

# INVESTING IN PEACE OF MIND: Focus on Insurance

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3rd Series



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## EXECUTIVE SUMMARY

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“ The need for people to know more about the value of insurance, how they can get it and why they should rely on it, in Nigeria as we see in advanced economies, are the key reasons for this report. ”

Insurance remains one of the least understood economic catalysts and the value it offers is readily misplaced when categorized as a cost element by all. Over many centuries after the practice of insurance started, it has developed to be accepted across continents as the most tested risk management mechanism and continues to protect the wealth of individuals, organizations and governments.

Is it not surprising that despite the existence of insurance through the significant phases of global economic development up till this present digital era, often called the Fourth Industrial Revolution, the level of insurance awareness and education amongst the public have remained low? In Nigeria, findings from public interactions, have revealed that more people have shared tales of dissatisfaction about insurance from one generation to the next, which has mostly affected its purchase and development.

The need for people to know more about the value of insurance, how they can get it and why they should rely on it, in Nigeria as we see in advanced economies, are the key reasons for this report. Insurance serves as the stabilizer when economies suffer contraction or recession through the settlement of claims to policyholders as we have seen even during the current Coronavirus (COVID-19) pandemic.

The experiences of many Nigerians with insurance have been discussed and addressed as problems compounded by the insurance industry and its professionals, who fondly use technical jargons that their customers do not easily understand when reading their contracts. So, this report has deliberately kept it simple and made it easy for everyone to understand the essence of insurance and how the learning points can be applied in our lives.

It has been averred in this report that ignorance, not culture and religion, remains the biggest impediment to many people embracing insurance, and the more enlightened and



knowledgeable Nigerians become about it, the more likely the narratives will change to give us the better future we desire.

Some true life stories in the report will help individuals, families or persons in position of decision-making to seriously consider insurance as it has continued to serve as that financial instrument that is quietly changing the lives of Nigerians. Though this is mostly at commercial levels of relationships between the industry operators and businesses but steadily, insurance is becoming adopted by those using personal financial planning methodologies to improve their lifestyle and sustain their living standards.

It begins with making the personal decision to live above the daily risks we are faced with and showing compassion to the poor and vulnerable amongst us, relying on insurance, which has worked for people with respect to different aspects of life including security, education, healthcare, transportation, employment, housing, energy and natural resources.

Without insurance, we have suffered from avoidable unfortunate crises and missed opportunities!

Based on the laws and regulations made by the Government of Nigeria through its regulatory agencies, operators of the different categories of insurance are guided on the products and services they deliver to the insuring public, and they are responsible for ensuring higher contribution of the sector to Nigeria's Gross Domestic Product.

It is expected that, while Nigerians become increasingly engaged with the insurance sector, particularly through the deployment of digital solutions, the regulators will be more involved in the process of enforcing the adoption of insurance to keep every Nigerian safe from danger.

In the limit, we all have to be willing to take personal responsibility to buy insurance that will keep us and our families healthy and wealthy.

**Part One** of this report will serve as an introduction into the concept of insurance as a risk management tool, with a cursory overview of how insurance began and how it has improved over the years; the types of insurance in Nigeria today, the laws backing insurance and the importance of this risk management tool (insurance) for individuals, families, corporates and even the government.

In the **second part** of the report, the importance of insurance for families is explained with specific focus on the education of a child. Recall that in our first and second edition of the Personal Finance Series, we addressed the financial implication of weddings and raising a child, respectively. This section of the report will further help to see how insurance can be used to secure a better education for ones child(ren) as well as the various insurance schemes individuals and families can take up to mitigate the risk of future losses.

**Part three** of the report, examines the determining factors to be considered before choosing an insurance scheme, while Part Four of the report took a quick detour into the Nigerian Insurance Industry with specific focus on the capability of insurers to pay claims while analysing the strengths, weakness, opportunities and threats of the industry.

## PART ONE – Introduction

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### The Concept of Insurance - The Risk-Spread Relationship

If you are young and new at your job with an opportunity to become a Manager, you will most likely pursue professional certification and postgraduate degree to ensure you are in a position to compete in future. That way, you would have secured and assured yourself towards the opportunity.

The corollary of the above scenario is that if you do nothing, but focus on your daily work, after some years, you would most likely grudgingly watch your peers earn accolades and promotions on their jobs.

Insurance, as we know it today, works very much like having that qualification to earn the future win notwithstanding how the professionals have tried to define and promote it. If you are confronted by uncertainties and risks, and unable to respond whenever they occur, you would have lost your confidence and suffered setbacks, as with losing that job appointment or promotion.

Interestingly, due largely to poor knowledge of insurance or ignorance, many of us have planned other areas of life and the way we live, while assigning the risks side to fate and circumstance.

That risks side is what insurance serves, to make sure we are safe, and even when we are harmed, we can be put back to the position we were before the accident or incident. Something that cannot happen with the scenario of failing to earn promotion at work if you did not meet the prerequisite criteria.

The risks we refer to include loss of lives, permanent and temporary disabilities, sicknesses, theft and destruction of assets and failure of agreements especially in business settings.

The reality is that poor attention to these risks has caused many people to seek the pooling system, the anchor upon which insurance stands. It provides the common place where people readily drop the risks they are most concerned about at a fee. This fee is called premium, payable to insurers for any risk you bring into the pool (to the insurer). Importantly, after you have made payment, you will be given a policy document, that is, the contract that binds you and your insurer.

Beyond this, it is equally important to understand that when your risks are added to those of others in the pool held by the insurer, your exposure is minimized as the severity of any occurrence is also reduced. This is the effect of spreading the risks by the insurer.

Sometimes, people who have policies with insurers that run till the end of the year without any reports of losses or damages, have wondered why they do not get any paybacks. The explanation is simply that, while nothing came to you, some payments were made from the pool to those that had reported cases that resulted in claims.

Put simply, insurance enables subscribers to support those within the pool who suffer a loss of or damage to the assets they insured. It is always a soothing experience when you have your lost or damaged asset replaced or repaired by the value of the insurance you got.

Insurance is considered valuable when your risks are placed with your insurer and you have the peace of mind that you will be compensated when something goes wrong.

Placement of risks with insurers can be done in four principal ways namely:

1. Agents
2. Brokers
3. Marketing Executives
4. Consultants


It is important to recognize that agents and

brokers are usually licensed by the regulators while marketing executives and consultants are engaged by insurance companies for sourcing for businesses that will generate income.


In Nigeria, the agency system commonly deployed is the Tied-agents approach where agents are obligated to insurers. Brokers are more independent and professional in their approach to serving insurance customers (policyholders).

Individuals with high-value assets and business entities prefer to employ brokers to act on their behalf in dealing with insurers and they get more value from such decisions when there are issues of pricing and claims to resolve.

Your insurance experiences can be exciting when you get the right understanding and partners to work with.



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For partnership contact: [business@proshareng.com](mailto:business@proshareng.com) or  
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## History of Insurance - From Fear to Freedom

It is always interesting when people seek to know the story of insurance, as it creates an opportunity to examine and embrace how dynamic and interwoven our world has been. Several accounts have been recorded to trace the origin and history of insurance, some of which we will share here.

### •Merchants of Ancient World – Babylon, China, Greece and Italy

As early as the 4th century, there had been practices similar to modern insurance where merchants got covered by paying for the probability of the loss of their shipment at sea. The ancient Roman law also recognized practices where funds were deposited with money changers to cover risks. Subsequently, funeral costs paid by burial societies, out of monthly dues, to assist their members were also considered as another form of insurance. The first document considered to be an insurance policy was issued in Genoa in 1347.





As a word, according to Online Etymology Dictionary (OED), insurance originated in the 1550s as a reference to “engagement to marry”. Is this not interesting? It started as a variant of ensurance and was used interchangeably with assurance till the late 16th century. From the 1650s, OED reports that the commercial sense of “security against loss or death in exchange for payment” emerged, and has remained as we know insurance till date.

### •London – The Great Fire, Coffee Shop

The Great Fire of London in 1666, which reportedly destroyed over 30,000 homes, is often referred to as the prompter of modern insurance because the City's first fire insurance company was founded by Nicholas Barbon. Standard insurance companies later emerged in England after the bubble era, one of which was Royal Exchange Assurance Corporation. Nonetheless, the development of insurance in most of Europe is attributed to the activities of Edward Lloyd who, in supplying his customers (merchants, bankers and insurance underwriters) with shipping information in the 17th century, became the source of insurance for marine, fire and property. Today, Lloyds of London is the international insurance market providing reinsurance and insurance services through member underwriters.

