch points could be the post offices, branches of banks, MFIs and MFBs, airtime dealers and agents, fertilizer distributors (and other distributors such as dairies and bread distributors), cooperatives and virtually any other retail outlet that is frequented and trusted by the local population.

Dealing with microinsurance agents requires rethinking of their incentives and an enabling regulation. Companies see a need for more agents to enter microinsurance. This would require a new qualified workforce, and specific training. Commissions on individual microinsurance policies are very low, resulting in high turnover of agents. To deal with this problem, new incentive structures will need to be created by insurers, to reward agents who are patient in waiting to make money out of this business and increasing their portfolio. For instance, probationary programs are being created to assist agents starting out, using a base salary in the first months and increasing the variable portion with time as agents become more experienced. Also, the fee structure may vary with the product, and needs to be more flexible than what is permitted in the current regulation (see regulatory analysis in Section 5. However, individual agents are unlikely to be the main intermediary for microinsurance. In other countries they are rarely used and are generally an ineffective distribution strategy in this market.

For insurance companies to use cooperatives as agents it will be necessary to improve capacity and expertise at NCIS and primary cooperatives. This may require substantial investment in financial and human resources, better information systems,

management skills, better service to clients, and product development skills. However, the effort could be worthwhile as it could potentially reach millions of members (the exact number is unknown due to diverging statistics). Some of the potential products that could be developed for distribution through cooperatives are motor liability; simple term life; hospital cash; and health insurance.

Partnering with MFBs will also require building their capacity and improving their management.

In recent years MFBs have struggled to build trust due to, for instance, failures, revocation of licenses by CBN, and run on deposits. It is necessary to regain public confidence and build capacity. Despite present weaknesses, this sector is fairly structured and, if the CBN efforts are coupled with clear policies and regulations by NAICOM and capacity building efforts (say, with the participation of the Nigerian Insurers Association (NIA) in coordination with NAMB⁶⁷), some partnerships could render good results for microinsurance, at least in the urban areas where MFBs are concentrated.

Based on the experience of other countries, Nigeria has a potential to jump start compulsory credit life insurance through MFBs and MFIs. Most MFB loans are issued with no insurance, leaving the relatives of MFB borrowers in hardship when the borrower dies. In Bangladesh all loans issued by MFIs are covered. The premium is usually 1% of loan amount, and the claims ratio is about 40%. Similar coverage is found in other African countries such as Malawi, South Africa and Uganda, as well as throughout Latin America. In interviews with the NAMB Lagos Chapter and their members, there was interest from MFBs in credit life insurance. However, they indicated that insurers are unwilling to design products that fit the needs of microborrowers. Larger MFBs such as LAPO are more successful in arranging partnerships, but most MFBs are not able to do that. There is an opportunity for NAMB and NIA to coordinate and facilitate this interaction. The potential products that could be channelled through MFBs are simple term life; hospital cash; and, after a probation period, health insurance.

⁶⁷ NAMB also has its own challenges, for being a very young association.

Mobile payment platforms offer a great opportunity for the distribution of simple products and greater efficiency in premium collection. While most Nigerian adults are financially excluded, the penetration of mobile phones is about 50% of the total population. Thus, mobile phones could be a potential distribution channel for microinsurance. In countries such as Ghana and Tanzania, MicroEnsure has launched products that reach the masses via mobile phones and claim to have covered one million people after a short period of time. In Nigeria, the CBN has been pushing for the development of extensive mobile payment networks. Microinsurance could ride on these services for sales, premium collection, claims payment, client communication and education. Most mobile payment providers are still building their agent network to allow large numbers of cash in/out points, but there are already insurers taking advantage of this channel. For instance, eTranzact and Fortis offer insurance premium payment for major insurers, through the mobile phone. Usage is still incipient, but the service is promising. Were these platforms used for more than premium collection, the microinsurance products would need to be very simple with little administration, such as simple term life and hospital cash products. Other health insurance and agriculture insurance require more direct communication and engagement with the client base, being challenging to be offered through mobile phones.

Differently from other countries, partnerships and co-branding with MNOs in Nigeria are limited by regulation. In other countries such as Ghana, South Africa, Kenya, Zimbabwe, Tanzania, Pakistan and Brazil, microinsurance was able to harness the strong and trusted brand of the MNOs and be embedded in the sales of airtime. In Nigeria, the CBN prohibited MNOs to attach their brands to mobile payment platforms. That means that microinsurance will either need to rely solely on their own brand or co-brand with the nonbank mobile payment providers, such as RTP MobileMoney (which is a partnership with First Bank), eTranzact, Fortis or Pagatech.

There is limited information on non-governmental organizations (NGOs), and their role in micro-

insurance may be rather limited. There is limited information on the size, capacity and focus of NGOs to better evaluate how they could be involved in microinsurance. The organization PATHS2 conducted research to understand the potential for Community Based Health Insurance (CBHIS)⁶⁸ through civil society organisations (CSO) and the study indicates there are many NGOs that can be engaged to provide health coverage; but there is no estimate of the potential client base and the capacity of the sector. If they were used, a potential product could be health insurance, given their proximity to the local population. This is observed in countries around Nigeria (e.g. Cameroon, Benin), where many health mutuals provide health coverage. However, providing health coverage is the most challenging stage of microinsurance and there are very few success cases to learn from, even outside Nigeria.

The traditional savings clubs such as Esusus have access to the unbanked and unbankable population. They are potential microinsurance distributors. Despite the differences in the data available about informal savings and loan mechanisms, the traditional Nigerian financial structures such as Esusus could be harnessed by microinsurance providers. Esusu collectors go to the client's place or shop, becoming a very convenient service. This method and network can be harnessed by microinsurance providers, the same way it is being explored by First Bank for banking products. Halal Takaful is already using the Esusu style of collection for its microinsurance product. In order for Esusus to be used as distributors, they need management, IT and administrative capacity.

NIPOST and other retail outlets can be used for microinsurance distribution. There is an array of retail providers which offer an extensive network of touch points that could be used in microinsurance distribution and premium collection. An example is the postal service (NIPOST), which has a network of 7,000 branches reaching out to nearly 70% of LGAs, including many rural areas. There is not much information available on NIPOST's preparedness in terms of staff, physical and IT infrastructure. However, given its outreach to places where the financial sec-

68 CBHIS CSO National Draft Report.

tor is absent, it is a potential channel that the insurance sector could explore. Brazil and South Africa are examples where a range of retail outlets are used for distributing microinsurance, in an increasing scale.

Although banks are powerful and obvious potential distribution channels for an expanded retail insurance market, particularly through bancassurance schemes⁶⁹, their role in microinsurance may be more limited as they tend to cater to higher income and educated segments, more specifically to people with bank accounts. However, only 14% of the 40% poorest Nigerians have a bank account. Also, banks' distribution network is highly concentrated in a few urban areas, leaving rural areas largely unattended. Finally, around 50% of all banked people are clients

of two banks only, which limits even more the potential for partnerships between insurance companies and banks.

Despite the above, insurers have a huge opportunity to develop retail insurance via bancassurance and expand coverage beyond the 1% currently covered. With 59% of urban adults having bank accounts, better retail products can be developed to assist bank account holders on their needs for risk coverage. The diagnostic team noted some confusion among market players as to whether banks can sell insurance (see Section 5.3 on the relevant regulation).

⁶⁹ Bancassurance can be understood as an arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client base. This partnership arrangement can be profitable for both companies. Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer base without having to expand their sales forces or pay commissions to insurance agents or brokers.

4 Demand side insights



As part of the diagnostic process, eleven Focus Group Discussions (FGDs) were held over the period May 19, 2012 to June 28, 2012⁷⁰. The purpose of the FGDs was to hear the opinions and discussions around the clients' needs, levels of income, savings patterns, attitudes towards insurance and current insurance usage. From this, some insights were developed that could help define the potential microinsurance market and the way to best reach it. Each FGD was composed of 8-10 people from various socio-economic make-ups. An attempt was made to interview a good cross-section of participants from different backgrounds including age, gender, banking access and religion.

This original research was complemented by secondary sources and the insights from our stakeholder interviews, which helped form or validate findings described in this section.

4.1 Findings from secondary sources

FGDs were carried out in 2010⁷¹, with 604 urban households in Lagos and 405 rural households in

Kano. They identified the key risk events the households faced in the previous three years: a) minor illness; b) illness requiring hospitalization; c) death; and d) hospitalization/surgery. According to the discussions, minor illness was the most difficult risk to cope with, financially.

This study also found that over 30% of the FGD participants had no knowledge of any insurance products and over 80% of participants did not have insurance. This is quite similar to the conclusions of the FGDs conducted for the present diagnostic study, as noted below. Overall, participants were unaware of insurance. Those who were aware thought it was too expensive, had no trust that claims would be paid and if a claim occurred it was a cumbersome process. Many participants thought insurance was a waste of money.

Further, another study supports the conclusion that there is very low insurance knowledge amongst Nigerians⁷². Thirty-six percent of the interviewed adults did not know the benefit of insur-

70 RiskGuard Africa (NIG) LTD was contracted by NAICOM to conduct the FGDs and produce a report. The discussion guide for the FGDs was created jointly with the diagnostic team, and implemented exclusively by RiskGuard.

71 Mosleh U Ahmed. 2010. Micro Insurance in Nigeria- Supply and Demand Analysis in Lagos and Kano. GTZ and IFC.

72 Cenfri 2011. Opportunities for Insurance Inclusion in Nigeria: Exploring potential in the Nigerian insurance market using data from the EFINA Access to Financial to Finance in Nigeria 2010 survey.

Figure 12: Accessibility (excluding full time salaried workers)

		Total	Banked	Unbanked with mobile phone	Unbanked without mobile phone
Total adult population = 84.7 million			as % of adults		
source of income	Regular 9 to 5 employment	12.6	9.9	2	0.7
	Self-employed	29.7	9.6	11.1	9
	Farming	24	2.3	7.1	14.6
	Adult dependents (rely on friends and family)	17.9	5	5.7	7.2
Total		84.2	26.8	25.9	31.5

Key	sum (of adults)	sum (excludes regular 9 to 5 employment)
Easy to reach	19.5 % of adults	9.6 % of adults
Innovative distribution	28.2 % of adults	25.5 % of adults
Hard to reach	36.5 % of adults	36.5 % of adults
Total	84.2 % of adults	71.6 % of adults

Source: Cenfri (2011) Opportunities for Insurance Inclusion in Nigeria.

ance, 32% did not believe in it, 34% said they could not afford it and 64% had never heard of insurance, or, had heard of it but did not know what it was. The study noted insurable events would be death, illness, theft and business failure. This is different from the strong focus on health issues that our FGDs and the 2010 FGDs identified. The authors built an accessibility chart defining different market segments based on employment, banked/unbanked status, and possession of mobile phones, depicted in Figure 12. According to the study, the insurance industry will have to be creative with their distribution to reach the second and third categories where 62% of the target population lies.

Table 12: Demand for microinsurance, adjusted from Cenfri (2011)

Segment	Study result	Adjusted study result
Easy to reach	9.6%	11.4%
Innovative distribution	25.5%	30.3%
Hard to reach	36.5%	43.3%
Total	71.6%	85%

In the above survey, 13.5% of those surveyed did not respond to the occupation question and 2.2% were considered "other" and left out. Therefore, the total does not sum to 100%, instead it sums to 84.2%. Adjusting the above numbers, assuming the distribution of responses would have been constant over the non-responses, we find the results in Table 12.

The total from the above table for "Adjusted study result" is 85%. The remaining 15% represent the salaried employees if the "Adjusted study result" were 100%. Now, this tells us that a total of 85% of the population is the target market for microinsurance providers. 73.6% (not 62% as the original study indicated), classified as "Hard to Reach" and "Innovative Distributions" in this table, are going to require non-traditional approaches.

This differs from other studies, where the potential microinsurance market is estimated to represent 97.6% of the population. We believe the 97.6% in that study includes the salaried employees who are not the usual target market for microinsurance. Also, the bottom of the pyramid, the uninsurable population

is included in this value, which is not appropriate. Regardless of the accuracy of each calculation, all estimates show us that there is a very large untapped market available for microinsurance.

4.2 Focus Group Discussions (FGD): methodology and findings

Each FGD ranged from 8-10 participants who received a monetary compensation as an appreciation for their participation. A video recording the discussions was taken and two NAICOM staff members attended each FGD.

