



**“SPURRING ECONOMIC GROWTH – THE ROLE OF INSURANCE INDUSTRY IN THE NIGERIAN ECONOMY ” DELIVERED BY THE HONOURABLE MINISTER OF STATE FOR FINANCE, REMI BABALOLA, AT THE BGL LIMITED INSURANCE ROUNDTABLE, HELD AT THE EKO HOTEL AND SUITES, VICTORIA ISLAND, LAGOS ON JULY 31, 2008**

---

## **PROTOCOL**

### **Introduction**

It is my great pleasure to participate in this Roundtable and to share my thoughts with you on the subject: “Spurring Economic Growth – The Role of Insurance Industry in the Nigerian Economy”. I must commend BGL Limited, the organizers of this Roundtable, for this excellent initiative aimed at addressing some of the key issues and challenges facing the Insurance industry in Nigeria. Undoubtedly, a forum such as this will tremendously help in generating ideas that will not only broaden the insurance sector, but our national economic planning processes. The insurance sector is expected to play a vital role as we continue to move the economy towards the G-20 Club growth trajectory. It is my hope that our interaction this afternoon will give us a better understanding of the strategic importance of the insurance industry to the Nigerian economy.

2. This sector represents the backbone of Nigeria’s risk management system, ensures financial security, serves as an important component in the financial intermediation chain, and offers a ready source of long term capital for



infrastructural projects. The role of insurance in the growth and development of our economy cannot be over-emphasized. It mitigates the impacts of risks and positively correlates to growth as entrepreneurs cover their exposures, otherwise risk-taking abilities are hampered. Thus, a strong and competitive insurance industry is a compelling imperative for Nigeria's economic development and growth.

3. The above can only happen if the insurance companies are able to pool risks effectively at affordable and reasonable cost.

### **The Nigerian Insurance Industry**

4. Based on a recent World Bank report, it is alarming to know that the Nigerian Insurance Industry has not grown in the last 35 years, inflation adjusted! In 2006, the industry had only written premium amounting to N82 billion in comparison with worldwide written premiums of N450 trillion. Pre-capitalisation, a comparison between the Nigerian insurance industry and China which has approximately ten times our population indicates that Nigeria only has USD\$0.6 billion, a fraction of 1% the size of China in terms of premium income, premium capital of USD\$4 which is a fraction of a tenth of China's and average premium per company of USD\$1.17 billion in China which is two hundred times that of Nigeria. The rationale for the economic reform of the insurance sector in 2005 was due to inadequate capital for competitive operations; poor public perception of its activities; low insurance penetration; low capacity for risk management; poor IT infrastructure, amongst others. The Nigerian insurance industry's share of the world market was 0.01% when compared with South



Africa 0.86% in 2003. In 2004, Nigeria was ranked 62 out of 88 countries in terms of premium volumes according to Swiss Re Global Insurance Report for 2004. Also, in terms of global share, the Nigerian Insurance Industry has only 0.02% of the total world insurance market and less than 2% of the Nigerian Banking sector size in 2006.

5. The main consequence of all of these was an industry with high potential but weak regulatory environment and capacity. The insurance industry's penetration and contribution to the nation's GDP remained at a low level that was less than 1%. Similarly, the Nigerian insurance density measured by the amount of premium contribution per person in Nigeria was less than N500 as at 2006. Nigeria with its abundant resources was ranked 63 by the 2006 world insurance premium figure published by SIGMA. These indicators revealed that the sector is incapable of playing any significant role in inducing economic growth, hence the need for a major shift in the sector. A survey recently conducted (2008) by Business Monitor International (BMI) Ltd revealed that Nigeria's overall insurance business environment rating (IBER) was 34.4% compared with South Africa, Morocco, Egypt and Tunisia with 67.6%, 45.3%, 42.2% and 39.2% respectively. By this measure, Nigeria's overall insurance sector is the least attractive of any of the African countries covered in the survey by BMI.

6. Therefore, in anticipation of the enormity of responsibility of the insurance sector, given the expected role in the transformation of the nation's economy, the reform in the sector became inevitable. One of the major outcomes of the consolidation and recapitalization exercise



in the sector was the recertification of 49 companies, as against over 100 companies that were in existence in 2005. However, in spite of the reforms, the insurance sector is still faced with daunting challenges, which must be addressed to galvanize the economy.

### **Key Challenges in the Sector and the Way Forward**

7. Insurance companies have a pivotal role in delivering value which surpasses the needs and aspirations of the people and, at the same time, are affordable. Some of the challenges faced by the sector pertain to the business environment, competition in the sector, product innovation, delivery and distribution systems, use of technology, and regulation.