## •The USA – Benjamin Franklin

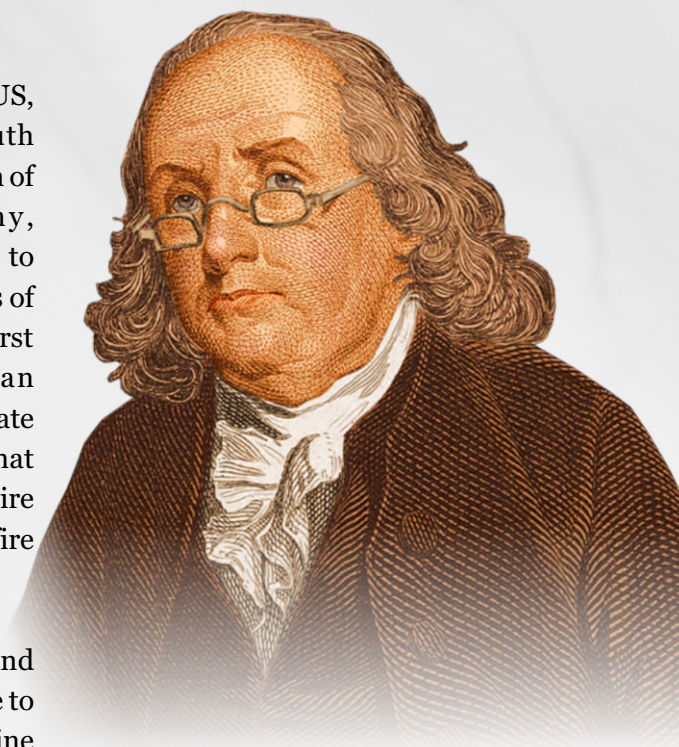
In 1732, the first insurance company in the US, The Friendly Society, was opened in South Carolina to offer fire coverage. The organization of the first American insurance company, Philadelphia Contributionship, was credited to Benjamin Franklin, one of the founding fathers of the United States of America followed by the first life insurance company, the Presbyterian Ministers' Fund in 1759. Between then and late 19th century, many insurance companies that started failed, mostly after the Great Chicago Fire in 1871 and the San Francisco earthquake and fire in the early 20th century.

However, it is the activities of merchants and mariners that mostly took insurance from place to place in the world and made the case for Marine Insurance to be the most internationally accepted class of insurance.

Multinational companies involved in trading in the late 17th and early 18th centuries relied on insurance for recoveries from the losses of their goods on the continental high seas into territories under the colonial rule of their home governments.

The Nigerian story is not different as the entrance of insurance is traced to the establishment of Royal Exchange Assurance Agency, first in 1918 represented by Barclays Bank DCO and in 1921 converted to a full branch of its then-parent company, Royal Exchange Assurance, London. Though other agencies were opened, the growth of insurance was slowed down by the World Wars, which impacted trade and commerce.

After nearly four decades, other foreign insurance companies entered Nigeria to provide cover, beyond marine, for properties and lives just as they were doing in their home offices in Great Britain, while the first indigenous insurance



company, African Insurance Company Limited started business in 1958. At independence, there were Twenty-five (25) insurance companies in operation, with four (4) wholly owned by Nigerians, and few qualified insurance professionals mostly involved in insurance broking.

In 1961, Nigeria had its first Insurance Companies Act to regulate the registration and operations of insurance through the Department of Insurance as part of the Federal Ministry of Trade and later transferred to the Federal Ministry of Finance.

National Insurance Corporation of Nigeria (NICON) was established by the Federal Government of Nigeria in 1969 to handle all insurance of her assets and property and the monopoly lasted till the Insurance Act 2003 repealed it.

Perhaps, a critical landmark of the history of insurance in Nigeria was the implementation of the indigenization rule of 1976, the same year the

Insurance Decree was released and allowed entrepreneurs, mostly non-insurance professionals to acquire majority interests in the foreign insurance firms, thus forcing the number of local insurers to be more than the foreign-owned ones. Amongst those that have survived to date are Guinea Insurance Plc, Law Union and Rock Insurance Plc, Prestige Assurance Plc just to mention a few, notwithstanding the changes in ownership and names of many of them.

In 1997, the National Insurance Commission (NAICOM) came into existence backed by the NAICOM Decree 1997 (now NAICOM Act 1997) to be the main insurance regulator and take responsibility for ensuring the effective administration, supervision, regulation and control of insurance business in Nigeria and protection of insurance policyholders, beneficiaries and third parties.

Historically, insurance had been offered as “safety from danger” in Nigeria, like most parts of the world when it was introduced, meaning if one did not have it, danger or harm might come to you and you will be consumed. Viewed from such point of fear or avoidance of pain, people heeded the advice and yielded to the guidance of Insurance Agents regarding the policies they bought and how they

made payment of their premiums; giving Standing Orders to their banks was common practice amongst public servants and others who had to comply with insurance laws.

As expected, when policyholders began to experience losses and their claims were settled or Life policies matured and payments due were made, the interests of Nigerians heightened and so did the opportunity to enlighten them on insurance.

While the Nigerian market may not have experienced any known failures of insurance companies over the past years, NAICOM has had to withdraw the operating licences of a couple of insurers, commonly through its recapitalization processes.

Currently, there are Fifty-seven (57) insurance companies going through another recapitalization process with deadlines of December 31, 2020, and September 30, 2021.

All insurance and reinsurance companies are registered members of the Nigeria Insurers Association ([www.nigeriainsurers.org](http://www.nigeriainsurers.org)) founded in 1971 to serve as their voice to the Government of Nigeria, its agencies and other parties on matters affecting their businesses. Other insurance



## Insurance Institutions in Nigeria



S/N	Institutions/Organizations	Founding Year	Purpose
1.	Chartered Insurance Institute of Nigeria (CIIN) www.ciinnigeria.com	1959	To provide effective manpower for the insurance industry and promote insurance education in Nigeria through examinations and conferences
2.	Nigerian Council of Registered Insurance Brokers (NCRIB) www.ncrib.net	1962	To provide a platform for members to maximize their potentials using training, information technology and synergies
3.	Institute of Loss Adjusters of Nigeria (ILAN) www.ilan.com.ng	1981	To provide the necessary technical support services to the insurance market in the areas of claims investigation, verification and settlement
4.	Association of Registered Insurance Agents of Nigeria (ARIAN)	2000	To provide members with the avenue to convey their views and contribute to the industry's growth by generating more policyholder base
5.	Professional Insurance Ladies Association (PILA) www.pilanigeria.org	1973	To ensure gender mainstreaming beyond the shores of insurance in Nigeria through the forthrightness enshrined in the members
6.	Nigerian Actuarial Society www.actuaries.org.ng	1986	To advance the knowledge of actuarial science and create an environment where Nigerian actuaries are the most trusted and sought after professionals

Source: NAICOM

Over decades, the insurance business thrived, providing opportunities for young people to be employed, longer-term funds for investments and infrastructural development and stabilization of the industrial and commercial sector through the prompt settlement of claims.

However, it would seem that people who could be or are customers of insurance may have learnt and moved faster than today's insurance providers could anticipate because:

- ❖ Most existing products do not meet the needs of customers especially those at the bottom of the pyramid;
- ❖ The prices that customers (policyholders) are required to pay are not risk-based and often, only corporate entities and governments can afford them;
- ❖ Insurance services are rarely available on platforms or in environments where people pursue their interests and hobbies, which would probably instigate them to enquire and engage;
- ❖ Many people are still not enjoying prompt and timely settlement of their claims, so others who

hear their stories are hesitant in buying any insurance that the law does not require them to have;

- The insurance industry is slow in adopting tech solutions to improve customers' experiences

These are opportunities for currently licensed insurance operators (agents, brokers, insurers, reinsurers, loss adjusters and actuaries) to re-strategize and relaunch themselves into the emergent digital era. There are at least ten insurers and brokers that have put in over 50 years of continuous service to policyholders in Nigeria, so we expect that they will have sufficient data and information that will build the vital foundation for digitization and digital agenda.

The evolution of insurance in Nigeria coupled with strong regulatory actions in the Fourth Industrial era will give existing and potential policyholders more exciting experiences to keep the historical development of the market on the positive side.

### Types of Insurance in Nigeria - The Guardians' Tools

Depending on the jurisdiction, insurance is typically divided into two broad types namely Life and General (sometimes called Non-Life), but over the years, other aspects like Health and Pensions have been derived from Life while Property and Casualty (P & C), then Liability are the preferred way of describing General Insurance, especially in North America. There have also been Cooperative Insurance and Social Insurance, known to be as old as the beginning of modern insurance.

“It is important to know that, in every country, regulators determine the types of insurance to be offered, and grant licences to the operators.”

Today, additionally, we have Microinsurance and Takaful (Islamic Insurance) as separate types of insurance with descriptions that are specific to their targeted audience. Yet another way to understand the available types of insurance would be on the definite basis of Personal (Individual) and Commercial.

Notwithstanding, from the perspective of a buyer, it is important to know that, in every country, regulators determine the types of insurance to be offered, and grant licences to the operators.

In Nigeria, there are several types of insurance in operations under different regulatory bodies that every Nigerian needs to know, but the list is not exhaustive as there are still many types of insurance currently not handled locally while insurance continues to evolve as our environment and lives change.