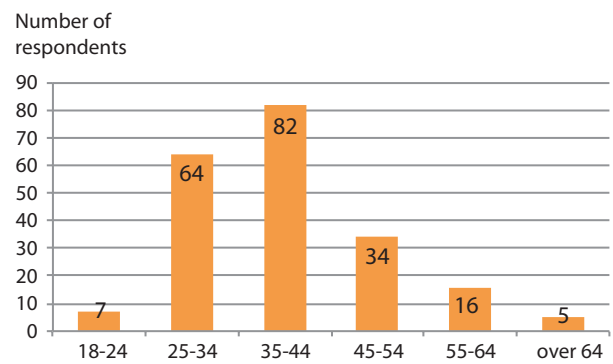
4.2.1 Geographic coverage of the FGDs

Eleven Focus Group Discussions (FGDs) were held in nine states covering five of the six geopolitical zones of Nigeria. Due to political unrest, Sokoto was the only state in the Northwest to have a FGD. No FGDs were carried out in the Northeast. Five FGDs were held in Niger, Kwara, Abuja, Nasarawa and Benue spanning central Nigeria from the West to the East while three FGD's were held in the Southwest (Lagos, Oyo, Ikiti). One FGD was held in the Southeast (Rivers).

A total of 208 people participated in the 11 FGDs. Over the whole group, there were 126 males, 82

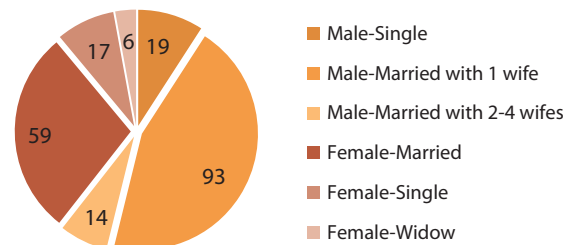
females with a total average age of 40. The charts below show the age and gender distributions of those who participated in the discussions.

Figure 13: Age composition of the FGDs



Source: Focus Group Discussions Report, RiskGuard Africa (NIG) LTD.

Figure 14: Composition of FGDs by gender and marital status



Source: Focus Group Discussions Report, RiskGuard Africa (NIG) LTD.

Figure 15: Geographical distribution of FGDs



1. Sokoto, Northwest
2. Niger, North-Central
3. Benue, North-Central
4. Enugu, Southeast
5. Rivers, South-South
6. Edo, South-South
7. Oyo, Southwest
8. Kwara, North-Central
9. Nasarawa, North-Central

The sample attempted to get a good diversity of participants reflecting the Nigerian population. However, it did not seek to form a nationally representative sample, as it is essentially a qualitative survey, rather than quantitative. Overall, the FGDs included insured and uninsured people, Muslims and Christians, banked and unbanked, self-employed, those with an irregular income, and those without social security benefits.

The monthly income levels of the FGD participants centered in the range of NGN15k-150k per month (USD93-930), or USD3-30 per day. It seems that the responses regarding monthly income included additional types of income, such as from family and friend. The actually average earned income might be lower than this range.

4.2.2 Main findings from the FGDs

4.2.2.1 Risks people face and how they cope with them

Participants are worried about illness. As shown in Figure 15, the FGD participants are most concerned about the financial impact of personal or a family member's illness as both of these risks were rated as a concern by 100% of participants. The death of the breadwinner was a concern to 80% of the participants, followed by accident (noted by 70% of

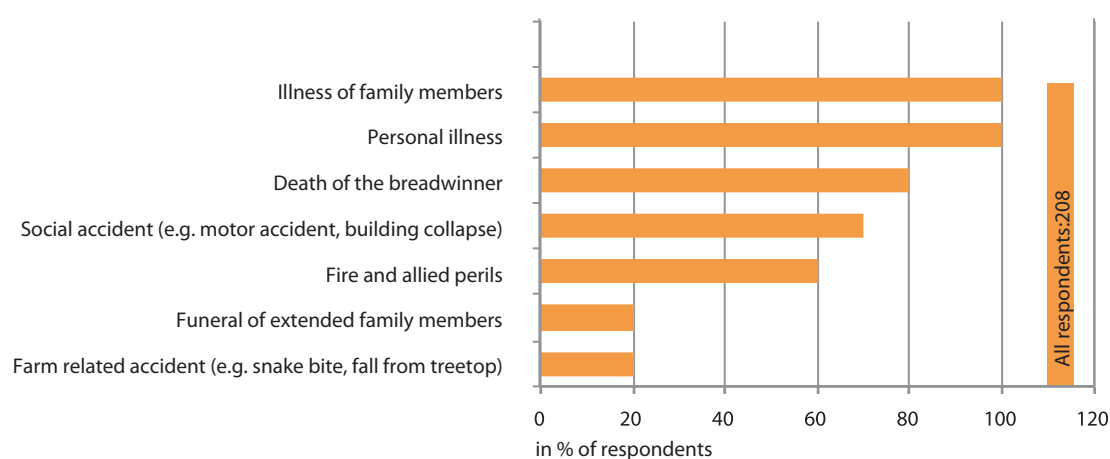
participants), and fires and allied perils (noted by 60% of participants). For instance, poisoning by snake bites can be one of the risk events for rural dwellers. A participant in Edoeha notes: *"My woman was poisoned in 1999, the little money I had could not help me. The woman is still sick till today"*.

Informal and community-based schemes are used to manage risks. Respondents indicated that coping mechanisms used to manage these risk events were mainly savings, borrowing from friends and family, high interest loans from a variety of sources and by selling assets. Savings clubs or savings at cooperatives, friendly societies and Esusus are commonly used in Nigeria, as noted previously in this report. MFI's and MFB's are used and some FGD participants highlighted they trust MFBs. Some concerns were expressed about the unreliability, quality of management and security of these forms of savings; however, they are readily accessible, culturally accepted and widely used.

4.2.2.2 Perceptions about insurance

Among those with limited insurance experience, perception is neutral and even positive. Most FGD participants had little understanding of insurance. When the concept of insurance was explained to them, they thought it was a good thing. Interest-

Figure 16: Risks most feared by FGD participants



Source: Focus Groups Discussion Report, RiskGuard – Africa (NIG) LTD.

"There are members when it is time for them to contribute they will travel, switch off phone or die."

Participant in Oturpo, on cooperative savings

ities so they could obtain insurance. In conclusion, the participants in these FGDs were less negative toward insurance than in previous demand side research studies carried out in Nigeria with respect to insurance access. It seems that the participants in our FGDs who did not have much experience and previous contact with insurance, did not have a negative opinion of it.

Some with better insurance understanding have a positive different view. Some participants had a very good understanding of what insurance is and some have had insurance policies before. For instance, a participant in Oturpo FGD said, when asked what insurance is: *"Insurance bears risk, it means security, it is a pool of risk where you can be indemnified. When you get a loss they can balance you"*. Among these more informed participants, lack of access was seen as an obstacle as no insurance company had branches in the area or have ever approached them through an intermediary.

Those with previous insurance experience express mistrust in insurance companies. Those who were aware of insurance and those who had previous experience with insurance (directly or indirectly through friends, family or work mates), had a more negative view of insurance and insurance companies. Participants expressed disbelief in claims being paid. One participant in Keffi called this (the practice

"Insurance in itself is a good policy, but because of the Nigerian factor..."

Participant in Keffi

"I know of someone who was paid after two years only. So you lose trust."

Participant in Keffi

ingly, in the end of some FGDs some participants wanted to buy insurance and in four cases they requested offices of insurance companies to open in their commu-

nities so they could obtain insurance. In conclusion, the participants in these FGDs were less negative toward insurance than in previous demand side research studies carried out in Nigeria with respect to insurance access. It seems that the participants in our FGDs who did not have much experience and previous contact with insurance, did not have a negative opinion of it.

of not paying claims) the "Nigerian factor", that is, the belief that in Nigeria insurance companies would not meet their promises. Opinions expressed in Keffi also reflect that many believe that only the elite gets insurance and connections with influential

"At times they pay, at times they don't pay, at times they delay before paying."

Participant in Edoeha

"People are very reluctant to take insurance, it's better to take the risk. The insurance distrust is so fundamental in our system."

Lawyer, participant in Keffi

people are needed to get claims paid.

Culture and religion may influence attitude toward insurance, but only to a certain extent.

As Nigeria has a 50% Muslim population, in the FGDs with the leaders of Muslim organizations in Abuja, Takaful

was strongly preferred over conventional insurance. In other FGDs involving Muslim participants, though, there was no indication that participants preferred Takaful versus conventional insurance, or that they would only use Takaful. We can conclude that, like in other countries, Nigerian Muslims are generally open to conventional insurance and it is only those linked to Muslim organizations that have a strong preference for Takaful. This finding opens the market for more opportunities with conventional microinsurance, even among the Muslim population. Nonetheless, it may be an accepted product, even among non Muslim populations, as shown in other Muslim countries such as Malaysia.

4.2.3 Implications of the demand side findings for microinsurance

4.2.3.1 Who are potential microinsurance clients?

Income level and regularity determine premium value and payment schedule. There is a large untapped potential market for insurance in Nigeria. Studies cited earlier in this report show that 75% of the population have a monthly income of less than NGN20k (USD124). This indicates that monthly premiums, to be affordable, need to be in line with this amount. Typically, microinsurance premiums cannot be more than 2% of the income of the target population.

Eighty percent of workers are self-employed or employed by small businesses. This does not therefore guarantee a steady income stream throughout the year so premiums cannot be deducted from salaries and payments do need to be flexible to accommodate the cash-flow of the informal working segment.

Most potential customers are the low-income and the unbanked segments, with limited experience with and understanding of insurance. Part of the unbanked population (23.9% of the population) exclusively uses informal modes of savings and loans.⁷³ Using cooperatives, community associations or Esusus for savings and loans is prevalent. Therefore, using these as alternative distribution channels may be the most effective way to reach low-income clients, as trust and access already exist. The FGDs indicate that some of the cooperatives are unreliable and participants have lost money using these providers. As mentioned above, before any of these alternative intermediaries are used, they need to have strong management, administration and IT skills, be financially strong and have established trust with the target market.

Part of the potential target market are banked customers in urban areas. One must also consider that part of the potential microinsurance demand is coming from the currently banked population (21.1%⁷⁴ of total adults), which might be an initial (great) step for the sector to expand their outreach and help address financial exclusion. Since banks, MFBs and a number of potential intermediaries exist in the urban areas, there is a potential to use them as distributors and payment channels to reach the urban poor. Banks are trusted which is a highly desirable trait for distribution (although they might be more adequate to reach the higher income levels).

4.2.3.2 What are the greatest gaps and opportunities?

Generally, there is low awareness of and trust in insurance. Although some participants with no previous experience with insurance were more neutral and positive about insurance, many are wary of the concept because of distrust in how businesses traditionally operate in Nigeria. Some groups have insurance knowledge, mainly with respect to health and motor insurance. Motor insurance is compulsory

I don't believe this exists in Nigeria."

Woman participant in Keffi, after the moderator explained what insurance was

so the level of knowledge about it is higher. However, most people only have third party liability insurance. Among these, some believe insurance is a good thing, yet do not use it as they consider it too expensive. In inquiring about the cost factor further, the price assumptions of participants were proven to be incorrect and much higher than the average price used as a reference by the FGD moderator⁷⁵.

Most lower, and even middle-income groups, do not have insurance as they have not been offered any. Access is a major barrier. In Keffi, for example, the market shop owners had experienced a fire in 2011 where 90% of the shops were affected impacting seven of the participants in the FGD. No single insurance company was known in the area. However, the participants seemed interested in buying insurance and have asked the CEO of the Keffi MFB where the FGD was being conducted, to help them obtain insurance by sourcing a company that will open an insurance office there.

Among those who are aware of insurance, there seem to be high levels of distrust of insurance companies, according to most of our stakeholder interviews and some FGDs. Also, several people do not seem to believe that products are good or even necessary which once again indicates the lack of understanding and the lack of value the current products offer.

Better business practices are likely to be more powerful than starting with education and information efforts. Some FGDs indicate that if claims were paid and premiums were affordable then those who understand the potential benefits, would buy insurance. Increasing insurance knowledge would surely help the public's understanding, however, the insurance industry paying claims, making claims processes easier and designing products that meet the needs of the people would go a longer way in changing the perception of the industry and openness to insurance.

Rural dwellers may be more open to insurance, but industry practices will need to follow high

73 EFINA 2010 Financial Services Landscape in Nigeria.

74 EFINA 2010 Financial Services Landscape in Nigeria.

75 Specifically, the participants in this FGD thought that insurance would cost NGN10,000 to NGN100,000 or NGN50,000 per month and were positively surprised to hear that it could cost NGN2,500.

standards. Some opinions expressed during the FGDs may suggest that part of the currently uninsured have no negative impression of insurance companies and products as they have had no experience with the industry before. This was mainly found in rural areas where communities are less likely to be exposed to insurance or people who have had a bad experience with insurance in the past. This presents an opportunity for the industry to access a new market without fighting negative perceptions. To best do this though, current practices as mentioned above need to change to keep this market's impressions of the industry positive.

4.2.3.3 What type of products would be most suitable for the clients?

First of all, this and the previous demand side studies are, by no means, exhaustive. Providers will need to conduct their own market research in their particular market segments, to understand the risks of their potential clients, their needs and habits. In general, although the demand seems highest for health coverage, due to capacity and expertise constraints highlighted in Section 3, microinsurance should start from simpler products, such as credit life. People are most often concerned with the consequences of minor and major illness and death, but also the risks of small accidents in the rural areas (e.g. snake bites, falling from a tree), floods, and fire (particularly in market places). In the urban areas, property risks feared were fire and theft and accident risks were prevalent. However, the specifics of these risks may be different from those in the rural area. Agricultural risks are important for small farmers. Even though health issues are primary concerns for the target population, microinsurance in Nigeria is in its infancy stage, and health insurance is one of the most complex insurances to develop and administer, as noted earlier in this report.