8. Undoubtedly, the future growth of this sector will depend on how effectively the insurers are able to come up with designs suitable to our context and how effectively they are able to change the perceptions of Nigerians and make them aware of the insurable risks. The expected growth will also depend on how service-oriented insurers are going to be, and the effectiveness of regulation. In recent times, NAICOM has taken bold steps in the release of trapped funding to the sector, in the verification and recertification of insurance firms, in ensuring that claims are better scrutinized and in guidance notes as well as corporate governance. The right start, the right move but the journey is just beginning.

9. On the demand side, the rise in incomes will trigger the growth of physical and financial assets. With the growth of infrastructure projects, financial services and international



trade, the demand for insurance to cover the projects and the risks during operations will increase.

### **Insurance Act and Solvency Regulation**

10. A major deterrent to the growth of our industry is the Insurance Act which includes the Solvency regulations. The Insurance Act is being reviewed for an overhaul. For example: A part of the Act is the solvency regulation – In China, India, Malaysia, solvency regulations are utilised. This implies that amendments to solvency rules are under the supervision, change and control of the regulator in these countries.

11. Changes and amendments may be required which will take care of all the lapses in the regulation including the positioning of the Solvency Regulations and risk based supervision. While the Securities and Exchange Commission administers its oversight functions through the use of SEC Rules and Regulations and thus the ability to amend some specific industry regulations as and when needed after due consultations if necessary, NAICOM is handicapped by some outdated fines and contraptions.

12. Please be rest assured that we are taking steps to address this issue of overhauling and putting in place a more market relevant Insurance Regulation that will serve the true purpose and empower the relevant stakeholders to carry on with their business or regulatory concern. We will promote a new Insurance Act and relevant sections that are outdated excluding contents that can merely be provided in regulatory and guidance notes for ease of amendments and oversight of the industry will be extracted.



13. Ladies and gentlemen, I strongly believe that this will enhance the confidence of all existing stakeholders and prospective investors to the insurance industry. The basis is that we must encourage the empowerment of NAICOM to administer its role as the regulator of the insurance sector. I encourage NAICOM to push this needed amendment to insurance legislation.

### **Enforcing Existing Laws**

14. At the moment, it can be said that whilst all efforts are being made to enforce the existing laws, we have not been too successful at this. Based on a World Bank report, it has been identified that on an annual basis, N25 billion worth of new businesses can be generated by enforcing the insurance cover for buildings, fire and public liability in Nigeria. This revenue injection will help galvanise the insurance sector and ensure that more buildings are insured against collapse and fire incidents in Nigeria. It is important to state that insurers' continuous payment of claims will continue to build confidence in the marketplace. On our part, am pleased to inform you that the Federal Government has just issued a circular to all MDAs on the Insurance of Government assets/properties, buildings under construction and insurance of public buildings.

15. Besides, regulations and modulation play critical role in market situations which are evolving and developing. The National Insurance Commission (NAICOM) has an important responsibility of effectively regulating the sector. However, given recent experience, concerns are being expressed whether our regulator is adequately positioned to



play its role effectively. There are concerns that they are not proactive. The experience in the recent past reflects this point. The monitoring and tracking mechanisms of NAICOM must be strengthened and the regulatory environment improved upon. As a regulator, NAICOM must reposition itself adequately for the challenges of post-consolidation exercise.

### **Claims Settlement**

16. One major challenge for the insurance industry is the inability to garner public confidence in the prompt settlement of claims. This is a key deterrent to the growth of this sector. It is important that the sector uses this tool of prompt claims settlement to grow the industry and upscale the insurance patronage in the country. On this, we are going to be uncompromising, non-accommodating and unapologetic in dealing with unscrupulous operators.

### **Insurance Alliances**

17. I am glad the Pension Commission is represented here today. PENCOM has continued to grow the pension fund assets under management in Nigeria. I understand that the figures are now trending towards N1 trillion. I have always been an advocate of utilization of one industry sector to support the other, most especially in the financial services landscape. In building the size of the industry, I plead with PENCOM to fast track the growth of the insurance industry for the benefit of all. To achieve this, NAICOM must work closely with PENCOM in the setting up and implementation of a group life cover for existing pension fund assets. In addition to this, NAICOM must also work with MDAs including sub-national entities to budget and pay for



insurance expenditure. If we as government must help with the insurance industry, we must now ensure that insurance becomes a key provision in our budgeting process at Federal, State and Local levels. NAICOM and the Insurance private sector body should immediately commence a campaign to ensure that this is well embedded into the 2009 Budget process. With government's effective participation in insurance premium payment, it is estimated that about N60 billion can be generated over the next 3 years.