## Regulators and Types of Insurance in Nigeria



S/N	Regulators	Types of Insurance
1.	National Insurance Commission (NAICOM)	<ul style="list-style-type: none"> <li>🔴 Life</li> <li>🔴 General (Non-Life)</li> <li>🔴 Microinsurance</li> <li>🔴 Takaful</li> </ul>
2.	National Health Insurance Scheme (NHIS)	Health Insurance Plans
3.	National Pensions Commission (PENCOM)	Retirement Savings Plans
4.	National Cooperative Insurance Society of Nigeria (NCISN)	Cooperative Insurance

Source: NAICOM

Social Insurance is also available in Nigeria for all workers in both the public and private sectors but managed by the Nigerian Social Insurance Trust Fund.

Expectedly, these regulatory bodies were established by respective laws and are mandated to supervise their domains and ensure sound practices and financial stability while protecting the customers against poor service delivery by their licensed operators.

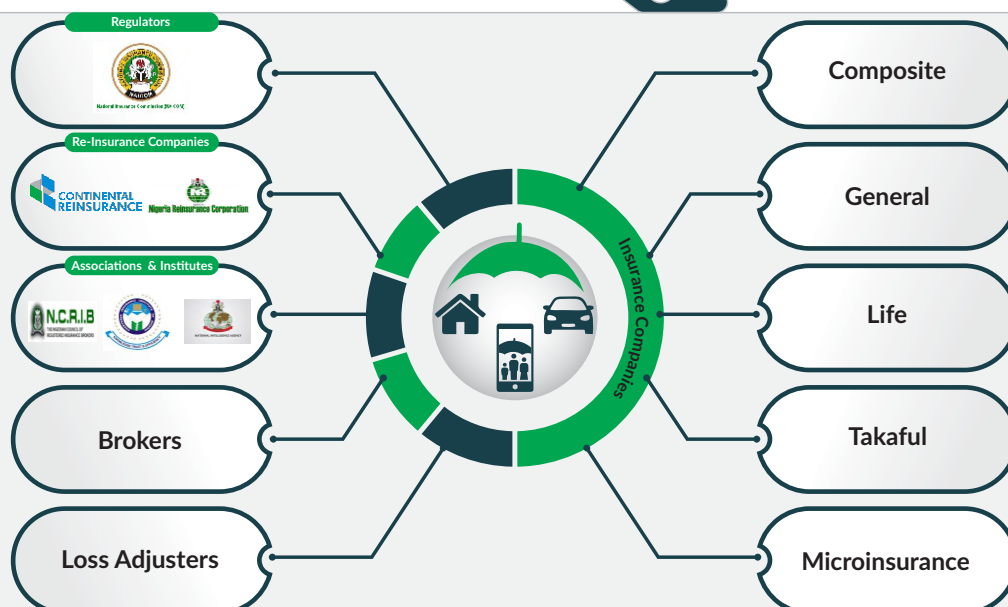
A more detailed examination of the different types of insurance, on the above regulatory basis, is necessary to broaden your understanding and ease the process of decision making within the financial planning framework.

- 1. Life**
  - a. Individual
  - b. Group
- 2. General (Non-Life)**
  - a. Motor
  - b. Fire
  - c. General Accident
  - d. Marine
  - e. Oil and Gas



- f. Engineering
- g. Bonds and Guarantees
- h. Miscellaneous
- 3. Microinsurance**
  - a. Life
  - b. General (Non-Life)
- 4. Takaful**
  - a. Individual
  - b. Family
- 5. Health Insurance**
  - a. Basic
  - b. Intermediate
  - c. Advanced
- 6. Retirement Savings**
- 7. Cooperative**
  - a. Life
  - b. General
- 8. Social**
  - a. Employees Compensation
  - b. Social Security

## ECOSYSTEM: THE INSURANCE INDUSTRY



Source: NAICOM

## Importance of Insurance - More Than A Fad

The importance of a thing is in the use and enjoyment of it. When you have been enlightened about the insurance ecosystem, you would confidently seek to take the right decision to ensure the choice you have made gives you a worthy experience.

Many people have heard about insurance, some have bought and held policies for years and a good number have had, by reasons of claims, to use the insurance they bought, that is when they appreciated its importance. Unfortunately, some have had painful experiences of their claims delayed and/or denied, leading them to dismiss the importance of insurance though they went away with critical lessons.

The importance of insurance can best be appreciated when viewed from the point of the society we live in and the way we address the risks that confront us daily and recognizing that our collective actions and inactions determine the level of impact such risks have on us.

As part of the constitutional responsibilities of governments to provide security and welfare for citizens, coupled with the enforcement of fundamental human rights, insurance was adopted as the appropriate risk management tool to ensure that where the action of one party adversely affected another, necessary compensation was made through insurance. This is probably the best explanation of the connection between governments and insurance.

Insurance, therefore, became one of the fundamental conditions for the approval of any project, event or decision that would affect others, for example, having your vehicle on the road, developing a property for public use or engaging any person to work for you as an employee or contractor.

Guided by laws, regulations and guidelines, governments, through their agencies, expressed the terms and conditions under which the citizens and businesses will relate within the insurance ecosystem and the relevance or importance of insurance was explicitly pronounced. In Nigeria, the National Insurance Commission (NAICOM) is responsible for implementing the insurance laws established by the Federal Government and ensuring that there is stability in the sector and policyholders (customers) are protected. The National Health Insurance Scheme (NHIS) and the National Pensions Commission (PENCOM) are the other agencies that have responsibilities for health insurance and pensions respectively.

With these laws, insurance has strengthened and supported many economic actors in ways that many of us have not imagined and appreciated. Injuries and deaths resulting from accidents, armed attacks, collapsed buildings, fires and floods are often insured.

However, it is only those who know that insurance is important and have policies that get compensated when any of these accidents or incidents happen.

When, for example, two smallholder farmers involved in aquaculture hear about insurance and only one decides to accept the proposal and proceeds to get cover for that year; if a flood comes, as it often does, to wash away their investments, the one who had insurance will be relieved while the other will be distressed.

As stated earlier, no one knows how important anything is, until you are required to use it.

A common experience of the importance of



insurance is its use with regards to having your vehicle on the road in Nigeria, as in other countries. The law requires us to have the minimum Third Party Motor Insurance that gives us access to not less than N1,000,000 to fix the property (vehicle, building etc.) of the other person and indeterminable medical care as a result of bodily injuries to any of the occupants of the affected property.

Now, these are the benefits of the Third Party Motor Insurance, which most Nigerians are unaware of and have rather attached more importance to their Insurance Certificates as mere papers that allow them easy passage on the highway and avert arrest by law enforcement officers.

Understandably, the efforts of the insurance companies to bring such information to the public are not sufficient but you are encouraged to take the following steps as someone who takes insurance seriously:

1. Ask questions using online platforms like [www.askniid.org](http://www.askniid.org) developed by the Nigeria Insurers Association (NIA) and other available touchpoints especially those that have insurers who can respond immediately;
2. Consider appointing an insurance

broker, which comes at no cost because they are legally paid a commission by the insurer you choose and from the premium you pay. You will know the value of one when you have a claim with your insurer;

3. Get interested in the affairs of your insurer, just like a shareholder, recognizing that if anything goes wrong with them, your insurance policy or contract is at risk. Request updates about your insurer from your broker;
4. Insurance is a contract and not just an ordinary document. Please read and sign all necessary letters and changes and take responsibility as appropriate;
5. Do not stop or get tired of asking questions and when the unexpected occurs, rely on the professional advice of your broker and feel free to seek other opinions.

What is most important about having an insurance policy is to be aware of the schedule and be informed about the financial nature of your contract because as it is said in the law, "Ignorance is not an excuse"!





## What the Law Says about Insurance – The Compulsory Policies & Need for Compliance

Insurance, like tax, is a law. Centuries ago, governments needed to oversee and coordinate how we addressed common and complex risks to ensure that citizens lived within environments that were considered safe and capable of helping us to get relief after unforeseen occurrences, thus insurance became the relevant law.

Under the 1999 Constitution of Nigeria, insurance appears as Item 33 on the Exclusive Legislative List, which means that only the Federal Government can make laws governing insurance.

The insurance laws in Nigeria date back to 1900 under the enactment receiving English statutes into Nigeria, as we relied on the following: the Life Assurance Act 1774, the Fires Prevention (Metropolis) Act 1774, the Policies of Assurance Act 1867, and the Married Women's Property Act 1882. While it may be stated that these laws are no longer in force, some others have remained references in the application of our current laws and they include the Motor Vehicles (Third Party Insurance) Act 1950 and the Third Parties (Rights against Insurers) Act 1956.

After independence, Nigeria made its first attempt to enact her insurance law and by 1961, the Insurance Companies Act was enacted to organize and develop the insurance sector. Subsequent insurance laws include the Insurance Act 1976, Insurance (Special Provisions) Decree 1988, Insurance Decree No. 2 of 1997 and the current one, the Insurance Act 2003, which stipulates most of the compulsory policies.

Based on the multiplicity of insurance regulation, other compulsory policies reside in the laws of the Pensions Reform Act 2014 and the National

Health Insurance Scheme Act 35 of 1999.