Takaful may be interesting for some, but not required to reach the majority of Muslims and not a solution to improve insurance demand. Religious people may approach risk in varying degrees stating that "God will take care of things". In such cases, insurance (including Takaful) has no appeal and would not work without awareness and sensitization efforts.

Some members of Muslim groups expressed concerns over the ethical nature of insurance. For them, Takaful could be an option since it shows characteristics of mutuality and cooperation and offers profit sharing (Mudharabah). Although its characteristics would be appreciated by some Muslim and non-Muslim groups, in general the FGDs suggest that Takaful is not a priority and a necessary step for reaching the Muslim majority, as most groups tend to be insensitive to this aspect, or at least not understand what it means. Also, contrarily to what some may believe, introducing Takaful (and its promise of profit sharing) is unlikely to improve demand for insurance in a context where market practices (e.g., claims procedures) are not improved.

4.2.3.4 Where would the clients go to get microinsurance?

There are risks for which people want affordable coverage that they would buy from a trusted source. Although there might be distrust and suspicion against insurance companies, a trusted intermediary could change this reality and facilitate the expansion of insurance to new segments. Formal intermediaries, such as MFIs and MFBs, and other forms of financial service providers could be used in urban and rural areas where they are present, have access to clients, tend to know their communities and some of them are highly trusted. Banks could also be used in urban areas, however they tend to cater and appeal more to higher income segments.

Microinsurance can harness the accepted practice of using financial service providers such as Esusus and also cooperatives. Using informal financial service providers is ingrained in Nigerian culture, especially in the rural areas where financial institutions are absent. Esusus, as well as cooperatives are an accepted part of Nigerian society and this is very important for distributing a new product such as microinsurance.

4.2.4 Quantifying the potential microinsurance market

Although the number of uninsured Nigerians gives a glimpse of the huge potential of this market, in any

Table 13: Nigerian population in 10 income groups

Income group	1-3	4	5	6	7	8	9	10
Monthly income ('000 NGN)	0-20	21-40	41-60	61-80	81-200	201-400	401-800	800+
% of Households in Band								
Lagos	46.8	31.1	10.9	3.8	5.5	1.6	0.4	0
Abuja	43.3	32.9	12.4	6.3	4.7	0.4	0	0
National	75.2	18.1	4.3	1.3	0.9	0.1	0.05	0.05

Source: Nigeria Microinsurance Market Analysis: Summary Report. Prepared for Leapfrog Labs Limited by HR Nigeria Limited, August 2011. This study uses data from the National Bureau of Statistics (NBS).

country there are segments that will not buy insurance in any circumstance due to too low levels of income, financial preferences or belief systems. It is necessary to analyse further to quantify, at least approximately, the potential microinsurance market.

According to a study based on NBS data ⁷⁶, the Nigerian population can be divided into 10 income groups, indicated in Table 13. The study suggests that if microinsurance targets the 5 lowest income levels, the potential market would represent 97.6% of the households in Nigeria. However, based on the experience in other countries, the ultra poor will not be reached. We expect microinsurance in

Nigeria to serve people with monthly income levels of NGN10,000 and up. Microinsurance is also not designed to serve high-income levels, hence not all above NGN10,000 will be a target. Moreover, part of the potential market will self-exclude based on personal preferences or beliefs.

From another perspective, microinsurance focuses on the informal working population, which is estimated at 80% of the total workforce in Nigeria. Based on the considerations above (too low or high income, and self-exclusion), we expect around 60% of the working force to be potential microinsurance clients.

⁷⁶ Nigeria Microinsurance Market Analysis: Summary Report. Prepared for Leapfrog Labs Limited by HR Nigeria Limited, August 2011.

5 Policy, regulation and supervision



The development of financial markets and the insurance sector in particular depends to a great extent on the existence of an enabling policy, regulatory and supervisory environment. Policies are important as they define the priorities, the roles and responsibilities of significant stakeholders, and influence where the bulk of financial, political and human resources, from both private and public actors, are invested. Regulation above all sets the rules for entry, operation and market conduct. Supervision ensures compliance with the rules and penalises violations, being therefore an important factor to increase public confidence.

Section 5.1 briefly presents the most significant government authorities involved in insurance sector policymaking, and their actual or potential role in microinsurance. Section 5.2 describes the relevant policies, their main milestones and how they relate to microinsurance. Section 5.3 summarizes a detailed analysis of the regulatory framework that was conducted by the diagnostic team. Section 5.4 makes considerations for NAICOM's supervisory practice in face of the reforms recommended in this report.

5.1 Institutional Landscape

5.1.1 Relevant government authorities

National Insurance Commission (NAICOM). NAICOM, established in 1997, is the primary regulator and supervisor of insurance services and providers in Nigeria. Its mission is to “effectively supervise the Nigerian insurance industry to the attainment of high ethical standards”. It envisions being “among the leading regulators of the insurance sector in the emerging markets.” NAICOM's statutory responsibilities and objectives, as well as its supervisory authority derive from the NAICOM Act 1997 and the Insurance Act 2003. NAICOM does not cover NAIC's subsidized operations, cooperative insurance, pensions and health insurance.

National Health Insurance Scheme (NHIS). NHIS is the regulator of Health Maintenance Organisations (HMOs). Its objectives are to ensure every Nigerian has access to good, efficient and affordable health care services, protect families against financial hardship of medical bills, and ensure the availability of funds to the health sector. NHIS also promotes the Community-Based Health Insurance Scheme (CBHIS),

which aims to provide health insurance to all informal workers (see description in Section 3.2). As such, NHIS may play a growing role as microinsurance expands into health products.

The Pensions Commission (PENCOM). PENCOM and the pensions sector are governed by the Pension Reform Act 2004, which intended to fix major problems in the public and private retirement schemes, such as inadequate budgetary allocation and mismanagement. PENCOM is charged with licensing, regulating and supervising pension funds. It is not clear at this point when the Nigerian market would embrace “micro-pensions”⁷⁷, but PENCOM would then play an important role in establishing an enabling framework.

National and State Level Department of Cooperatives and the Nigerian Cooperative Insurance Society (NCIS). The National and State Departments of Cooperatives are the supervisors of financial cooperatives in Nigeria. The National Department oversees the national sectoral apexes, including NCIS (see description in Section 3.4). There is no prudential regulation and supervision, and there is insufficient reliable statistics on the sector. NAICOM has been coordinating with the National Department in order to keep better track of insurance offered by NCIS, but significant progress is yet to be achieved. Cooperatives may play a role as microinsurance underwriters in the future, but in the short run this role may be limited to only a very few entities, including NCIS, while the sector improves its capacity and management skills.

Central Bank of Nigeria (CBN). CBN is the regulator and supervisor of financial institutions including banks and MFBs. In addition to its core functions, CBN has a developmental goal established in law⁷⁸. In this function, CBN works to increase the supply of finance to priority sectors and foster financial inclusion. Related initiatives involve creating an enabling environ-

ment for extending the physical reach of financial services through innovative distribution channels. Alternative channels adopted by CBN-regulated entities could become avenues for microinsurance and retail insurance more generally. There is a huge potential for synergies between CBN’s financial inclusion goals and NAICOM’s desire to promote inclusive insurance.

Ministry of Finance (MOF). The Ministry of Finance is responsible for the financial sector policy and plays a relevant role in defining priorities for financial sector development. In addition, MOF is a board member in bodies such as NAICOM, CBN, and NICON⁷⁹. In addition, MOF is also an insurance regulator, with power to issue regulations, while NAICOM issues guidelines and implements all regulations. MOF is supportive of initiatives towards financial sector development, financial inclusion and microinsurance.

National Planning Commission (NPC). The NPC was created in 1992 to advise the government on issues related to national development planning, and hence is involved in virtually all development plans at the national level, including Vision 2020 (see section 2.4) and the FSS2020 (see next section). It oversees research entities that can produce relevant data for development efforts⁸⁰.

Ministry of Agriculture and NAIC. The Ministry of Agriculture has an important role in setting the competitive landscape for agricultural insurance, since it owns NAIC. NAIC manages the Agricultural Insurance Scheme, which consists of subsidising up to 50% of the premiums chargeable on selected crops and livestock policies, using grants obtained from the Federal and State Governments, and the FCT, Abuja⁸¹. The broader goal of the subsidy scheme is to reduce or eliminate the need for ad hoc government assistance during agricultural disasters.

77 Micropensions and their distribution through mobile phone networks is already emerging in some countries such as Mexico and India.

78 Central Bank of Nigeria Act 2007 (CBNA 2007).

79 The Minister of Finance has a prominent role in the Board of these institutions, with power to shift corporate policies and strategies with the purpose to meet the public interest or the priorities set by the Nigerian government.

80 See <http://www.npc.gov.ng>.

81 The Federal Government covers 37.5% of the subsidy, while the State Governments cover 12.5%. The subsidy is supposed to be passed on to NAIC on an annual basis, within the first quarter of the year following the insurance operations. Where a State defaults, the Federal Government is to cover it and automatically pass the value to NAIC. In 2011 NAIC for the first time received the amount owed by the government at both levels, retroactive to 1993 when it started operations. Consequently, 2011 was the first year NAIC had a positive result.

Nigerian Communications Commission (NCC).

Although not directly involved in financial sector policy, the sector overseen by the NCC has an increasing role in financial services provision, and potential to impact microinsurance distribution. Cutting insurance distribution costs to a fraction of what is spent today with traditional distribution channels will depend, to a large extent, on the availability, reliability and ubiquity of mobile phone technology. For this reason, and considering that mobile connection still needs improvement even in places like Lagos and Abuja, NCC will be an important stakeholder, as already recognized in the FSS2020. Reportedly, NCC has been putting pressure on MNOs to improve quality of service.

National Poverty Eradication Program (NAPEP).

NAPEP is a program by the Nigerian government (see description in Section 2.4.2) with a potential role in supporting microinsurance pilots targeting beneficiaries of COPE, its conditional cash transfer program.

5.2 Government policies most relevant to insurance development

Overall, there is momentum on the policy level and willingness to support the development of inclusive insurance. However, there is no specific microinsurance policy. There is consensus on the policy level of the potential of microinsurance to become an avenue for financial inclusion. NAICOM is clearly engaged and supportive of inclusive insurance and willing to promote microinsurance. However, there is not enough coordination and collaboration between policymakers, regulators and supervisors that have direct and indirect influence on the development of the insurance market, such as the CBN, the Ministry of Agriculture, the Ministry of Finance and the cooperative sector. This is despite the existence of formal financial sector development policies and the relevant commitments expressed by each authority. Understanding the policy landscape

and the interaction between the different policies is important for formulating a realistic and holistic strategy for microinsurance. This section describes the most relevant policies.

5.2.1 Financial System Strategy 2020 (FSS2020)⁸²

Nigeria has come up with an all-encompassing Financial System Strategy (FSS2020), which articulates a vision of what the financial system should look like in the year 2020. FSS2020, which is an integral part of Vision 2020, is one of the components of CBN's strategic program and has participation of NAICOM. The implementation partners⁸³ are led by CBN, which houses FSS2020's secretariat.

The FSS2020 is designed to capture intra- and inter-sector dynamics for a holistic approach to financial sector development. The main sub-sectors included in the FSS2020 program are banking, credit, and insurance. **The FSS2020 states the insurance sector needs strengthening.** Also, it affirms there is "a general absence of organizations to protect the insurance consumer. Customer service is deemed low due to inadequate skills of personnel in the industry." Nonetheless, FSS2020 expects the insurance sector is to become the insurance market of first choice in Africa noted for the high level of capacity, transparency, efficiency and safety and attain the 15th position in the world insurance premium generation, all by 2020. FSS2020 aims to "grow the insurance market by first strengthening existing channels and subsequently developing new channels."

Also, FSS2020 puts emphasis on the importance of improving the ICT sector to support financial sector development. This is particularly important for microinsurance, with the use of technology-enabled alternative distribution channels such as mobile payment platforms. FSS2020 states that risk management, legal and standardization frameworks will be developed to support the focus on ICT.

82 Description of the FSS2020 is available online at <http://solutions.powersimsolutions.com/fss2020/Overview.aspx>.

83 FSS2020's stakeholders and implementation partners include MOF, the National Assembly, the Securities and Exchange Commission (SEC), Nigeria Deposit Insurance Corporation (NDIC), NAICOM, PENCOM, the Financial Markets Dealers Association (FMDA), Federal Inland Revenue Service (FIRS), NIA, Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA), Manufacturers Association of Nigeria (MAN), Debt Management Office (DMO), Nigerian Stock Exchange (NSE), banks, Federal Mortgage Bank (FMBN), Bank of Industry (BOI), Nigerian Export-Import Bank (NEXIM), and NACRDB.

