

The New Nigerian Insurance Industry

Potentially Nigeria has the biggest insurance market in Africa. However, factors such as under-capitalisation, dearth of appropriate human capital and poor returns on capital to mention but a few, have proved significant in restricting the insurance industry from reaching its full potential.

Recently, the Nigerian Government, in an effort to accelerate the pace of growth in the insurance industry, passed regulations aimed at repositioning and strengthening the industry. One of the major measures undertaken by the Government was the announcement of new capitalisation requirements for Companies operating in the insurance sector. Under the directive issued by the National Insurance Commission (NAICOM), Life Insurance, Non-Life insurance and Reinsurance businesses were to increase their minimum capital base to N2 billion, N3 billion and N10 billion respectively.

The recapitalisation exercise (which began in September 2005 and was concluded in February 2007) has already begun to yield discernible results.

What are the benefits of the Recapitalisation Exercise?

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The recapitalisation exercise led to the merger of most insurance companies in a bid to increase their capital base and meet the requirements before the deadline. At the end of the exercise, the number of players on the insurance landscape had been pruned from 103 to 51. This has resulted into a trimmer and stronger insurance industry. Most of the successfully recapitalised insurance companies have also expanded their branches. For example some insurance companies have opened shop in surrounding African countries like Sierra Leone, Ghana, Liberia etc.

- - Insurance companies increased their market penetration by introducing innovative products into the market. Grassroot participation has also been activated as different products have been targeted at meeting the needs of low income earners. An example of this is the introduction of Funeral Policies to meet the burial expenses of the aged.
- - Attraction of both local and foreign investments is also one of the benefits derived from the recapitalisation exercise. An estimated N600 million came into the insurance sector as direct foreign investment through the Nigeria Stock Exchange during the exercise. This infusion of capital has fattened the capital base of the insurance companies which in turn translates into enhanced premium growth and profitability, placing the insurance companies in a position to contribute meaningfully to the nation's economy and to compete in the global market.
- - Corporate Governance Practices in the industry has also improved, due to the fact that under the recapitalisation guidelines insurance companies were mandated to adopt and maintain professional ethics and corporate governance practices in order to successfully meet the requirements under the exercise. This has boosted both the insuring public and investor confidence in the sector.

What Are the New Trends?

Insurance companies now rounded.

Insurance companies who formerly had to manage between N150 million and N350 million now have capital of ranging from N2 billion to N10 billion to manage. This has led them to invest more in branding/advertisement, product development, research and development.

Ability to compete.

The emergence of 51 strong companies with greater portfolios and in some cases foreign technical partners has set Nigerian Insurers in a position to compete with their foreign counterparts, the Banks and other financial service providers. With improved financial strength, insurers are well-positioned to take advantage of the government's local content policy (LCP) on the underwriting of oil and gas risks. The LCP grants local insurers the opportunity to insure 45% of oil and gas business in the economy. The exclusivity given to Nigerian Insurance Companies now makes better sense as Nigerian Insurers now have the wherewithal to provide greater cover.

Bancassurance

The Nigerian finance sector has in recent times been witnessing more bancassurance ventures. Bancassurance is a "one-stop shop", which offers a package of financial services that can simultaneously fulfill both banking and insurance needs. This fledgling synergy between banks and insurance companies is expected to deliver bountiful benefits to the Insurance sector as different insurance products can now be tailored and targeted to specific segments based on the knowledge about customer's spending pattern.

Building Insurance

Recently, there has been a spate of building collapses which are generally attributable to the use of substandard construction materials, disregard for building regulations and non compliance with development policies. The Federal Government has taken active steps to combat this problem. One of such steps is the issuance of a directive on the insurance of public buildings and buildings under construction.

This new building insurance policy (which is an offshoot of the Insurance Act 2003), stipulates that owners of buildings which are three floors and above are to insure such buildings. This directive covers all government ministries, agencies, parastatals and extra-ministerial departments.

The penalty for failure to insure such buildings is the payment of two hundred and fifty thousand naira (N250, 000) fine or three years imprisonment. In addition, in the event that a building collapses and causes injury or death to anyone, the owner of the building shall bear liability of such incident.

The insurance industry stands to benefit as more premiums will be paid by individuals and the Government under this policy. Currently, the 2009 budget being prepared by the Ministry of Finance includes funds for the payment of premiums on government's public buildings and buildings to be constructed in 2009.

Conclusion

At Detail, we hold the view that the sustained growth of the Nigerian Insurance industry (vis-a-vis the economic development of the nation as a whole) to a large extent, depends on continued Government support and effective enforcement of the industry regulations.

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