### **Risk Management and Risk Measurement**

18. The deployment of technology in the operations of the sector is a major challenge. Unlike the banking sector, not much has been achieved in the insurance sector, especially in the area of application of technology. Technological advancement will be critical to functions like data management, underwriting, fund management, actuarial efficiency, and the end-to-end service delivery process. Technology will, no doubt, provide the cutting edge in terms of improved disclosure to the policy holders as well as the regulator in times to come. The ability of the insurance companies and the regulator to respond to these challenges will determine to a great extent, their future contributions to the growth and development of the Nigerian economy. It will also determine their ability to emerge as future global players.

19. As the industry continues to grow, it is important that industry players as well as its regulator must strive to enhance the sophistication of risk management and risk measurement capabilities to improve understanding of aggregate portfolio risks and upgrade risk control, reporting



and monitoring. Technology and human capital must form the bedrock of this. The insurance sector must follow in the step of the banking industry in the recruitment of experienced human capital and use of more efficient and integrated technology platform that will help achieve greater scrutiny and measurement of risk.

### **Product Sophistication**

20. The product market for insurance companies needs to start witnessing some interesting changes. We need to start utilization of customized high end complex products aimed at the high end, financially-aware customer with risk appetite. On the other hand, interesting and simplified, OTC insurance products are needed to cater for the middle and lower end. This product should harness the combination of pension, money back guarantees, amongst others.

21. I am glad that Bancassurance as a concept is creeping into Nigerian Insurance space going by the number of banks with insurance subsidiary and others seeking approvals. It is a win-win for both, as banks utilize their channel of distribution by rubbing the service oriented culture of the banking industry with the need based selling philosophy of the insurance sector. I am aware that this development has already seen a range of strategic alliances and I encourage further scaling up of this business activity which can help improve the level of both life and non-life insurance businesses.

22. Life Assurance seems to have a bit of challenges in securing market share. Nigeria remains a large market and has considerable potential. The industry needs to focus on



meeting the challenges of increasing penetration and achieving the right levels of protection for most Nigerians. It will require quite a few insurers and other non-insurance alliances to combine efforts to achieve this goal.

23. The industry needs to focus on meeting the challenges of increasing penetration and achieving the right levels of protections for Nigerian citizens and organizations. It will require a few insurers to achieve this goal. Products, processes, and procedures need to be devised and implemented by all companies that ensure that, over the next few years, agents are recruited and trained to sell the right products to their customers. Putting these processes in place will require time, effort and capital. The pay-offs will occur in the long run.

24. With the liberalization of the economy, the demand for insurance services is growing. The key to market growth is through an integrated approach which includes creating awareness about insurance, enhancing reach through cost-effective distribution, and meeting customer needs through product innovation. A two-fold approach is required while adopting these drivers of growth: increase the depth of penetration in existing product-market segments and drive the width of penetration leading to market expansion by targeting new segments. Given the complexity of the industry, insurers will have to adopt a multi-product, multi-channel, and multi-segment route to the market to achieve these objectives.



## Local Content Policy

25. At the visit of the Lord Mayor of London, I was asked if there are existing policies that restrict foreign insurance firms from obtaining licence to operate here and maintain a certain level of local content. The answer, I reiterate is No! We currently have an industry that is yet to be fully grounded hence we do not in the short or medium term intend to impose any form of local content policy. We want an industry that will attract foreign investment and more domestic investment that will help us achieve the level of relevance we require of the insurance sector. I therefore use this opportunity to call for further investments into this sector so that we can move away from just having one international investor (AIG) in this segment of the financial market (as at end of 2007) to a more robust insurance sector which includes HSBC, Zurich, Allianz, AXA, amongst others.

26. Ladies and gentlemen, I wish to thank BGL, the organizers of this conference, and members of the insurance sector that have responded to the call to participate accordingly. I sincerely hope that participants would avail themselves of the opportunity provided by this conference for deep reflection and urgent need for broadening and deepening the insurance sector in Nigeria; most especially now that we have 21 quoted banks against 34 quoted insurance companies on the Nigerian Stock Exchange, yet banks' market capitalization was N5.95 trillion compared to N411 million for Insurance companies, banks traded N3 billion (half of market total) while Insurance companies did a paltry N150 million, using July 28, 2008 daily report.



27. I thank you for your attention.

**Remi Babalola**  
**Honourable Minister of State for Finance**