5.2.2 Financial Inclusion Strategy (FIS)

The Financial Inclusion Strategy was launched by CBN as a step towards achieving FSS2020. In terms of implementation, it asks for the creation of a Financial Inclusion Committee in which NAICOM, NCC, PENCOM, the National Bureau for Statistics, the National Identity Management Commission (NIMC), NPC and CBN would participate⁸⁴. Like the FSS2020, the FIS sets goals for the insurance sector. Among other things, it proposes insurance companies:

- Increase penetration of insurance nationwide;
- Broaden the scope of insurance products and increase cross-selling;
- Develop products tailored to middle- and low-income segments;
- Develop micro- and agriculture insurance products; and
- Report adequately and timely to NAICOM to support financial inclusion tracking and monitoring.

To achieve such objectives, the FIS proposes insurers collaborate with mobile payment providers, NIPOST, and linkage institutions (which are not defined in the FIS) to reach low-income and rural segments, and retail agents such as shops. In addition, the FIS sets specific data to be reported by insurance companies to NAICOM, for the purpose of monitoring the evolution of financial inclusion indicators. FIS was formally launched in October 2012, but none of these initiatives, including the creation of the Financial Inclusion Committee, have been implemented yet.

Among other actions, the FIS proposes NAICOM:

- Enforce quick settlement of claims and consequences for failure;
- Enforce all regulations, such as compulsory insurance;
- Incentivize insurance companies to develop microinsurance;
- Institute periodical impact assessment for schemes within the industry to guide the sector and boost growth.

5.2.3 Market Development and Restructuring Initiative (MDRI)

NAICOM has been implementing the Market Development and Restructuring Initiative (MDRI) since 2009 (first phase to end in 2012) to address slow development of the sector and grow the industry's gross premium from NGN164bn in 2008 to NGN1tr in 2012 (it amounted to NGN200bn in 2010). The MDRI includes improving capacity building in the industry, market efficiency and consumer protection and focuses on four key Issues:

- Enforcement of compulsory insurance products in Nigeria;
- Sanitization and modernization of the insurance agency system;
- Wiping-out of fake insurance institutions; and
- Introduction of risk-based supervision.

Some progress has been achieved, although NAICOM continues working on meeting the goals. It is likely to incorporate remaining work into an eventual financial inclusion strategy for the insurance sector.

5.2.4 Compulsory insurance policy

Although there is no cohesive or unique policy document about mandatory insurance as a market development tool, the Nigerian government has, through several laws, mandated consumption of a variety of insurance products, including:

- Group life insurance (PENCOM Act 2004);
- Employers liability (Workmen's Compensation Act 1987, now substituted by the Employee's Compensation Act 2011);
- Buildings under construction (Insurance Act 2003);
- Occupiers liability insurance (Insurance Act 2003);
- Motor third party insurance (Insurance Act 2003); and
- Health care professional indemnity insurance (NHIS Act 1999)⁸⁵, and
- Crops under the Agricultural Insurance Scheme (coverage provided solely by NAIC).

⁸⁴ The cooperative sector is not included in the description of the future Committee.

⁸⁵ Every company with 10 or more employees must register with NHIS and pay contributions at rates determined in NHIS regulations. The contributions (and capitation fees) are collected by the private and public sector HMOs registered with NHIS.

5.2.5 NAICOM's Strategic Plan 2011-2015

NAICOM's Strategic Plan is an important internal policy document and as such, has potential to significantly contribute to the development of a sustainable, inclusive and safe insurance sector that fosters healthy microinsurance. For instance, the Plan commits to "reducing incidence of unauthorized insurance, and non-payment or delay in claims payment, and facilitating development of financial inclusion products such as microinsurance and Takaful". It sets goals to strengthen NAICOM's supervisory role, a step that is absolutely necessary to safely implement a number of regulatory recommendations proposed in this report and face the challenge posed by the FSS2020. Such goals include transforming internal processes and systems and implementing risk-based supervision.

5.3 Regulatory framework and implications for microinsurance

The present section summarizes an in-depth analysis of the legal and regulatory framework for insurance, as well as a few relevant regulations emanating from other authorities.

5.3.1 Overview of the insurance sector regulation

In broad terms, the insurance sector is divided into: 1) Insurance regulated by NAICOM and governed by the Insurance Act 2003 and NAICOM Act; 2) Health Insurance, under the NHIS Decree; 3) Subsidized agricultural insurance, under NAIC Act; 4) Cooperative insurance, under the Cooperative Societies Act and NCIS Act; 5) Pensions, under PENCOS Act; 6) employee's compensations, under the Nigeria Social Insurance Trust Fund (NSITF). We will focus on (1), (2), (3) and (4), as the most relevant for microinsurance. These are briefly described below, to facilitate understanding of the conclusions and recommendations described next.

The **NAICOM Decree 1997** creates NAICOM, defines its functions, responsibilities and regulatory and supervisory powers, which are limited by the Insurance Act (below).

The **Insurance Act 2003 (Insurance Act)** is the single most important piece of legislation determining if and how the bulk of insurance can be conducted in Nigeria⁸⁶. The Act covers a great deal of detail from specific licensing requirements such as minimum capital, to supervisory reporting and corrective measures. By establishing such requirements in law, it gives little flexibility for NAICOM to create supplementary regulation. Hence, NAICOM has issued a very limited number of Guidelines⁸⁷, which were taken into consideration for the present analysis.

The **Microinsurance (Draft) Guidelines** and the **Takaful (Draft) Guidelines** are draft regulations prepared by NAICOM to govern microinsurance and Takaful operations under the Insurance Act. The draft Takaful Guideline is being developed through a consultancy agreement with the Islamic Finance Council, UK (IFC) and sponsored by EFINA. IFC consultants are revising a first draft. Hence, this report does not discuss the existing draft. Basically, what NAICOM intends is to allow the emergence of specialized Takaful insurance providers. The Microinsurance Draft Guidelines also intends to allow emergence of specialized microinsurance underwriters, and is analysed within the broader analysis of the Insurance Act and related regulations in 5.3.2 below. However, this report does not offer a full analysis of the contents of the draft, as it is still being discussed within NAICOM.

The **National Health Insurance Scheme Decree 1999** (NHIS Decree) establishes the NHIS, its objectives, functions, and powers, subjecting all Health Maintenance Organizations (HMOs) to the NHIS.

Other legislation. There are several other laws governing the insurance business directly or indirectly. As their impact may be only tangential to microinsurance, they will not be described in this report. These include: Nigerian Council of Registered Insurance

⁸⁶ The Insurance Act is the evolution of Decree No. 59 of 1976, which constituted the first all-embracing insurance legislation in Nigeria by putting together the provisions of the various previous laws.

Brokers Act (Brokers Act), the Marine Insurance Act; the Motor Vehicle Insurance (Third Party) Act; the Compulsory Insurance in Civil Aviation Act; the Pensions Act, the Nigeria Reinsurance Corporation Act (Reinsurance Act), and the Employee's Compensation Act (ECA). Additionally, although touching on topics of potential relevance, other laws do not specifically address financial services and therefore have no impact in the current analysis. These are the Cooperative Societies Act and the Consumer Protection Council Act⁸⁸.

5.3.2 Summary of findings and recommendations for regulatory reform

The current regulatory framework is not adequate for microinsurance to develop to its full potential.

First, there is no specialized microinsurance framework, which is however currently being prepared by NAICOM. Microinsurance is not prohibited by regulation, but the current rules include high entry and operating minimum standards and excessive regulatory reporting, which were not crafted to the delicate economics of microinsurance. Meanwhile, the framework does not set sufficient minimum product and market conduct rules that would be necessary in microinsurance.

Considering the challenges and opportunities posed by the broader Nigerian context, the industry dynamics, the findings of the demand side research, and the specific business needs of microinsurance operations, Nigeria will need a more enabling regulation, coupled with stricter minimum consumer protection and market conduct standards that are effectively enforced, to ensure the health of the system and the soundness of insurance companies, while protecting policyholders. **To leverage the full potential of the market, this report recommends certain improvements to the regulations implemented by NAICOM**, including rules pertaining to institutions (types of providers and their entry and operating standards), products (characteristics of microinsur-

ance products), and market conduct and consumer protection (transparency and business practices). The main recommendations are:

1. **Design a framework for specialized micro-insurers (regulation of institutions) and for microinsurance operations (regulation of products).** The excessive entry (particularly minimum capital) and operating requirements (e.g., reporting requirements, reinsurance, corporate governance) for insurers are not appropriate for microinsurance, both provided as a window in existing insurance companies, and particularly when provided by eventual specialized microinsurers. We propose NAICOM to allow several types of institutional forms to apply to become specialized microinsurers by creating a new license category with lower minimum entry capital and streamlined operating and reporting requirements. We also recommend creation of a risk-based capital regime⁸⁹ to allow risk sensitivity and encourage existing insurers to invest in microinsurance as a business line, in equal terms to eventual specialized microinsurers. This would facilitate a level playing field and competition.
 - a. *Create a new institutional category for specialized microinsurers.* The main justification for a new license category in the case of Nigeria is to overcome the high entry barrier in the form of minimum capital. If the minimum capital were not so high, the case of a new category would be very weak. For a limited scope company that focuses on microinsurance (with life products), the current minimum capital levels are very high: at least NGN2 bn (USD12 mn). This investment level is uneconomical for potential specialized microinsurance underwriters (including those that could spin off existing commercial insurers), as well as it makes it virtually impossible for currently unregulated insurers (e.g., cooperatives) to upgrade to a regulated status as an underwriter.

⁸⁷ Although NAICOM only issues Guidelines, and not Regulations (a prerogative of the Ministry of Finance), we use the term "regulations" loosely to make reference to any regulatory instrument that is not a Law or Decree including those issued by NAICOM.

⁸⁸ Although consumer protection is a very relevant issue for microinsurance, the Consumer Protection Council Act and the Council itself do not seem to cover financial services, being focused on safety and health issues of consumer goods in other industries. See <http://www.cpc.gov.ng>.

⁸⁹ This would require amending the Insurance Act.

Table 14: Minimum capital in selected countries

Country	Life	General	Microinsurance
Nigeria pre-2005	USD930K (NGN150mn)	USD1.24mn (NGN200mn)	N/A
Nigeria post-2005	USD12.4mn (NGN2bn)	USD18.6 (NGN3bn)	N/A
Brazil	USD60K to USD4.4mn – varies with geographical coverage. Whole country = USD7.5mn		20% of these values
Cambodia	USD7mn		USD150K
Colombia	USD3mn to USD4mn		N/A
East Timor	USD500K		N/A
Ethiopia	USD400K	USD300K	N/A
India	USD25mn		N/A
Kenya	USD3mn	USD4mn	N/A
Panama	USD5mn		N/A
Peru	USD1.68mn / Composite USD2.3mn		N/A
Philippines	USD6mn (PHP250mn) today USD25mn (PHP1bn) by 2020 and new companies		50% for coops and 12.5% for mutuals (build up over time through a surcharge in the premiums)
South Africa	USD1.15mn (ZAR10mn)	USD570K (ZAR5mn)	USD343K (ZAR3m) – planned
Uganda	USD0.9mn to USD1.9mn (UGX500K to UGX1bn)		N/A
Vietnam	USD30mn		N/A
Zambia	USD190K (ZMK1bn)		N/A

Sources: Country insurance regulations and a variety of other secondary sources.

Table 14 lists minimum capital requirements in selected countries, including a few that have microinsurance regulations. Nigeria figures as one of the highest minimum capital, next to India, Vietnam and the Philippines. However, in the Philippines, for example, cooperatives and mutual benefits associations need a much lower capital to start business as microinsurance underwriters.

Part of the explanation for such high minimum capital levels is that the Insurance Act does not allow NAICOM to use a risk-based capital regime (as well as risk-based supervision), in which a lower flat regulatory capital could be better adjusted on an ongoing basis by solvency requirements related to the operational size and complexity of different providers, in line with international best practices⁹⁰. Hence, in its laudable effort to sanitize and consolidate the sector, NAICOM has opted to set a high flat minimum capital, which stands out in the region and even globally. Although the current capital levels ask for a new institutional

category for dedicated microinsurers, the lower minimum capital should not be too low as to encourage proliferation of new companies that are too numerous and small to supervise and are not able to pool insurance risk on their own balance sheets safely.

- b.** *Allow institutional diversity.* Only limited liability companies can apply for a license as an insurer under the Insurance Act. A specialized institutional tier for microinsurers should allow other legal forms, such as cooperatives and mutuals. In this way, cooperatives currently providing insurance could apply for a license to become stand-alone underwriters regulated and supervised by NAICOM, if and only if they meet proportionally set minimum capital, operating and reporting requirements. Those who do not wish or are not able to meet the requirements may want to become intermediaries in the proposed specialized microinsurance regime and cease to hold the insurance risk. For those who cannot meet

90 See Insurance Core Principles 4 (Licensing) and 17 (Capital Adequacy).

the minimum requirements but show willingness and capacity to continue underwriting, including some entities that mix insurance with non-insurance activities, NAICOM may consider a transitional arrangement to provide such unregulated underwriters a period of time over which they could meet the minimum requirements and set up a separate insurance operation.