As of now, there are Eight (8) Compulsory policies in Nigeria namely:

- ❶ Third-Party Motor Vehicles Insurance
- ❷ Group Life Insurance
- ❸ Employees Benefits Scheme
- ❹ Builders Liability Insurance
- ❺ Occupiers Liability Insurance
- ❻ Health Professionals Indemnity Insurance
- ❼ Marine Insurance
- ❽ Aviation Insurance

It is important to describe each of these policies, referring to where the law can be found and the penalties stated for defaults.

### ❶ **Third-Party Motor Vehicles Insurance**

This is the minimum motor insurance policy that you are expected to have and it serves as a relief for other parties that may experience loss or damage as a result of your actions while on the road.

With a premium of N5,000 (sometimes discounted) only per annum, you can have the Third Party Motor cover, which in the event of an accident gives you Two (2) key benefits namely: 1) access to an amount, not more than N1,000,000 (One Million Naira) to repair the property of the affected party; and 2) access to medical care for bodily injuries to occupants of the affected vehicle.

The Insurance Act 2003, Section 68 (1) states thus: “No person shall use or cause or permit any other person to use a motor vehicle on a road unless a liability which he may thereby incur in respect of damage to the property of third



parties is insured with an insurer registered under this Act”.

Section 68 (4) is clear about the penalty for non-compliance, that “A person who contravenes the provisions of this section commits an offence and liable on conviction to a fine of N250,000 or imprisonment for 1 year or both.”

How easily we have forgotten this law and gone ahead to act without regard, yet suffering avoidable stress and conflicts while on the road.

### Group Life Insurance

This is a type of Life insurance taken by an organization to cover the lives of their employees or members and the insurer issues a single policy document to the policyholder, in this case, the employer or organization.

In recognition of the importance of giving employees' families needed relief in the event of the death of the breadwinner, the Government makes it compulsory by the Pensions Reform Act 2014 for employers to maintain Group Life Insurance that would pay a minimum of three times the annual total emoluments of the employees to their beneficiaries.

Section 4 (5) of the Act states that “In addition to the rates specified in subsection 1 of this section, every employer shall maintain a Group Life Insurance Policy for each employee for a minimum of three times the annual total emoluments of the employee and premium shall be paid not later than the date of commencement of the policy.”

Organizations that have a minimum of four (4) employees are expected to comply with this provision of the Act by taking the policies from Life companies.

### Employees Benefits Scheme

Every employer is required by the Employee's Compensation Act 2010 to contribute to a social security/welfare scheme that provides comprehensive compensation to employees who suffer from occupational diseases or sustain injuries arising from accidents at the workplace or in the course of employment

One percent of the total monthly payroll is accordingly paid to the Nigerian Social Insurance Trust Fund (NSITF), which has the responsibility to ensure compliance.

Over the years, Nigerian workers have enjoyed the benefits of this scheme which expanded the scope of the compensation received by beneficiaries far above that of the Workmen Compensation Act, which empowered only insurers to provide the cover.

### Builders Liability Insurance

If an individual or organization is undertaking a building project of more than two floors, there must be an insurance cover in place. Unbelievable? True.

The Insurance Act 2003 Section 64 (1) states thus: “No person shall cause to be constructed any building of more than two floors without insuring with a registered insurer his liability in respect of construction risks caused by his negligence or the negligence of his servants, agents or consultants which may result in bodily injury or loss of life to or damage to property of any workman on the site or of any member of the Public.”

It is therefore disturbing to note that nothing is mentioned about this insurance law when a tall building under construction crumbles and lives are lost and properties damaged while it

stipulates in subsection (3) that “A person who contravenes subsection (1) of this section commits an offence and on conviction shall be liable to a fine of N250,000 or imprisonment for three years or both.”

It does seem we are losing revenues payable from such fines or the opportunity to correct our fellow citizens by enforcing the law.

### ❶ **Occupiers Liability Insurance**

Over the years, we have seen increasing collapse and fire gutting public buildings in Nigeria and without recourse to insurance despite the existence of the law that provides for the insurance of all such buildings. For the safety of every Nigerian, the Insurance Act 2003, Section 65 (1) states “Every public building shall be insured with a registered insurer against the hazards of collapse, fire, earthquake, storm and flood.”

It then goes on to define a "Public Building" in subsection (2) to include “a tenement house, hostel, a building occupied by a tenant, lodger or licensee and any building to which members of the public have ingress and egress for the purpose of obtaining educational or medical service, or for the purpose of recreation or transaction of business.”

So, indeed, we are meant to go about our activities with the assurance that should we be caught in any public building and something unexpected happens, we can be compensated from the insurance of the buildings. Is this the true situation we live with? Not yet, I would say.

Interestingly, the Act states the penalties for defaulters in subsection (6), “An occupier or owner of premises who is in default of this section commits an offence and is liable on conviction to a fine of not more than N100,000 or



imprisonment for one year or both.”

### ❷ **Health Professionals Indemnity Insurance**

Every health professional or healthcare provider is required to have an insurance cover that protects their patients in the event of death or misdemeanour resulting from their professional negligence.

Section 45 of the National Health Insurance Scheme Act 1999 states that “A health care provider (medical centre, institution professional) shall be required to take a professional indemnity cover from an insurance company approved by the Council.”

Though this Act is currently undergoing the process of amendment and repeal in the Senate, it is expected that this section will be retained given the importance to protect patients from the professional negligence of healthcare providers. Unfortunately, the Act did not stipulate penalties for default and it is hoped this will be captured in the new law to ensure effective compliance.



It will not be out of order to seek to confirm whether your healthcare provider has the Professional Indemnity Insurance as required by this law to save you and your family and friends from any unforeseen circumstances.

#### o **Marine (Cargo) Insurance**

Sometimes omitted when compulsory policies are mentioned, the Insurance Act 2003 Section 67 (1) states that insurance in respect of goods to be imported into Nigeria shall be made with an insurer registered under this Act, subject to subsection (4), which states thus “An importer, broker or agent who effect any insurance otherwise than in compliance with the provisions of this section commits an offence and is liable on conviction to a fine of N500,000 Naira.”

The enforcement of this law is carried out as the Central Bank of Nigeria (CBN) directs all banks to issue Letters of Credit for all imports on a Carriage and Freight basis only.

Certainly not something to take for granted as some of us may have paid for the misdemeanour of the importer without knowing this position of the law.

#### o **Aviation Insurance**

The sense of safety experienced in the aviation environment mostly has to do with the high level of commitment in that sector to insurance. Every airline operator is compulsorily required to have insurance cover for their fleet of aircraft, and more importantly, their passengers.

Paragraph 74 (1) of the Nigeria Civil Aviation Act clearly states that “Any carrier operating air transport services to, from or within Nigeria, or aerodrome operator, aviation fuel supplier, or any provider of ground handling services, meteorological services, air traffic control

services, aircraft maintenance services, or provider of such other class of allied service as the Authority may from time to time determine in writing shall maintain adequate insurance covering its liability under this Act and also its liability towards compensation for damages that may be sustained by third parties for an amount to be specified in regulations made by the Authority.”

The penalties for default are equally stated in sub-paragraph (4) thus “Any Carrier operating air transport services to, from or within Nigeria, or aerodrome operator, aviation fuel supplier, or any provider of ground services, air traffic control services, aircraft maintenance services, who contravenes the provisions of subsections (1) and (3) of this section, shall be guilty of an offence and liable on conviction to a fine of not less than Ten million Naira and its Principal Officers shall be liable to imprisonment for a term of not less than two years.”

Many of us have heard this but probably not taken note of it as a position of the law considering that we have had air crashes in Nigeria, and this would, most likely, be as a result of the enforcement of these provisions of the Act and Part 18.11 of the Civil Aviation Regulations of March 2012 by the Nigerian Civil Aviation Authority.

#### o **Need for Compliance**

With good knowledge of the insurance laws and the benefits conveyed, Nigerians are more likely to see and understand the need for compliance as follows:

1. **Wealthier Future** – Typically, employees that enjoy Life cover on account of the Group Life Insurance, the compensation that could come from NSITF in the event of injuries and from an insurer in the



circumstances where healthcare providers are negligent coupled with the protection on the road from Third Party Motor Insurance, means they can save such monies as would have been used to offset the costs associated with these risks. Is it likely that Nigerians may have become poor and poorer on account of not having insurance?

2. **Peace of Mind Guaranteed** – When you have bought insurance with an adequate understanding of the benefits and how to get compensated, you are most likely to live on with a reasonable level of confidence and peace. For example, in today's digital world, where your insurer can know where your vehicle is, in the event of an accident, you would receive that call to take you through the claims settlement process, which entails payments and/or repairs. Other insurance policies have similar processes when claims occur.