The authors recognize there are risks and complexity involved in permitting cooperative societies to carry insurance risk as regulated underwriters, particularly given the weaknesses observed in the cooperative sector in Nigeria. However, regulators (including NAICOM, CBN, the National Ministry of Finance and the cooperative regulators) should look into this as an opportunity to revamp the cooperative sector towards a safe, healthy and efficient inclusive financial system. The role of mutuals, cooperatives and other structures has been recognized by the IAIS, which gives guidance on how to overcome challenges⁹¹. In developed countries, there are several examples of highly successful cooperative insurance. In Japan, for instance, the largest insurers are cooperatives. In Canada, the cooperative sector responds for about 25% of the insurance market. In Africa, most microinsurance providers are small entities such as cooperatives, and they tend to reach places which commercial insurers do not usually serve. However, they respond to a very small share of the total coverage on the continent⁹², showing the limited systemic risk in incorporating them to the regulated sphere (supervisory risks such as reputation due to consumer issues are higher than prudential systemic risk).

Inadequate governance of cooperative societies is an issue in many countries, but one that can be resolved over time. This asks for commitment by domestic regulatory agencies and international bodies such as credit union associations and development partners who can support the effort.

There are many country examples of how a weak cooperative sector became strong (e.g., Brazil)⁹³.

Definitely no weak cooperative should be allowed to underwrite insurance, but excluding their participation from the start goes against the goals of an inclusive market. A holistic strategy should not rely solely on partnership arrangements where cooperatives and other entrants are relegated to intermediation. Philippines, for instance, spurred the microinsurance market through Mutual Benefit Associations, which now play an important role in expanding access to insurance.

- c. *Create a specialized regime for microinsurance operations.* Microinsurance requires a prudential, operational and market conduct regime that fits the business characteristics and helps providers achieve higher levels of operational efficiency, while allowing NAICOM to gradually move towards a risk-based approach to this business line, covering all types of providers (dedicated in microinsurance or not). Specialized requirements for microinsurance includes, for instance, reinsurance, provisioning, investments, reserves, account diversification, etc. As the market develops, this framework can be reviewed to attend to new needs.

Specifically with regard to reinsurance, it is notable that Nigeria, as many other African countries, mandates reinsurance coverage on all insurance products. However, microinsurance is characterized by large numbers of small policies, and the individual risk is low. The systemic risk posed by microinsurance is also usually low at a country level, as noted by the IAIS⁹⁴. Mandating reinsurance in this manner may force an inflexible market with high costs for providers and little benefit at the system level. It is already usually hard to negotiate good prices with reinsurers, and it becomes even harder when there is a compulsory requirement, as their bargaining power increases.

91 See IAIS (2012) Application Paper on Regulation and Supervision Supporting Inclusive Insurance.

92 See Munich Re Foundation, Making Finance Work for Africa (2012) Landscape of Microinsurance in Africa 2012.

93 See Central Bank of Brazil (2008) Guidelines for Good Practices of Financial Cooperative Governance, available on www.bcb.gov.br/?COOPGOVGUIDE.

94 See IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets.

There should be flexibility for the insurer to decide when and how reinsurance is contracted, limiting the regulation to require adequate risk coverage, and maybe mandate reinsurance in particular cases (e.g., catastrophic risk). More importantly, the supervisor should be able to effectively oversee, on an ongoing basis, how adequate risk coverage is. A one-size-fits-all reinsurance requirement, while seen by some as a measure to ensure solvency and financial health of insurance companies, can actually work contrarily to those purposes in some cases, for increasing costs to an unsustainable level in an already weak operation. There are examples of cases that led to failures in and outside Africa. Given the delicate economics of microinsurance, we recommend not mandating reinsurance for all products.

With regard to account diversification, we recommend NAICOM to lift the requirement for dedicated microinsurers to distribute funds across 5 banks, which can increase operational costs.

Lastly, on management qualification requirements for all companies providing microinsurance it is important to refrain from imposing obstacles for market expansion. For instance, requiring previous experience in microinsurance may pose an impossible situation in Nigeria, since there is, at this time, very little experience with microinsurance. Ideally, the regulation does not set hard experience or education requirements, limiting to ask management to be qualified and pass the fit and proper test. The evaluation of each case is done by each provider, and reviewed by NAICOM during the authorization process. NAICOM staff needs to be able to adequately evaluate fit-and-properness of each candidate with the information provided by the applicant.

2. **Allow a variety of legal persons to act as microinsurance intermediaries while meeting proportionally set minimum standards.** It is not entirely clear to the market whether using legal persons as insurance (or microinsurance) agents is permitted. We recommend NAICOM to clearly allow a variety of legal persons to act as agents. In addition, we suggest NAICOM and CBN

coordinate to clarify and allow CBN regulated entities (e.g., MFBs and banks) to act as insurance agents, in the light of the CBN's requirement for banks to divest from insurance business. Also, the current requirements for insurance agents are quite burdensome for microinsurance agents and will need to be relaxed.

3. **Issue specific microinsurance product regulation.** There is little product regulation today. Such regulatory approach gives flexibility for market innovations, but in the microinsurance context product regulation is important to impose limitations to balance the more favourable conditions established in the institutional regulation (e.g., lower capital and less reporting), to introduce key consumer protection provisions, and delineate the market to facilitate regulatory reporting. Importantly, regulatory delineation reduces room for regulatory arbitrage. Some aspects that could be addressed in product regulation are: definition of microinsurance; whether to allow risk benefits only or also surrender value products; whether to allow sum-assured benefits only or indemnity insurance; allow a variety of underwriting models (individual or group).

A regulatory definition for delineation purposes would be most beneficial if based on a parameter that is simple to implement. For example, it could set the maximum premium, or maximum benefit of microinsurance products. Mexico, Peru and the Philippines, for instance, use either or a combination of maximum premium and maximum benefit. Naturally, a definition can be dual and comprise, in addition, a broader description of the target market. In fact, this is common in the countries that have microinsurance regulations. However, such broader definition should not be used for delineation and regulatory purposes, since implementing it in practice is complex, and it can unduly burden the market by creating unnecessary costs for providers and clients (for example, clients will be asked to show proof of income and providers to verify such information). The less complex the regulatory parameter is the less complex its implementation. Consequently, the data reported to the supervisor becomes

more consistent and easier to verify and validate, by NAICOM⁹⁵.

It is relevant to note that although potentially beneficial, any product regulation risks constraining the market and stifling innovation by introducing rigidity. Hence, it should be done after good evaluation of the potential side effects. It should be carefully tailored to the Nigerian reality.

4. Allow composite (bundled) microinsurance products. An important part of product regulation is expressly allowing composite or bundled microinsurance products without requiring two licenses (life and non-life). This simplifies business arrangements and reduces costs for microinsurers, which could then reflect on prices to an expanded customer base. This is done, for instance, in the Philippines and India. Bundled products provide a much more interesting value to the low-income policyholder than traditional insurance products. In Brazil, there is a wealth of bundled microinsurance (or mass market, depending on the microinsurance definition used)⁹⁶. Although there is no regulatory obstacle for Nigerian companies to partner with other insurers to bundle products, an explicit permission may work well to stimulate the market and allow innovations to happen more quickly. In addition to allow bundling through partnerships and bundling by a composite insurer, NAICOM should allow bundling within non-composite insurers, i.e., a life insurer to issue non-life microinsurance products and vice versa. Such measure relies on the limited risk of small microinsurance policies, as noted by IAIS guidance on this topic⁹⁷.

In addition to allowing bundling, NAICOM should also clarify in regulation or in a public positioning document, whether new composite insurance companies are allowed or not. There is some confusion in the market in this regard, which creates a sense of unlevel playing field with the existing

composite companies, which could offer bundled products on their own, i.e., issuing life insurers to issue some non-life products under the same balance sheet and vice versa. NAICOM will need expertise to assess the risk of each new product and the capacity of the insurer to adequately separate and manage risks.

5. Set adequate minimum standards for market conduct and consumer protection. The regulation sets only a few market conduct and consumer protection rules, which could be improved to cater to microinsurance. NAICOM should set additional minimum standards, at least for the proposed specialized microinsurance regulation, and review other requirements.

- a. *Set minimum standards for claims processing and complaints handling.* One of the main aspects that need improvement is setting minimum standards for claims management, in a way that microinsurance clients can easily claim and receive the benefits. NAICOM should also set standards for complaints handling by insurance companies, including their capacity to manage and report complaints data through information systems.
- b. *Set minimum requirements for disclosure and advertisement.* The framework for transparency and consumer protection is not strong enough to offer protection in the context of microinsurance. NAICOM should implement minimum requirements for coverage, price and information disclosure, and advertisement and marketing. For instance, microinsurance should follow standards for simplified policies, such as easy, short, plain language, common terminology, and standardized price transparency rules, including for bundled products.
- c. *Consider additional rules,* including standards for automatic policy renewal, minimum notice for

95 For international best practice on this issue, see item 6 on IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets, which supports our arguments.

96 See cases of bundled products in Bester et al (2010) and update on microinsurance innovation in Brazil, by the Centre for Financial Regulation and Inclusion (Cenfri): <http://www.cenfri.org/k2/item/90-update-on-microinsurance-innovation-in-brazil-2011>.

97 See IAIS (2012), Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets: iaisweb.org/db/content/1/16138.pdf.

policy cancelation, restrictions and prohibitions on waiting periods; and rules on exclusions.

- d. Create a flexible framework for agent commissions.** We discourage NAICOM to set maximum commissions for microinsurance agents in the regulation as it is done today. In some instances, effectively marketing, distributing and servicing microinsurance will require higher commissions than in conventional insurance. The logic behind the decision of some countries to set commissions in the regulation (e.g., Pakistan, where commissions will vary from 20% to 30%, according to a consultation document by the Securities and Exchange Commission) is to curb market abuse, not to incentivize insurance companies to enter a market with lower commissions. Ideally, agent commissions are set by the market, and monitored and disseminated by the supervisor. Fixed commissions that are too low may not create enough incentives for quality intermediaries to do a good job, resulting in poor market practices. If fixing the commissions is absolutely necessary, it should be fixed at comfortably higher levels.

It is important to be conscious of the potential increase in costs for the provider, stemming from any consumer protection and market conduct requirement. NAICOM should tailor the requirements to the microinsurance business, to avoid hurting business propositions and protecting clients out of the formal market.

- 6. Simplify regulatory reporting for all providers of microinsurance and retail insurance more generally.** The regulatory reporting regime today is so complex that it is difficult to form a complete picture of what a licensed insurer needs to report regularly to NAICOM. For the purpose of improving the regulations for microinsurance, we recommend NAICOM institute a more streamlined, simplified reporting regime for those providing microinsurance.
- 7. Design efficient and simplified licensing procedures.** Currently, NAICOM's authorization process is a rules-based one, focused on a compliance checklist. We recommend improvement to the

licensing procedures, which would require strong capacity building within NAICOM staff, good licensing manuals and better information systems. Specifically with regard to new microinsurance products, NAICOM should consider implementing a file-and-use system. Over time, this system should also be applied to microinsurance agents.

- 8. Introduce more clarity and greater flexibility in other regulatory requirements.** A detailed analysis of the current regulatory framework indicates there is room for additional minor improvements in a number of other aspects. Such improvements would provide a more solid and enabling overall framework for microinsurance to develop following minimum operating and market conduct standards while not being stifled by undue compliance cost. We suggest NAICOM conducts a thorough review of its regulation and introduce improvements to benefit microinsurance.

For instance, the regulation could explicitly allow the agent to have an active role in keeping client and transaction records when necessary. This should not shift the responsibility for record keeping from the insurer to third parties, but outsourcing is an important element for reducing costs for both the risk bearer and the intermediary. In Nigeria, for instance, LAPO plays a role in record keeping for its partner insurer, Goldlink. In the Philippines and India the regulation explicitly allows outsourcing of data processing and record keeping. This is also common in agent banking regulations throughout the world, where account opening information is kept by retail agents in many cases (e.g., Brazil, Colombia, India, Mexico, Pakistan), as a means to foster inclusive markets.

- 9. Consider financial incentives for microinsurance.** Lastly, NAICOM could consider lifting licensing and registration fees and levies for microinsurance, as a form to encourage market investment. This type of measure (as well as tax-related incentives if they are deemed necessary in the future) should only be considered if the market shows some progress towards reforming its practices and standards, and must be supported by very

clear regulations defining microinsurance business and products, to avoid regulatory arbitrage.

The Microinsurance Draft Guidelines could be the starting point for implementing the above reforms. NAICOM has draft Microinsurance Guidelines, but in its current version it does not fulfil the requirements for a strong and enabling microinsurance regulation. However, it could be the right opportunity to address many of the issues above by immediately incorporating improvements that do not require amendments to the Insurance Act and preparing the ground for changes that need legal amendment.

10. There are improvements to be made in the regulation and policy outside of NAICOM's jurisdiction.

a. *Review CBN's policy affecting co-branding between microinsurance and mobile network operators and set minimum standards for service quality.* CBN regulation does not allow mobile network operators (MNOs) to offer mobile payments platforms directly, i.e., they need to partner with a third party such as technology companies, who are the legal providers of the payment service. In addition to potentially slowing down the pace of innovation for requiring involvement of more players in a mobile payments product, this approach makes it much more difficult for microinsurance to ride on the operator's brand. Some meetings suggested the MNO's brand is more recognized and trusted by the Nigerian population, comparatively to the brands of insurers and payment providers. Co-branding microinsurance with mobile operators has been used, for instance, in countries such as Brazil, Ghana, Kenya, Pakistan, South Africa and Tanzania⁹⁸. Such arrangements can also spur strong interest by MNOs to seek partnerships with insurance companies, given the

potential benefits that loyalty-based microinsurance can offer to their mobile money business. For instance, in Pakistan and Tanzania mobile microinsurance is being offered for free, subsidized by the MNO⁹⁹. This could push for more innovation in microinsurance in grand scale.

Another issue raised during our consultations was concerns with security and stability of mobile payments, which operated by small and/or new companies. There are few security and risk-sharing minimum standards issued by CBN in this area¹⁰⁰. Also, there is the impression that, for not being able to offer mobile payment products themselves, MNOs do not give priority to the service that cater to these products.

- b.** *Clarify whether banks and MFBs can receive fees when intermediating insurance.* By prohibiting universal banking in 2010, CBN has required banks to divest from other businesses, including insurance¹⁰¹. According to our consultations, this measure has not, in general terms, created direct hurdles for insurance market development, although some banks have given up insurance as a result. There is a belief by some insurers, bankers and MFBs that banks and MFBs cannot receive fees for acting as insurance intermediaries, because of the divestment policy. This needs to be clarified through a regulation or public positioning paper and, if these entities are indeed prohibited from receiving fees, the policy should be reviewed.
- c.** *Review capitation rate for health insurance.* Healthcare providers are paid either by capitation (regular advance payment by the HMO, per person covered), fee for service, per diem (daily amount for hospitalization) or per-case payment (payment by type of medical case). The NHIS sets

98 MicroEnsure, which partners with mobile network operators have covered over 1 million new policyholders in Ghana and Tanzania, 80% of whom had never had insurance coverage.

<http://www.gsma.com/mobilefordevelopment/tigo-bima-and-microensure-bring-a-freemium-model-to-mobile-insurance>.

99 See the cases of Telenor Pakistan with Tameer Microfinance Bank, and Vodacom Tanzania in <http://www.gsma.com/mobilefordevelopment/microinsurance-to-reward-mobile-money-wallet-activity-examples-from-pakistan-and-tanzania>.

100 This analysis is based on our interviews. We did not conduct a thorough review of CBN regulations in this regard, but recognize CBN has rules on redundancy and other minimum risk mitigation standards, but most of the risk management standards are determined by each provider rather than by regulation.

101 See Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2020 (Regulation 3). See also CBN Circular to all banks, December 30, 2011.

a national capitation rate of N750 (USD4.65) for all zones. The consultant team estimates that the cost of servicing rural areas is around N400 (USD2.48), which is lower than the costs of operating in urban areas. Hence, rural clients may end up subsidizing urban clients in the likelihood that providers transfer the cost to the client. Coupled with poor infrastructure of health services, this approach disincentives providers to go outside urban areas. Although health microinsurance is more complex to implement and is likely to develop in a later stage, there are a few innovators that could benefit from a better regulation; the regulatory framework should support them, and provide ground for future offerings. The flat rate should be reviewed to bring it closer to the real costs, and NHIS may even consider additional flexibility for microinsurance partners to be able to negotiate differentiated capitation rates according to the particular combinations of coverage and location.

- d. *Assess the impact of the policy of subsidized agricultural insurance on competition, innovation and expansion of this market. Any farmer whose crop is covered by the Agricultural Insurance Scheme (AIS) law may take out insurance from NAIC. Those with loans from financial institutions must take NAIC's coverage. NAIC is supervised by NAICOM and while the commercial part of its business is subject to the Insurance Act 2003, the subsidized part is not.*

Although the subsidy policy has been adopted by the government long ago, it could be limiting the opportunities for the private sector to develop expertise in agricultural insurance, creating unfair competition or simply not allowing competition and stifling innovation. Other insurers can offer agricultural insurance, but it is hard to compete with NAIC's 50% subsidy. Consequently, farmers not happy with NAIC's services and with insurance in general have no other option in practice. Also, NAIC's losses above 200% of its premium income are covered by the Federal Government, but naturally there is no such arrangement for private companies, forming another disincentive for potential investors. This situation is aggravated by

the limited transparency about NAIC's target segments within the priority markets, and the limited information on NAIC's performance and activities. For example, there is no readily available information on NAIC's premiums or policy terms. An impact assessment exercise could be undertaken with the purpose of highlighting weaknesses and strengths of the subsidy policy, to inform future strategies and related measures to expand dynamism and the reach of agricultural insurance. Such measures could encourage investment by other insurance companies, and more transparency on the implementation of the government subsidy could improve its effectiveness.

- e. *Keep an eye on next generation regulatory issues in microinsurance, such as taxation. Some insurers complain about high taxes imposed on the insurance business, but in our analysis taxation does not seem to be particularly high when compared to other countries. Value-added-services tax (VAT) is 5%; corporate tax is 30%, and income tax is progressive and up to 25%. Some interviews have suggested tax could be lower or tax breaks on corporate tax could be considered for microinsurance in the future, as encouragement to this industry. This report does not recommend tax breaks at this point, since the industry is still in its very initial stages of development, but such issues could be considered in the future, should taxation become an obstacle, or should tax breaks become a necessary measure to further foster the market. The government should consider tax incentives with caution to avoid regulatory arbitrage and tax evasion.*

5.4 Considerations for NAICOM's supervision

Many of the recommendations of this report will, directly or indirectly, impact the supervisory work carried out by NAICOM and the quality of supervision will determine, to a great extent, the effectiveness with which the measures are implemented. The potential introduction of a new class of insurance company and a new line of business for all insurers, for instance, create the need for specialized technical

expertise, changes in the licensing and supervision procedures, and extensive consultations with the industry, for which funding, know-how and manpower are necessary. As noted by the IAIS, “to overcome barriers it is necessary to do things differently”¹⁰².

This diagnostic does not deal with the issues of NAICOM’s capacity in depth, as this area was covered by the IAIS Insurance Core Principles Assessment (ICP Assessment) conducted in May 2012 as an integral part of this project¹⁰³. The findings and recommendations of the assessment are confidential and were shared with NAICOM only. This section broadly highlights some of the steps needed for NAICOM to evolve towards a risk-based regulatory and supervisory approach that benefits microinsurance and broader market development. The intent is to achieve greater proportionality and effectiveness when implementing the microinsurance framework. In broad terms, ensuring application of the ICPs in practice is crucial for NAICOM to achieve the goal of an inclusive insurance market.

Microinsurance asks for a change in the mindset of the supervisory staff, including the licensing team, the supervisors, and the policy team. The business logic of microinsurance is a significant shift from traditional insurance, from product design to distribution, to client services and economic viability. There is need for the creation of specific supervisory policies and procedures for microinsurance. This requires supervisory capacity building to fully understand the logics behind this business and the importance of applying a proportional and effective risk-based licensing and supervisory approach. Increased supervisory expertise will allow the supervisor to recycle knowledge and further improve microinsurance regulation over time. It will also allow higher quality of the analysis and dissemination of data about the market. For example, the Philippine Insurance Commission introduced an interdisciplinary working group on microinsurance to make sure all departments in the commission understood microinsurance, and not only a few members of staff.

The importance of creating in-depth knowledge about the features and risks of new business models and delivery channels cannot be over-emphasized. Such capacity building would need to cover, for instance, the authorization process. Over-demanding licensing requirements and procedures for microinsurance agents and products, could stifle innovations, or at least delay market growth with burdensome procedures. Licensing single agents may be inefficient from a supervisory resource standpoint, given the typical large numbers and high turnover of insurance agents. This realization asks for a proportional approach to licensing, which depends on the depth of knowledge within the supervisory authority and a shift from compliance based to in-depth analysis on a risk basis.

Market expansion and microinsurance require great attention to optimization in the use of supervisory resources. NAICOM currently takes a compliance approach to supervision, with significant resources spent on verifying annual regulatory filings and on assessing fines for non-compliance with legislation. In order to optimize the use of human and financial resources, there is need for automation of systems for data collection by the supervisory authority, data handling, analysis and dissemination. Better information systems will allow for less time to be spent manually checking consistency of hard copies against electronic data received from insurers, and reduce the risk of inconsistency and errors of supervisory assessment and data disseminated to the wider public.

This diagnostic did not cover the issue of the availability of resources but NAICOM needs adequate manpower. There are approximately 160 employees, which is about 60 less than budgeted for by NAICOM. Considering the desire to expand the market and introduce an effective risk-based supervisory framework, there is need to hire qualified professionals in a timely manner, to keep up with the market developments. Without this capacity, the supervisor is restricted in its ability to support healthy inclusive

102 IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets (2012). iaisweb.org/db/content/1/16138.pdf.

103 Mr Lonny McPherson conducted the ICP Assessment in May 2012.

insurance. NAICOM's Strategic Plan has already identified these needs. Implementing the Plan is central to transforming NAICOM into a modern supervisor capable of dealing with market innovations toward a more inclusive insurance sector.

Lastly, there is need to improve the reliability of published information about regulated sectors.

This report points to the shortage of segregated and reliable information on regulated insurance markets, such as microinsurance, including on performance indicators, such as capital base. Also, the data from different publications, in addition to sometimes being outdated, can be conflicting. For instance, three different publications (including NAICOM's website) state three different total gross premium for 2010 (NGN156bn, NGN149bn and NGN201bn). This might be related to poor regulatory reporting by regulated companies, deficient validation and data management and analysis inside NAICOM, or a combination

of these factors. NAICOM should introduce better quality assurance procedures and institute a reporting system that discloses the expense ratios and the aggregate performance by line of product, including microinsurance. Introducing a new class of microinsurance product will allow NAICOM to delineate this market for reporting purposes. Introducing analysis and dissemination of the Key Performance Indicators for Microinsurance proposed by the Microinsurance Initiative¹⁰⁴ would help competition through increased transparency and better market discipline. As a consequence, insurance companies will need to adapt their information systems to respond to modified (not necessary more extensive) reporting needs.

104 Performance Indicators for Microinsurance: A Handbook for Practitioners (2nd Edition, 2010)
<http://www.microfact.org/microinsurance-tools/microinsurance-handbook/.pdf>

6 Key takeaways and the way forward for microinsurance in Nigeria



Widening the reach of insurance services and implementing microinsurance will not be easy in Nigeria. Like in most other African countries, microinsurance is a nascent industry and it will take time for the market to develop in good grounds¹⁰⁵. Nigeria offers both, formidable opportunities with its huge untapped market, but also challenges that explain why this market has not been explored to a greater extent. This report has identified potential hurdles in:

- *the broader context*: unfavourable investment climate, growing social unrest and insecurity, little economic diversification to support insurance expansion to a variety of sectors, as well as the perception of widespread corruption;
- *the infrastructure necessary to advance insurance including microinsurance*: poor health, power and communication services, particularly in rural areas;
- *the demand side*: low levels of income, distance from urban centers, weak knowledge and confidence in insurance;
- *the policy, regulatory and supervisory framework*: conflicting policies towards financial sector devel-

opment, particularly insurance, excessive regulatory requirements, and insufficient supervisory capacity; and, most importantly,

- *the supply side*: difficulty in setting up viable business models to deliver value microinsurance products, due to lack of knowledge of microinsurance and its potential clientele, limited capacity and infrastructure of existing and potential underwriters and intermediaries, focus on mandatory rather than voluntary products, focus on the broker-agent model, and lack of public trust stemming from prevalent industry practices.

No single measure alone will bridge the insurance gap, but transforming the current business model and improving practices in the insurance sector are top priorities. This reform will also determine whether the regulatory measures proposed in this report will be effective. Companies need to shift away from the industry's dependency on large corporate accounts and mandatory coverage, and fix their reputation by offering better service. Insurers will have to invest in IT, consumer oriented products and distribu-

¹⁰⁵ The 2012 Landscape of Microinsurance in Africa survey shows that 60% of the microinsurance offered in Africa today comes from South Africa. Only in 9 African countries microinsurance coverage reaches more than one million lives and properties each. These countries account for 90% of all microinsurance in the continent. Source: Munich Re Foundation, Making Finance Work for Africa (2012).

tion systems that are cheap and reach the uninsured population. Most of all, the industry needs to learn how to design and sell insurance, and gain the confidence of the people that claims will be paid.