3. **Stronger Insurance Industry** – Insurance is a business of numbers and given our population when more Nigerians take up policies, insurers will have some good spread of portfolios and a significant volume of Naira to attain higher penetration and contribution to Gross Domestic Product (GDP). Accordingly, the government at all levels will have more revenue through taxes and other earnings; and

4. **Greater Economy** – Considering that the Pensions Funds are currently at over N11 trillion and availing the Federal Government access to borrow for the development of infrastructural projects and the several types of insurance able to pay claims especially to businesses thereby keeping them afloat despite the state of the economy, Nigeria stands a better chance to become an even greater economic power with more insurance than it has now.



## PART TWO – The Family and the Insurance Scheme

### Why do families need Insurance? - Making Risk Protection a Tradition

A question many people have repeatedly asked when insurance comes up in discussions is: "What do I gain from having insurance?" The simple answer they get always has been "Peace of mind" and they never seem to understand the connection between Insurance and Peace of mind.

Having become necessary to explain the connection, most insurance enthusiasts have relied on everyday stories in family settings for ease of clarification.

**One Story Told:** A story is told about the young family of an Engineer and the Wife, a Banker, working in the South-South geopolitical zone of Nigeria, who had to cope with diverse risks including regular power outage, rampant cases of armed robbery, frequent sicknesses amongst the three children and the pressing challenge of maintaining savings account from their inadequate and irregular incomes.

When the wife got introduced to an Insurance Sales Executive and she heard about the different benefits of insurance, she could not wait to tell her husband, who had better knowledge of insurance from his first job, years ago, as an Agent of a leading insurance company in Nigeria. So, her excitement was short-lived when her husband dismissed the discussion with "Leave those people, I know them very well, they are only interested in making sales. Or have you forgotten that I was once with them?"

Days passed and the Sales Executive kept reaching out to get the confirmed date for the meeting. Finally, the meeting was fixed for Saturday morning and the Engineer wanted to hear if there was "anything new" about insurance!



The Sales Executive, instinctively, considered that the man was insurance-aware, so she took the long road of starting her presentation from the perspective of the risks that were common in the area. Seeing that there was interest by the couple, she proceeded to mention some of the products that would provide protection and ensure the lovely family was safe from danger.

Now, the meeting became so interactive that as the couple mentioned the risks, the Sales Executive responded with suitable insurance products, and successfully, convinced them to

decide to buy Life and Health policies, Comprehensive Home and Motor Insurance policies and Child Education Endowment Plan.

In the end, the Engineer commended the Sales Executive for her professional mien and revealed to her that though he was once an Insurance Agent, he was not half as passionate as she was and asserted that it was easy for them to decide because they knew the company she was representing and she gave them a sense of assurance that they will be secured having their insurance policies from her insurance company.

Ten years after that day, the Engineer and his family have tested and enjoyed the benefits of the insurance in respect of one of their vehicles, which was involved in an accident during the third year of insurance and have continued receiving medical care on account of their health insurance plan that also enabled them to go through with an operation for one of the children at a minimal cost.

There are stories that have not been positive as this, however, it needs to be emphasized that getting insurance plans for your family should be taken very seriously, as part of the broader financial planning process for the family.

For ease of attaining an even better position than the family of the Engineer did, the following steps are recommended:

- **Have the End in Mind**  
Planning a family life can be a hard drill for many of us especially if you have not had any history in your family. Sometimes, it is easier when one of the couples already has some understanding and both agree to bring their best into the relationship.



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Hence, discussing how your family will evolve, where you seek as your destination is critically important. It will determine your collective beliefs, lifestyles and expectations despite your differences.

If, for example, you decided to be environmentalists in the future, you can know that this will entail lots of travelling. You will be required to join organizations that promote such endeavours and can almost determine the kinds of jobs you would be available for and the cities you will live in. Also, looking at the lives of children will be necessary to ensure they have the care and guidance.

It is under such circumstances that you cannot afford to have a financial roadmap for your family without insurance, which will put your mind at peace or stabilize your family when the shocks and shatters occur.

The "What If?" question should not cause any discomfort and doubts about our faiths rather it should put the issues that come as risks daily into our preparation of an effective response management system.

Too often, families leave it until a crisis comes and we start an appeal campaign, which makes



our contributors at that time, the insurers we did not have.

In the end, when the unexpected and unfortunate occurrences arrive, we should have insurers that we can call rather than other families that did not have us in their plan.

### ❖ **Develop a Robust Wealth Plan**

A Wealth Plan is simply the plan that a person makes to create and protect possessions that can be inherited by defined beneficiaries.

Families that understand and have the essence of a Wealth Plan often employ insurance products to develop their plans. The fundamental difference between putting your money in a savings account and an insurance policy is the protection the latter offers in case of death or disabilities.

A wealthy family can become poor if they had no protection through insurance and the active source of income fell ill to the extent that properties have to be sold to raise money for medical bills.

A good insurance program, therefore, helps to take the burden of raising funds from the savings of many years of work or career.

In other cases, parents have bought insurance policies that enabled their children upon attainment of age 18 to inherit part of a robust wealth plan, which gave them that advantageous starting position desired by many Nigerians.

### ❖ **Hold Presentation Sessions with Family Members**

When you take insurance seriously while considering your family's annual financial plan, you will appreciate what having the presentation sessions with family members in attendance

does. The Insurance Sales Executive is usually excited about the moment to listen, express knowledge, answer questions and share experiences that deepen the understanding of those in the meeting.

Sometimes, due to the remarkable differences in ages, what the children learn from the session leaves an indelible impression on them and there exists some sense of commitment amongst members of the family. Importantly, a spouse does not have to take a different session to try to convince the other about whether or not to have it.

In the digital era where families have online interactive groups, it makes it easier to circulate updates on the financial plan of the family and specifically on insurance to ensure renewal dates are not missed and policies remain active.

### ❖ **Maintain a Feedback System**

It is common practice, indeed complaints, that policyholders do not hear from their insurers after the sale and until there might have been a claim or when the next renewal date approaches. The reason for this, in my view, is that there was no basic agreement or understanding in place to ensure it, and you may wonder why any serious business would require you to have an agreement or understanding on this.

The truth is, your insurer has not violated any law by not maintaining regular communication with you, rather it is in your utmost interest to ensure such an agreement or understanding is in place to enable recognize the first signs of financial stress from the information you will be receiving.

You should not wait for anyone to tell you when you can know, the state of the insurer you are using by simply receiving reports that will

prompt you to ask questions to clarify and decide on your policies.

It is really unfortunate to have to be contributing monthly for 10 years on your Life policy, only to

discover at the point of receiving your money that the company either posts financial losses or is placed under regulatory order by the regulator, which may make it, a long wait for you.

## Insurance and the Education of a Child - Securing the Future

Scholarships are meant to assist parents and guardians of brilliant students from vulnerable backgrounds, and similarly, insurance enables our children and wards to complete their education when we become unable to handle payments of their fees. What is the difference? Arguably, there would be lots of differences depending on your school of thought, especially as we consider that quite a several people still do not know a lot about insurance.

Firstly, it is incontestable that we will all like to give our children and wards the best education affordable and available, which explains why most parents prefer private schools despite the marked differences in the costs compared to public schools.

Also, the thought that the unexpected and unfortunate occurrences may come upon us either naturally or by accident, and we may not be any more or incapacitated, is not lost on us; this is

beside the loss of employment and other risks we live with.

Comparably, the joy of seeing our children and wards excel in their studies and complete their education at the tertiary level, often, knows no bounds.

It is, therefore, such an immeasurable sense of achievement that pushes us as parents and guardians to go to any extent including taking loans, mortgaging our assets and staying on our jobs longer than we would have wanted, just to ensure that our children and wards are not stranded but go on to complete their school programmes.

Notwithstanding, we meet many young Nigerians of school-age daily that are seeking assistance to go back to school and complete their academic programmes or get menial jobs that can afford them some earnings to support



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their ambition.

The real difference is in the insurance which many parents and guardians did not know about and most of us hear about it only when we are in the middle of a bad situation.

Education insurance, a savings plan offered by all licensed Life Insurance companies in Nigeria, is designed to enable our children and wards to continue to enjoy their education when we are no longer there or incapacitated by accidents or illnesses. This type of insurance allows persons who have attained the adult age of 18 years, and up to 59 years, to be policyholders but most insurers offer the policy to run for a minimum of five years and a maximum of twenty years.

An insurer will require you to provide your details and information on the amount you seek to have over an agreed period and which you can pay periodically for the plan. You may not be allowed to terminate and, in the case of your demise or incapacitation, the insurer takes over the payment of the fees for your children or wards until the money is exhausted. Additionally, some insurers extend the cover to cater for the children or wards, in case they are involved in an accident.

Importantly, request for all the relevant documents – payment receipts, signed policy documents and read them carefully to

### **Impact of Insurance in the Family - Beyond the Pain of Loss**

In several different ways, families respond to shocks and disasters based on the level of preparation they had and their understanding of the actions to take during and after those dark moments. Losing loved ones, seeing your valued apartment or home gutted by fire or burgled, your cherished vehicle damaged or your investment in a contract lost are not occurrences that we prepare for in any certain way except we

understand the wordings and interpretations. If necessary, get your insurance advisor to sit through and answer your questions. Understanding the policy is empowering as some of us, very often, confuse Education policy with other Life policies - Individual Life and Savings policies.