Instead of starting with consumer education, providers should start offering better value to policyholders. Several people interviewed for this study suggested that with more consumer education, clients will buy more insurance. Notwithstanding the value of education in some instances, the experience in other countries shows that markets with better customer services and products attract more customers and grow more. We recommend a shift to products that meet the demand of potential microinsurance clients, and good servicing to awake and keep consumer interest. This is much more likely to render expected development results than starting with consumer education without changing current practices. Major investment in education can come after industry practices have changed significantly and tailored products are effectively offered to the mass market. If education and awareness come while market practices remain the same, the results may be counterproductive instead.

To do so, the insurance sector will need intensive training and capacity building in microinsurance. Shortage of expertise in the insurance sector, lack of actuaries with microinsurance knowledge, and a mindset stuck in the broker-agent model that caters to corporate accounts impede microinsurance to develop and reach scale and sustainability. Although a few providers show a good understanding of microinsurance business, there is very little being offered in microinsurance and even general retail insurance. Only a few current offerings seem to have potential to expand and serve as learning cases for the rest of the industry. Most of the current products and business models will need to change to cater to lower income segments.

There is need for deeper knowledge of the target segment and commitment by the insurers' top management to change corporate policies and

commercial strategy. Providing microinsurance will involve designing new products, revamping operational efficiency, harnessing retail and payment networks, and setting up strategic alliances for distribution and administration. This cannot be done without capacity building for all participants in the value chain, from underwriters to intermediaries, regulators and policymakers. As shown in low-income countries such as Ghana and Ethiopia where microinsurance is more advanced than in Nigeria, these are not insurmountable obstacles. A few providers in Nigeria could indeed break out with microinsurance in the medium- (or even short-) term, taking advantage of being the first movers. Establishing detailed understanding of the potential clientele will be key for insurance executives to create and commit to better strategies for market expansion and product design, as well as to quantify business opportunities. Further market research will be needed. To start with, insurers may take advantage of the wealth of socioeconomic information at the local government authority (LGA) level provided by the Nigerian government. International development partners could support research efforts.

The experience of other countries suggest that microinsurance in Nigeria will follow a gradual progression from the most basic to most complex products, and from urban to rural areas. In other countries, including in Africa more generally¹⁰⁶, successful microinsurance operations followed a logical progression of products, from the simplest to the most complex. For instance, it is easier to start with life type products, such as credit life. For being simpler (although still providing challenges for those inexperienced), this product enables the insurer to set up the skills required to effectively communicate, collect premiums, pay claims and monitor customer experience in the low-income segment, using carefully selected distributors. When these skills are more developed, insurers become better placed to expand to more complex non-life markets, such as asset insurance or savings-based insurance, and health¹⁰⁷.

Although rural areas have a great need for insurance, the infrastructure for microinsurance distribution and

¹⁰⁶ See McCord et al (2012) for evidence of this suggested progression from credit life to other products, on the African continent.

¹⁰⁷ Despite the need for health insurance in the poor segments, health microinsurance is one of the most difficult products to manage and may require a phased approach. A few innovators in Nigeria show good understanding of this segment but the service is ultimately impacted by wider conditions, such as public health policies and the quality of health providers.

servicing may not be there in all cases. Intermediaries that have minimum structure, such as banks, MFIs and MFBs, are highly concentrated in the urban areas. Therefore, it is natural to expect that microinsurance will start in urban and semi-urban areas before expanding to the rural areas. However, the regulatory space needs to be created for early innovators which want to experiment in rural areas from the start.

Microinsurance requires innovative intermediation, efficient premium collection and claims processing, which in turn asks for new partnerships and capacity building of intermediaries. There are many potential microinsurance intermediaries in Nigeria, including cooperatives, MFBs, and MFIs and even banks. Insurers will find strong and weak potential partners in each of these groups. According to some estimates, through MFBs and MFIs insurers have the potential to reach around 30 million clients. Although there are no reliable statistics, some estimate insurance could reach 3,000,000 cooperative members. At the same time, there are 25 million unbanked people that have mobile phones and could buy and pay simple insurance policies through this medium. In some countries (e.g., Pakistan and Tanzania), mobile microinsurance is being offered for free. The numbers of NGOs and Esusus are also unreliable, so insurers may want to conduct additional research into these sectors.

It will be necessary to strengthen potential intermediaries in their corporate governance, technical capacity, IT infrastructure and management standards. Educating them is also important, which could be done via workshops on business plans for microinsurance, product development, pricing, management skills, information management, monitoring and evaluation. Also, there is a clear opportunity for NAMB and NIA to coordinate and facilitate the very incipient interaction between insurers and MFBs. To support such efforts, there is need for a much more clear regulation governing insurance intermediation with the purpose of allowing a variety of entities to act as intermediaries, and set proportional minimum standards (see Section 5.3 and regulatory recom-

mendations below). Also, NAICOM and CBN should coordinate to clarify whether banks, MFBs and other CBN-regulated entities are allowed to intermediate insurance and earn commissions, and under which conditions.

Most likely, microinsurance in greater scale will be achieved by only a few existing insurance companies and it may attract a few new players.

Promoters of microinsurance should not expect all existing companies to ever be interested in microinsurance, even if an enabling regulation exists. Some insurers will continue adventuring into retail markets exclusively, others will remain where they are, and some will wait until microinsurance is proven to be a profitable venture by first movers, before entering this market. First movers are expected to serve as catalysts for the sector and a few of them will succeed in expanding as a viable, attractive microinsurance business. In addition, a few players from outside the current pool of insurers, such as foreign insurers not yet operating in Nigeria, and local players such as cooperatives and microfinance banks, may be interested in and qualified to become underwriters regulated by NAICOM. Opening the doors to potential new players will require not only a regulatory framework, but, most importantly, strong capacity building at NAICOM to effectively supervise a larger number of providers¹⁰⁸.

As in mainstream insurance, cooperative insurance also needs to revamp its capacity, products and practices. Cooperative insurance providers and the cooperative sector as a whole need improved capacity before embarking in microinsurance before being granted a licence by NAICOM to operate as regulated underwriters and also as intermediaries. Given structural weaknesses it may take a while before the cooperative sector can underwrite microinsurance safely and sustainably. There are a few better prepared cooperatives that could more easily graduate to a regulated status, including as underwriters. These should benefit from an enabling regulation as recommended in this report. NCIS will need to upgrade its line of business (for instance, its motor lia-

¹⁰⁸ It is noteworthy that the need for increased supervisory capacity when promoting more inclusive insurance markets is clearly emphasized by the IAIS. See IAIS (2012) Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets.

bility products are considered weak) before entering new markets. To do so, NCIS will need to first increase its capability on motor liability, by revamping IT infrastructure, service and administration. Once this business is more robust, NCIS would be better placed to take another step into simple term life and hospital cash products. Health insurance would be a more advanced stage, for a moment when the organisation has acquired solid skills and competence and has established good partnerships and alliances.

The National Association of Cooperatives and Credit Unions of Nigeria (NACCUN) could be involved in efforts to enhance capacity in the cooperative sector, but it is not clear at this point how strong NACCUN is and if it needs to improve its own capacity first. The most reliable partner for NAICOM to encourage this market is working with the cooperative regulators.

While achieving conducive market dynamics is the priority, Nigeria will also need to improve the policy, regulatory and supervisory framework for microinsurance to develop good market conduct principles. The fragmentation of insurance policy-making, regulation and supervision between different authorities leaves gaps for insurance market development and creates an unlevel playing field across insurance products and providers (e.g., between NAICOM regulated insurers and cooperative insurance). Also, the mandatory insurance policy (see Section 5.2) may give comfort for the insurance companies to stick to current businesses practices, and hence is somehow conflicting with market development goals and an environment that fosters innovation and competition. Although this report does not specifically recommend ending with mandatory insurance, stakeholders will need to find solutions for the trade-off between creating captive markets for insurance companies and the need to maintain high business conduct standards and offering quality products to Nigerians. The market needs to go beyond mandatory insurance. Part of the solution will be in the hands of NAICOM, in its capacity of supervisor, but most part is in the hands of the industry.

At the policy level the government authorities and the private sector will need to come together to create a pragmatic plan of action to implement the necessary changes for sustainable microinsurance in Nigeria, and articulate a clear development strategy. A good strategy and plan of action should recognize that microinsurance needs a pragmatic, gradual, phased development, and that an enabling regulation is not enough. Establishing public confidence and strengthening supervision must be the priority. This realistic recognition will allow the creation of a cogent inclusive insurance policy that reduces the risk of implementing only easier measures such as issuing new regulations.

The Financial Inclusion Committee proposed in the Financial Inclusion Strategy could work as a mechanism in which many of the recommendations of this report (and other additional measures considered necessary by stakeholders) could be further discussed and prioritized, and an implementation plan derived from such interaction. **However, NAICOM may want to consider establishing a steering committee specifically to drive the creation and implementation of an action plan for microinsurance.** The committee needs participation of all relevant public and private sector stakeholders, including policymakers and regulators, insurance companies and potential microinsurance intermediaries, and industry-based bodies¹⁰⁹.

NAICOM will need to increase coordination and collaboration with other authorities while supporting the implementation of a more favourable policy, regulatory and supervisory framework. Coordination could involve information sharing and collaboration for specific regulatory or supervisory work, but also specific future actions to be undertaken by each body. This could include interactions with CBN, NHIS, PENCUM, the Ministry of Agriculture (and NAIC), the Ministry of Finance, the NCC and the supervisors of the cooperative sector (and NCIS). For instance, such coordination could improve the information about cooperative insurance, for a better

¹⁰⁹ The two most relevant at this stage are the Nigerian Insurers Association (NIA) and the National Association of Microfinance Banks (NAMB). Others could also be considered, such as the Chartered Insurance Institute of Nigeria (CIIN), the Association of Registered Insurance Agents of Nigeria (ARIAN), the Council of Registered Insurance Brokers (CRIB), ILAN (Institute of Loss Adjuster of Nigeria), and the National Association of Cooperatives and Credit Unions of Nigeria (NACCUM).

understanding of the potential role of cooperatives in developing the microinsurance market and the size of the current market. Also, and as envisioned by FSS2020, strengthening coordination with NCC is pivotal to the development of the financial sector, including insurance.

Although limited at present, there might be future synergies to explore between social protection and financial inclusion. In fostering microinsurance development, the proposed steering committee may want to explore the possibility and viability of linking microinsurance initiatives to social welfare programs, such as COPE, if these programs reach a level of development that allow for such step. Although COPE is still very small, early awareness and evaluation of microinsurance programs targeted at the beneficiaries of these programs could be beneficial for policymakers, microinsurance providers, as well as the beneficiaries themselves (Colombia, Brazil and Mexico are examples of countries exploring such opportunities). Naturally, such microinsurance should be designed specifically to meet the profile of vulnerable and very poor families usually attended by programs like COPE.

Lastly, the impact of the subsidies in agriculture insurance on competition and innovation towards a sustainable and inclusive insurance sector should be further investigated by the relevant authorities. The current subsidy policy could be limiting the potential of the agricultural insurance market, as well as capacity building and competition by private companies. Investigating the impact of the subsidy policy could shed light into better strategies to foster this sector (which could include improving NAIC's services and products as well), helping increase confidence in and demand for agriculture insurance, and opening new opportunities for others to enter this business. NAICOM, NAIC and the National Ministry of Agriculture should make joint efforts in this regard.

At the regulatory level, NAICOM will need to issue a framework that clarifies and enables the role of existing insurance companies, and new microinsur-

ance underwriters and intermediaries. We support NAICOM's move towards consolidating and sanitizing the insurance market to increase systemic efficiency and soundness. However, innovative approaches to microinsurance that can serve as catalyst to the whole market may not come exclusively from within the pool of existing providers. There seems to be a need to allow new entrants (including spin offs from existing insurance companies) to spur innovation. Given the very high minimum capital required for new companies, there is argument for a regulation that permits the emergence of qualified entrants dedicated exclusively to the microinsurance business, with lower minimum capital. This would include allowing different types of legal arrangements, such as cooperative insurance. Such regulation would minimize the risks (e.g., regulatory arbitrage) of greater flexibility (e.g., lower minimum capital) with carefully crafted definitions of the microinsurance business with a limited scope of permitted operations.

If even proportionally set requirements are found to be too high for the vast majority of potential underwriters, resulting in the need to shut down too many currently unregulated underwriters (e.g., cooperative insurance providers), NAICOM may want to consider transitional schemes to allow gradual improvements towards full compliance¹¹⁰. Naturally, not all current unregulated underwriters will ever reach the minimum qualifications or the size to carry insurance risk in a safe manner, and therefore should limit their role to intermediating microinsurance. Some may not even qualify to become intermediaries.

Creating a new class of specialized microinsurance provider in the regulation is a bold and even risky move considering the overall context described in this report. Success in implementing such measure will depend on NAICOM's building up strong capacity and know-how to implement and enforce the regulation. It will depend also on the industry reforming its track record and reputation by embracing a completely different mindset that is necessary for viable and sustainable microinsurance, rather than replicating current practices to this new segment. **Opening regulatory space for a new institutional type with-**

¹¹⁰ See IAIS (2012) for considerations on transitional arrangements for formalizing unregulated insurance providers.

out putting enough effort in overhauling industry practices and improving supervisory capacity is risky and could set back the development of the insurance sector.

In addition to allowing the emergence of microinsurers with limited scope of operation, a desired regulatory framework **would set common minimum standards for microinsurance operations to be followed by all insurers, regardless of being specialized or not.** The regulation of microinsurance as a line of business should not vary according to the type of provider. Likewise, this report highlights the need to set rational requirements (e.g., reporting of segregated microinsurance operations), while setting better and clearer minimum standards to protect policyholders (e.g., disclosure standards) and curb poor business practices (e.g., rules for claims procedures). Such measures should be based on a clear regulatory definition of microinsurance, which should facilitate the reporting of segregated data on this new market. In summary, this report underscores the importance of reaching proportionality as advocated by the IAIS, to support inclusive insurance while maintaining systemic stability and protecting policyholders¹¹¹.

At the supervisory level, NAICOM will need to revamp its licensing, oversight and inspection techniques, to ensure they remain strict while being flexible and efficient enough to keep compliance costs at manageable levels. For example, the current licensing practices for insurance agents are impractical for microinsurance agents. Keeping costs to a minimum on all fronts is essential for microinsurance development and sustainability, since this business is based on large numbers of tiny policies. At the same time, as highlighted by the IAIS, “microinsurance activities should not be held to a lower standard”¹¹² In some areas such as consumer protection, microinsurance

may even warrant increased supervisory intensity than traditional insurance. A safe and sound microinsurance market will rely on NAICOM’s supervisory effectiveness, which in turn asks for strong capacity and know-how. NAICOM’s Strategic Plan 2012-2015 lays out the basis for necessary improvement.

Also, NAICOM needs to improve its capacity to better analyse and disseminate quality industry information, making better use of the wealth of regulatory returns it receives from regulated entities. The weaknesses in the public information highlighted in this report need to be immediately addressed. By enforcing greater transparency standards, NAICOM can strengthen the incentives for market discipline and competition, which could have positive knock-on effects in microinsurance development, and will certainly benefit market development as a whole. These reforms will need to be supported by an adequate number of well-qualified supervisory staff and information systems, and entail coordination with other bodies such as those of auditing and accountancy professions.

Lastly, the national capitation set by NHIS makes it difficult for health microinsurance to reach rural areas. The current standard capitation rate (NGN750 per month, or USD4.65) seems to be too high for rural areas. As a result, rural areas end up subsidizing urban areas. In addition, a fixed capitation rate leaves little room for HMOs to negotiate with providers according to the different cost structure in different areas. We recommend setting different rates for rural and urban areas at least, but ideally the rates could be set per zone, according to their respective cost structures.

For a quick and comprehensive view, Table 15 summarizes the key points of the analyses and recommendations presented in this report.

111 IAIS. “Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets”, October 2012. iaisweb.org/db/content/1/16138.pdf.

112 IAIS and CGAP Working Group on Microinsurance. “Issues in Regulation and Supervision of Microinsurance”, June 2007. www.iaisweb.org/view/element_href.cfm?src=1/2495.pdf.

Table 15: Summary of recommendations

Analysis	Recommendations
Policy level	
<p>More cohesive policymaking is needed to remove unlevel playing field across insurance products and providers (e.g., different standards for cooperative insurance and insurance provided by NAICOM regulated entities).</p>	<ul style="list-style-type: none"> - Create a microinsurance steering committee with participation of relevant private and public sector stakeholders. - Create and implement a cogent policy and respective action plan for microinsurance, recognizing the need to reform industry practices as top priority. - Increase coordination and information sharing with other authorities (e.g., cooperative supervisors, Ministry of Agriculture) in implementing a more favourable regulatory and supervisory framework. - The relevant authorities should continue efforts to increase capacity in the cooperative sector, including NCIS, so that qualified players can be both underwriters and intermediaries of microinsurance.
<p>Potential synergies between the social welfare programs and microinsurance development could be explored.</p>	<ul style="list-style-type: none"> - Initiate talks with government officials in charge of social welfare programs and the industry to explore potential to link microinsurance to these programs.
<p>The subsidy policy in agricultural insurance may be limiting innovation and competition.</p>	<ul style="list-style-type: none"> - Conduct impact evaluation of the subsidy policy and set strategy for development of agricultural insurance. - Increase transparency on NAIC's policies, procedures and performance, with regard to the subsidies.
<p>Incentives for microinsurance could be considered.</p>	<ul style="list-style-type: none"> - NAICOM could consider lifting fees and levies for microinsurance. - NAICOM and the government should keep an eye on next generation issues such as taxation of microinsurance.
Demand and supply sides	
<ul style="list-style-type: none"> - There is public distrust in insurance providers and products. - There is little confidence that claims will be paid and good customer service will be delivered. 	<ul style="list-style-type: none"> - The industry needs to change its business practices, distribution, product design and customer services, including improving its claims payment record. Paying claims needs to become a frequent, expected, and easy process. - Instead of investing heavily in consumer education, providers should invest first in offering better value to customers.
<ul style="list-style-type: none"> - There is lack of awareness, knowledge, interest and expertise in microinsurance, by insurance companies. - There is very limited innovation and continuous reliance on large corporate and compulsory accounts. 	<ul style="list-style-type: none"> - Emphasis should be made to go beyond large corporate accounts and mandatory coverage. - Insurers should invest in building microinsurance expertise, including at the top management level. - Potential new regulated underwriters should aim to reach similar levels of capacity and expertise. - Insurers should invest in IT systems, consumer-oriented products and distribution, and premium payment channels that are cheap, efficient and reach the uninsured population. Sales skills should also be improved. - Further market research to support better commercial strategies for microinsurance should be conducted. - Companies are expected to start with simpler products and gradually expand to more complex products.

Analysis	Recommendations
<ul style="list-style-type: none"> - The current insurance and microinsurance offer is largely limited to urban areas. - The broker-agent model may not be adequate for microinsurance. 	<ul style="list-style-type: none"> - The industry should invest in a variety of intermediaries that reach the micro-insurance client. - Microinsurance providers and other stakeholders should make efforts to increase capacity of potential intermediaries including MFBs, banks, cooperatives, NIPOST, NACRDB. - Providers should use the emerging mobile payment platforms as a distribution channel for very simple products, and as a premium collection and claims payment channel in general. Similar arrangements could be sought with NIPOST.
<p>There is resistance to NAIC's voluntary products by farmers.</p>	<ul style="list-style-type: none"> - NAIC needs to engage more closely with farmers and provide higher quality services and products.
<p>There is plenty of room to improve performance and capacity of cooperative insurance.</p>	<ul style="list-style-type: none"> - NCIS should improve its current line of businesses before entering additional markets. - Nigerian authorities should collaborate to improve the cooperative sector.
Regulatory framework	
<ul style="list-style-type: none"> - The regulation needs to balance openness and safety for microinsurance. - A framework for dedicated microinsurance underwriters is needed. - The regulation limits institutional diversity and requires a very high minimum entry capital. - There is no regime currently for microinsurance as a line of business. But there is a proposal. - The current version of the Microinsurance Draft Guidelines is not robust enough to fulfil the requirements for a strong microinsurance framework. 	<ul style="list-style-type: none"> - Create a framework to allow qualified specialized microinsurance providers, including in legal forms other than limited liability companies, with lower minimum capital and streamlined operating and reporting requirements - Balance the above regulation with product regulation to limit prudential, consumer protection and market conduct risks, as well as regulatory arbitrage, and set parameters to delineate the microinsurance business. - NAICOM should examine the current prudential and operational standards in detail and set specialized requirements for microinsurance, including reinsurance, provisioning, investments, account diversification, etc. Ideally, this review would be accompanied by the gradual implementation of a risk-based regime, including for capital adequacy. - The regulation needs to clearly delineate between entities that will act as intermediaries and entities that are licensed as underwriters to ensure regulatory arbitrage is minimized. - NAICOM should coordinate with the authorities in charge of potential microinsurance underwriters (and intermediaries) to provide clear guidance to them, and consider issuing joint public statements in the matter. - NAICOM should review the Microinsurance Draft Guidelines.
<ul style="list-style-type: none"> - There is no clarity for a variety of legal persons to act as microinsurance intermediaries. - The market believes that CBN regulated entities are not allowed to receive fees for acting as insurance intermediaries. 	<ul style="list-style-type: none"> - NAICOM should explicitly allow legal and individual persons to act as microinsurance agents. - NAICOM and CBN should coordinate to clarify whether CBN regulated entities (e.g., MFBs and banks) can act as intermediaries and receive commissions.

Analysis	Recommendations
<ul style="list-style-type: none"> - There is no microinsurance product regulation. - Composite microinsurance products are not explicitly allowed. - There is a very strong belief in the market that composite licenses are no longer issued by NAICOM. 	<ul style="list-style-type: none"> - NAICOM should clarify, publicly, whether new composite licenses can be issued or not. - Regardless of its policy on composite licenses, NAICOM should create a dedicated framework for microinsurance products (microinsurance as a line of business of any insurance provider), while making sure that such regulation does not stifle innovation by introducing rigidity and does not impose excessive compliance cost on providers. - The regulation should explicitly allow composite (bundled) microinsurance products and set standards for such offering.
<ul style="list-style-type: none"> - Co-branded products with mobile network operators are made difficult by CBN regulation. 	<ul style="list-style-type: none"> - CBN should to review its policy at least in the context of microinsurance.
<ul style="list-style-type: none"> - The existing standards for market conduct and consumer protection are not sufficient. 	<ul style="list-style-type: none"> - Set minimum standards for claims processing that work for microinsurance clients. - Introduce flexibility with regards to microinsurance agent commissions. Avoid setting maximum commission in the regulation. - Implement minimum requirements for price and information disclosure, advertisement and marketing, and complaints handling by insurance companies.
<ul style="list-style-type: none"> - The regulatory reporting requirements are excessive for microinsurance. 	<ul style="list-style-type: none"> - Institute a much more streamlined, simplified and proportional regulatory reporting regime for microinsurers or any other provider of microinsurance.
<ul style="list-style-type: none"> - The national capitation rate for health insurance may render rural health insurance unattractive. 	<ul style="list-style-type: none"> - NHIS should review the flat national capitation rate and set more flexible rates for microinsurance depending on the location of the service.
Supervisory framework	
<ul style="list-style-type: none"> - It is necessary to improve microinsurance capacity and knowledge in NAICOM. 	<ul style="list-style-type: none"> - Invest in NAICOM's supervisory capacity and training, including its capacity to hire qualified human resources in a timely manner.
<ul style="list-style-type: none"> - It is difficult to obtain complete, updated and reliable information on NAICOM regulated sectors. - There is lack of transparency in commissions paid to intermediaries. - There is need to improve credibility and transparency of audited financial statements of insurance regulated markets. 	<ul style="list-style-type: none"> - Review reporting requirements, improve regulatory reporting standards and use data quality assurance techniques, including onsite techniques. - Improve the depth, quality, reliability and timeliness of published industry performance indicators. - Improve capacity to identify and address situations where audited financial statements are not credible. - Improve regulatory reporting to increase transparency on commissions paid to intermediaries, and the override commissions paid to brokers.
<ul style="list-style-type: none"> - The licensing process appears cumbersome. 	<ul style="list-style-type: none"> - Increase efficiency of licensing by instituting a file-and-use system for microinsurance products and gradually institute the same system for microinsurance intermediaries, as NAICOM improves its capacity and knowledge of this market.

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Appendix 2: List of institutions interviewed

Public Sector

National Insurance Commission
 Central Bank of Nigeria
 Federal Ministry of Finance
 National Planning Commission
 National Health Insurance Scheme

Private Sector

Acción MFB
 AIICO
 Airtel
 Coop Exchange Investment Trust
 Cornerstone
 EFINA
 FinSurance
 First Bank
 Fortis Mobile Money
 GTA
 Halal Takaful Nigeria
 Hasal
 Hollard
 HR Nigeria Limited
 IGI
 Lapo
 Leadway Assurance
 LFS Financial Systems
 MicroCred
 MicroEnsure
 Mutual Benefits Assurance
 MTN
 NAIC
 NICON
 Niger Insurance
 Pagatech
 Sovereign Trust Insurance
 UNIC
 Unity Kapital

Organizations

Association of Non-Microfinance Institutions
 Chartered Insurance Institute of Nigeria
 Eagles of Multipurpose Coop
 Federal Directorate of Cooperatives
 National Association of Microfinance Banks
 National Cooperative Insurance Association
 Nigerian Council of Registered Insurance Brokers
 Nigerian Insurers Association