Depending on the stage your children or wards are in their education, you may consider putting them on their respective plans to run until an agreed age when they can manage such plans by themselves. For example, a child or ward above the age of 18 years and in the University could take his/her policies to develop a lifestyle of financial security into the future.

Many decades ago, when insurance enjoyed the trust of most Nigerians and people did Standing Order with their banks to pay their premiums, it was common to see parents and guardians handing over insurance policy documents as part of the reward packages for the children and wards who made them proud with the accolades they got on graduation days.

Insurance can be part of the inheritance you give your child or ward today!

This can happen to secure their future, not only by getting that education policy for when you are no longer there or incapacitated but also

had known and bought some insurance policies to cushion the effects they could have on our lives.

Some people may have chosen not to take the conventional insurance but assured themselves with the belief that, with the size of their wealth in stocks, real estate and varied business interests, they would withstand any shocks; and



there exist quite a reasonable population of Nigerians like this, hence the low insurance penetration.

However, when they are struck by any of those unexpected occurrences, their net worth automatically reduces as they would often have to take from their cash balance to repair damaged assets and replace lost ones, in the absence of insurance policies. On the contrary, with insurance in place, their net worth would either remain unchanged or increase on account of revaluation of their assets subsequently.

“Insurance is the assurance that you will not lose!”

This is probably the greatest impact of insurance in our families. When you have enjoyed the benefits of insurance after those sad and challenging moments, you will be appreciative that though you lost that loved person – parent,

guardian, spouse, you were left with the benefits of his/her insurance, which helped you to adjust to the new situation.

As you encounter people that have been compensated by their insurers after their losses, you will better appreciate the value of insurance from the experience that they will share with you.

The peace of mind that the beneficiaries heard those insurance policyholders (parents, guardians and spouses) talk about before their deaths would be transferred and, possibly, multiplied after they receive their compensations and their families continue to live on with less pain about their losses.

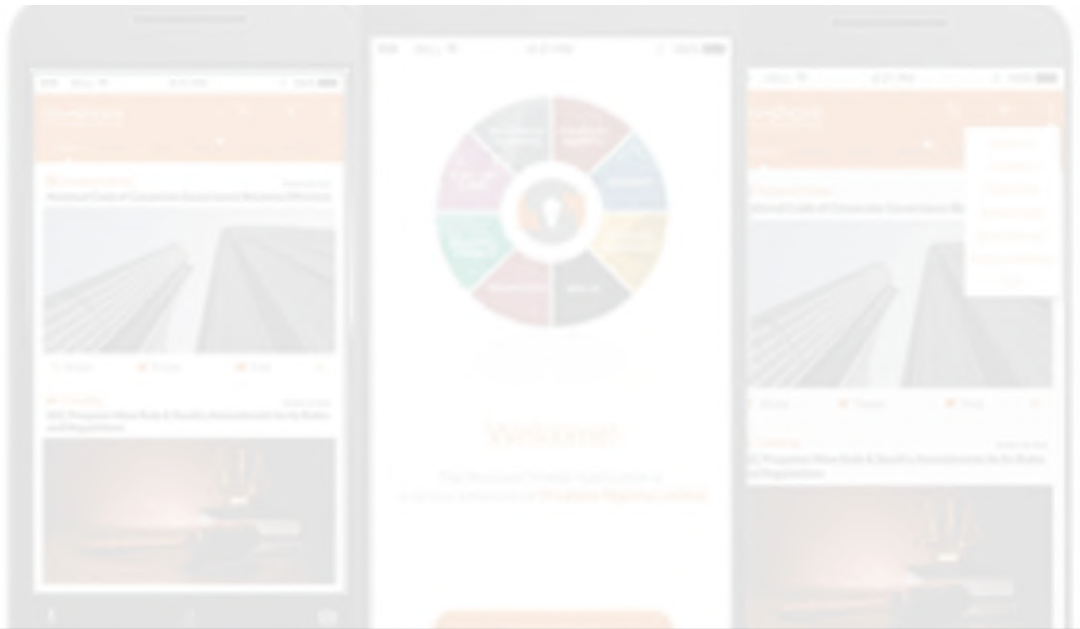
Besides the sense of stability and confidence that insurance impacts us, it also enables us to understand and appreciate the significance of financial planning in our families.






**Learn with us.**

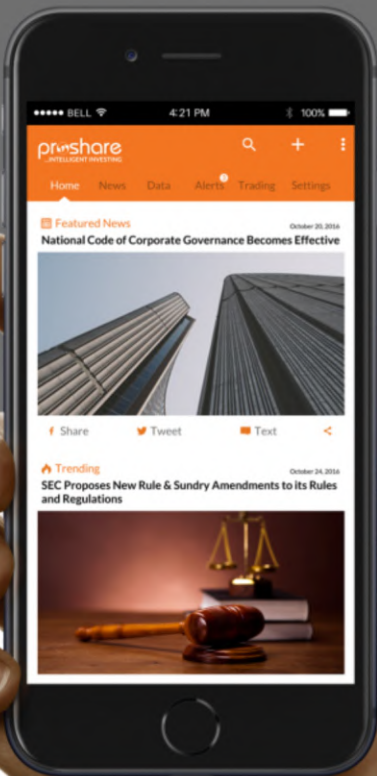
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## PART THREE - The Choice of Insurance

### What kind of insurance do I Choose - A Mixed Bag of Marbles

Firstly, as an individual or business, the nature of your work and the types of risks you face should always determine your choice of insurance.

The common risks we face as individuals, irrespective of the nature of our work, are illnesses, accidents, deaths, damage to and loss of our assets resulting from fire, theft, flood, erosion and other natural causes. In the course of business, we have even more injurious risks than what individuals face, namely change in government policies, terrorism, kidnapping, banditry, events cancellation, pandemics, travel advisory and trade wars.

Additionally, one has to understand that insurance, by its principles, only accepts risks that will be unexpected and cause you losses when they occur, otherwise known as Pure Risk, in the insurance parlance.

Given the background highlighted above, you may appreciate that the process of choosing your insurance largely requires your time and attention, and not to be determined and influenced by insurance agents or prompted by legal requirements as we have often had, especially in Nigeria.

Hopefully, not too long from now, we will have online platforms where individuals and businesses can visit to get better informed about insurance and be able to compare offerings in terms of products and services, before deciding on which insurance to buy.

Let us examine the kind of insurance you can choose from based on the nature of your work and the types of risks you face daily.

#### ④ Nature of Work

Broadly speaking, in the context of this report, we will consider two types of nature of work namely, internal and external, or as stated in risk assessment, administrative and non-administrative. This is essential to distinguish those who are more exposed to risks than the others by the work they do.

If the nature of your work is external and exposes you to more risks, your rating by the insurer will be higher than that of the person whose work is internal and exposed to fewer risks; therefore the kind of insurance you choose will have to be one that properly suits what you do.

Insurers look out for these conditions and they form the basis for the determination of their prices and other terms of the insurance you finally get.

For example, a Construction Engineer will be rated as a higher risk than an Accountant when both approach an insurer for Personal Accident or Travel Insurance. Now, you may argue that the Accountant may die or be badly injured on one trip while the Engineer that has been travelling often did not get involved in an accident; that is where the basis of probability often used by insurers in calculating the risks applies.



Note that the impact of the death or cost of injuries of the Accountant would not be as much as that of the Engineer that was rated higher, so the payout by the insurer will not affect the pool as it would have if it was the Engineer that died or was injured.

To some extent, it is necessary to understand how the nature of your work affects the kind of insurance you choose as part of your financial planning program even before any insurance company approaches you.

Also, though Health Insurance is necessary for all citizens, the plans will differ based on the nature of work carried out by different persons. Some professions expose people to more health hazards than others, and this explains why the rating of the risks a Miner is exposed to would be higher than those of a Commercial Driver.

It is important to always consider the nature of one's work in choosing the kind of insurance you will have. Similarly, in business, the type of nature of work determines the kind of insurance the owners choose when presented with proposals by insurance companies. Most of the time, they appoint and retain the professional services of insurance brokers that advise them and are paid by insurers out of the premium those businesses remit to the insurers.

A cotton milling business will require a Fire Insurance policy of higher deductibles than a beverage producing concern, and it is always when there is an accident that one appreciates the value of insurance.

### Types of Risks Faced

While it is understandable that it could be very challenging when choosing the kind of insurance you need, based on your limited knowledge about insurance, that process is made easier if you already know the risks against which you seek to protect yourself and business.

As a person, some of the common risks you face include:

1. Accidents
2. Fire Outbreaks
3. Deaths
4. Illnesses
5. Loss of Employment
6. Robberies/Banditry
7. Kidnaps
8. Flood/Erosion
9. Outbreaks of Diseases
10. Communal Conflicts
11. Government Policies
12. System/Technological Failures
13. Fake Products
14. Terrorism



The kinds of insurance you can choose from for these types of risks are:

## THE KINDS OF INSURANCE YOU CAN CHOOSE FROM FOR THESE TYPES OF RISKS ARE



S/N	Kinds of Insurance	Types of Risks
1.	<ul style="list-style-type: none"> <li>🔴 Personal Accident/Travel</li> <li>🔴 Life</li> <li>🔴 Health</li> </ul>	<ul style="list-style-type: none"> <li>🔴 Accidents/Illnesses</li> <li>🔴 Deaths</li> <li>🔴 Illnesses/Outbreak of Diseases</li> </ul>
2.	<ul style="list-style-type: none"> <li>🔴 Fire/Home</li> <li>🔴 Burglary/Theft</li> <li>🔴 All Risks</li> </ul>	<ul style="list-style-type: none"> <li>🔴 Fire Outbreaks</li> <li>🔴 Robberies/Banditry</li> <li>🔴 System/Technological Failures</li> </ul>
3.	<ul style="list-style-type: none"> <li>🔴 Flood &amp; Special Perils</li> <li>🔴 Contingency/Bonds &amp; Guarantees</li> <li>🔴 Job Loss/Credit</li> </ul>	<ul style="list-style-type: none"> <li>🔴 Flood/Erosion</li> <li>🔴 Government Policies/Fake Products</li> <li>🔴 Loss of Employment</li> </ul>

Note: Some risks like communal conflicts, kidnaps and terrorism are not readily insured in Nigeria though the insurance for them has been introduced in advanced economies.

Source: NAICOM

From the foregoing, choosing the kind of insurance you need has to be based on good knowledge of your environment and the prevalent risks, then understanding the expectations of insurers as well as the basis upon

which they assess risks and consider claims settlement when losses or damage occur. Remember, it is always recommended that you have an insurance broker that acts on your behalf.

### Can one have More Than One Type of insurance - A healthy Bag of Options

In a world of opportunities, nothing comes late!

fail to exploit them? No one!

Considering the risks we face, especially that which indicates we can lose our life savings or all that we have worked for, it is not surprising to see many amongst us subscribing to numerous different tangible and intangible products that are offered as solutions. Thanks to digitization, you can now stay in one place from a single device and reach multiple providers using a distinct platform that allows you to search and compare insurance products and rates.

Importantly, be aware that you can have more than one type of insurance for yourself and others but you cannot have the same type of insurance for your assets. For example, you cannot have Comprehensive Motor Insurance for your vehicle and have Third Party Only cover on it at the same time, however, as an individual, you can take insurance of Health, Travel, Personal Accident, Home, Vehicle, Employment, Savings, Education and even, Funeral either with one insurance company or more companies. Sometimes, if you have

Who would have such broad opportunities and





multiple residence permits, you can even also take up insurance in those countries and you will be within the law.

Indeed, in all situations, there are compulsory types of insurance that you will be expected to take and then those which you choose based on the risks you are confronted with from time to time.

The most significant part of insurance is that you can use it both to create and protect wealth for your family and secure the financial future of the next generation of your family. It is in this context that it would be wise to invest in several products from financially strong insurers.

An ideal bundle of insurance for a standard family of the man, his wife and four children with the typically extended family members including in-laws, uncles and aunts is the Funeral Insurance now offered by many insurers in Nigeria. This policy is specifically designed to take care of burial expenses for you and other members of the family.

Depending on the capacity of the knowledge of the family to plan and fund its financial plan over the years, each member of the family can also have multiple insurance policies and that is how they create wealth and use appropriate policies to

protect their wealth into the future.

For easier understanding, take the family in the picture, for example, the parents while working can create wealth funds for each child by subscribing to a Savings Insurance Plan, which the children can inherit on their 18th birthday anniversaries. From such plans, the children can buy insurance for their assets and continue their journey as policyholders until they get married, and insurance becomes their tradition and lifestyle.

In recent times, we have seen young professionals adopting insurance as part of their financial plan, and even more interesting are young entrepreneurs that demand insurance for their mobile devices – smartphones, tablets, laptops, smartwatches, e-readers, cameras, audio players and handheld gaming consoles. However, there are yet few insurers offering covers for these devices and you have to diligently search and compare before choosing the ones that best suit your needs.

More insurers are responding to the expectations of their customers and adding features to existing policies to enhance the experiences of policyholders who enjoy the peace of mind insurance offers.

## Is social status a determinant of my choice of Insurance? - The Market's Ruler

It is always interesting how we forget our humble beginnings and accept our current positions as our starting point. From the history of insurance, we understand that it was started by merchants in ancient Babylonian days and introduced to other entities by people who were involved in trade and commerce, keen to hedge against their losses.

Risks do not recognize or acknowledge class and status, so insurance does not select where and who it works for, however, like any other financial product, it would have different plans or packages to meet your needs.

One of the lessons we had learnt in soliciting the patronage of persons unmindful of their standing in the society, is that people with more assets insure to retain their net worth while those with fewer assets (single vehicle and home) take insurance to remain in a stable financial position in the event of any loss or damage.

“So, yes, your social status will determine the insurance you choose!”

Insurers, rather than the customers, actually set the parameters to distinguish between those who had more at risks and were sentimental about protecting their assets and others who did not know the value of their assets and the need to protect them. Such assets included loved ones, evidence of achievement – jobs, vehicles and homes and goodwill.

From the mid-90s when the middle class in Nigeria became noticed, financial services providers have been renowned for preferential marketing, and insurance was not exempted as it became more available as an “elitist product”. You had to be able to afford to buy a brand new

vehicle and request for Motor Comprehensive Insurance to earn the attention of the insurance companies and their agents. Interestingly, the rate was still higher than five percent of the value of the vehicle for that type of Motor Insurance.

Also, this might have been the time Third Party Motor Insurance was “dumped” by insurance companies as the Vehicle Licensing Offices across the country became busier selling insurance to persons who went to renew their Vehicle Licences, an unconventional practice that has continued till today.

By 2007/2008 insurance year, when the insurance sector was going through its regulatory-induced recapitalization, the economy had lost the middle class, no thanks to the global financial crisis and microinsurance was introduced to cater to the needs of our active low-income population. It was a most welcome development!

Not only have mainstream insurers been allowed to offer and sell microinsurance products, but standalone licences have also been granted by the regulator, NAICOM and more people will be able to get the insurance of their choice.

As digitization becomes reliable for easier connection with customers, it is envisaged that insurance companies will offer more products for persons at different stages of their lives. The cover for young unmarried persons will continue to differ from those for families and that is about social status.





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## PART FOUR – The Analysis of the Insurance Industry

### Claims Payment versus Investments – How Capable are our Insurers?

Insurance companies with high claims ratio which is the percentage of claims cost incurred to the premiums earned during a particular financial period is usually between 60%-80% show that the company is meeting its claim responsibilities, if it is lower than expected, it could indicate difficulties in claiming for customers. A high claims ratio of more than 100% indicates a lower profit, that is, claim settlements are higher than the premium received during the financial period.

In 2019, the company with the highest claim ratio was African Alliance Insurance Plc with +117.6%, a decline from +142.30% recorded in 2018. Gross Premium stood at N8.99bn while Insurance claims incurred stood at N10.52bn. 117.6% of the company's profit was spent towards claim settlement thereby resulting in incurred losses because the gross premium is insufficient to pay claims. The company recorded a loss after tax of N6.63bn in 2019, which is loss worsened by +153.8% from N2.69bn recorded in 2018.

A high claim will threaten the company's financial condition thereby increasing the risk for the company.

Lower Insurance claims ratio reflects the total number of claims a company accepts in a certain period, the company with the lowest claim ratio is A.R.M Life Plc with 10.26% which is an increase from 8.61% recorded in 2018. The Company's claims expenses increased by +95.49% to N981.75m in 2019 from N502.19m recorded in 2018, while Gross Premium increased by +63.99% to N9.59bn in 2019 from N5.83bn recorded in 2018 (see table 1 below).



## Insurance Claims – 2019

### A PEEP AT INSURANCE CLAIMS - 2019



#### Top 5 Highest Claims Ratio

2019					
S/N	Company Name	Quoted/Unquoted	Claims (N'm)	Gross Premium (N'm)	Claims Ratio
1	African Alliance Insurance Company Plc.	Quoted	10,529	8,987	117.16%
2	AllICO Insurance PLC	Quoted	25,330	50,151	50.51%
3	Axa Mansard Insurance Plc	Quoted	18,614	43,620	42.67%
4	Leadway Assurance Company Limited	Unquoted	38,474	90,596	42.47%
5	Cornerstone Insurance Plc	Quoted	3448	8691	39.67%

#### Top 5 Lowest Claims Ratio

2019					
S/N	Company Name	Quoted/Unquoted	Claims (N'm)	Gross Premium (N'm)	Claims Ratio
1	NEM Insurance Plc	Quoted	4,141	19,677	21.04%
2	Sovereign Trust Insurance Ltd	Quoted	2,209	10,879	20.31%
3	Guinea Insurance Plc	Quoted	255	1,291	19.75%
4	Veritas Kapital Assurance Plc	Quoted	576	3,076	18.73%
5	A.R.M Life PLC	Unquoted	982	9,569	10.26%

Source: NSE, Companies Financial Statement, Proshare Research, Ecographics

Claims ratio for 2018 results shows that most insurance companies (both quoted and unquoted) recorded higher premiums with lower claims expenses. The Insurance company that had the highest claim ratio in 2018 was African Alliance Insurance Company Ltd with +142.30% in claim ratio, the gross premium for the period was N6.79bn while claims expense was N9.67bn.

Sovereign Trust Insurance Ltd led the list of Insurance Companies with the lowest claim ratio with 17.00%, gross premium for the period was N10.51bn while claims expense was N1.79bn for the Insurance company. However, Niger Insurance Plc recorded the lowest claim ratio with 3.96%, the gross premium for the company was N4.46bn while claim expense was N176m for 2018 (see table 2 below).



## A PEEP AT INSURANCE CLAIMS – 2018



### Top 5 Highest Claims Ratio

2018					
S/N	Company Name	Quoted/Unquoted	Claims (N'm)	Gross Premium (N'm)	Claims Ratio
1	African Alliance Insurance Company Plc.	Quoted	9,669	6,795	142.30%
2	Gold Link Insurance Plc	Quoted	979.428	1,152	85.02%
3	Consolidated Hallmark Insurance Plc	Quoted	4,787	6,864	69.74%
4	AIICO Insurance PLC	Quoted	23,869	37,665	63.37%
5	Capital Express Assurance Limited	Unquoted	1,866	3,391	55.03%

### Top 5 Lowest Claims Ratio

2018					
S/N	Company Name	Quoted/Unquoted	Claims (N'm)	Gross Premium (N'm)	Claims Ratio
1	Sovereign Trust Insurance Ltd	Quoted	1,787	10,513	17.00%
2	NEM Insurance Plc	Quoted	2,554	15,049	16.97%
3	Guinea Insurance Plc	Quoted	170.435	1,241	13.73%
4	A.R.M Life PLC	Unquoted	502.192	5,835	8.61%
5	Niger Insurance Plc	Quoted	176.624	4,455	3.96%

Source: NSE, Companies Financial Statement, Proshare Research, Ecographics

## Investment Ratio

The gross premium of the insurance companies was used as a proxy for the amount invested by these companies.

Investment yield for 2019 shows that Custodian Investment Plc led the list of Insurance companies the highest investment yield with +85.52%, investment income for the period was N52.52bn while Gross premium stood at N61.42bn. The company with the lowest investment yield was FBN Insurance Limited with +0.22% while investment income at N100m, point to note is that it is not listed on the Nigerian Stock Exchange (see table 3 below).

## Investment Ratio - 2019

### THE INSURERS INVESTMENT COOKIE - 2019



#### Top 5 Highest Investment Yield

2019 Investment Yield					
S/N	Company Name	Quoted/ Unquoted	Investment Income (N'm)	Gross Premium (N'm)	Investment Yield
1	Custodian Investment Plc	Quoted	52,524	61,416	85.52%
2	Mutual Benefits Life Assurance Ltd	Unquoted	6,875	10,331	66.55%
3	Anchor Insurance Company Ltd	Unquoted	2,533	4,192	60.42%
4	Veritas Kapital Assurance Plc	Quoted	1,538.000	3,076	50.00%
5	Prudential Zenith Life Insurance Company Limited	Unquoted	1,640	4,650	35.27%

#### Top 5 Lowest Investment Yield

2019 Investment Yield					
S/N	Company Name	Quoted/ Unquoted	Investment Income (N'm)	Gross Premium (N'm)	Investment Yield
1	FBN Insurance Limited	Unquoted	100	44,942	0.22%
2	Sovereign Trust Insurance Ltd	Quoted	405.797	10,879	3.73%
3	Prestige Assurance Plc	Quoted	254.761	6,128	4.16%
4	NEM Insurance Plc	Quoted	843.481	19,677	4.29%
5	WAPIC Insurance Plc.	Quoted	912.297	15,201	6.00%

Source: NSE, Companies Financial Statement, Proshare Research, Ecographics

2018 results show that KBL Insurance Limited which is not quoted on the floor of the Nigerian Stock Exchange (NSE) had the highest investment yield of +116.46%, that is, KBL made +116.46% of the amount invested. This is despite having the lowest gross premium amongst the Top 5 Highest investment yield, KBL was strategic in its investment decisions and also efficient, as this can be seen that the investment income of the company is higher than its gross premiums. The Insurance company recorded N1.7bn in gross premium and N1.9bn in investment income for 2018.

Gold Link Insurance Plc led the top lowest investment yield among insurance companies. However,



FBN Insurance Limited had the lowest investment yield of +0.33% in the year 2018, despite having a higher Gross Premium than Gold Link Insurance Plc. The Insurer posted N30.6bn in gross premium for the period while N100m was posted as investment income, which explains the low investment yield. This shows that the Insurance company is being less strategic in its investment decision which is also less efficient (see table 4 below).

**Table 4: Investment Ratio – 2018**

THE INSURERS INVESTMENT COOKIE - 2018					
<b>Top 5 Highest Investment Yield</b>					
2018 Investment Yield					
S/N	Company Name	Quoted/ Unquoted	Investment Income (N'm)	Gross Premium (N'm)	Investment Yield
1	KBL Insurance Limited	Unquoted	1,981	1,701	116.46%
2	Capital Express Assurance Limited	Unquoted	2,933	3,391	86.49%
3	Custodian Investment Plc	Quoted	43,029	50,212	85.69%
4	African Alliance Insurance Company Ltd	Quoted	3,241	6,795	47.70%
5	Veritas Kapital Assurance Plc	Quoted	1,491	3,333	44.73%
<b>Top 5 Lowest Investment Yield</b>					
2018 Investment Yield					
S/N	Company Name	Quoted/ Unquoted	Investment Income (N'm)	Gross Premium (N'm)	Investment Yield
1	FBN Insurance Limited	Unquoted	100	30,611	0.33%
2	Sovereign Trust Insurance Ltd	Quoted	334.495	10,513	3.18%
3	Standard Alliance Insurance Plc	Quoted	199.986	3,757	5.32%
4	NEM Insurance Plc	Quoted	952.783	15,049	6.33%
5	Gold Link Insurance Plc	Quoted	78.25	1,152	6.79%
Source: NSE, Companies Financial Statement, Proshare Research, Ecographics					

## SWOT Analysis – An Environmental Scan

The insurance industry is a mixed ball of strengths, weaknesses, opportunities and threats. The country's large population of 200m provides a sizeable client insurable base, particularly for life insurance considering the fact that 35% of the population is below the age of 35. The country also has a vibrant micro, small and medium-sized business sector of roughly 41.5m companies, this provides a fertile soil for both micro-leasing and micro-insurance. The high headroom for new policy underwriting suggests that recapitalization of the sector would improve rather than hurt return on corporate equity (RoE). An aggressive underwriting foray would also likely increase the sector's average return on assets (RoA).

Winding through the opportunities available in the sector would require deliberate strategy and a massive repair of the trust deficit that seems to have undermined underwriting income.

But with the sweet comes the bitter. Nigerian insurers have been unable to sustain trust among potential policyholders who see the profession as a complicated compost of state-sanctioned Ponzi schemes. This is far from true but decisions do not always rely on truth but perception. The breaking of this perverse view of the insurance business would need to take place before insurers begin to see a rise in their gross premiums and underwriting incomes.

From the viewpoint of local market analysts another problem with insurance firms is that their returns on investments (RoI) in different asset classes have been fairly poor. The investment yields of insurers tend to be relatively low and make their financial books vulnerable to market mood swings. The underlying weakness of insurance incomes put pressure on insurance companies to meet their claims.

However, low yields and high expenses could be countered by improved service quality, a rise in technical reserves and higher investment yields. Indeed insurers with relatively high technical reserves, strong investment yields and low loss ratio would be preferred to other institutions with less flattering numbers (see illustration below).

## Nigerian Insurance Industry - SWOT Analysis





# NIGERIAN INSURANCE INDUSTRY - SWOT ANALYSIS



<p><b>STRENGTHS</b></p> <ol style="list-style-type: none"> <li>1 Large population</li> <li>2 Large headroom for life policy growth</li> <li>3 Growing MSME market</li> <li>4 Recapitalisation (Rights or IPO)</li> </ol>	<p><b>WEAKNESSES</b></p> <ol style="list-style-type: none"> <li>1 Trust deficit</li> <li>2 Low penetration rate</li> <li>3 Low investment yield</li> <li>4 High loss ratio</li> </ol>
<p><b>OPPORTUNITIES</b></p> <ol style="list-style-type: none"> <li>1 Increase capital expenditure by FGN and states</li> <li>2 Increase GDP growth</li> <li>3 Increased micro-credit</li> <li>4 Large uninsured assets</li> </ol>	<p><b>THREATS</b></p> <ol style="list-style-type: none"> <li>1 Weak investment yields</li> <li>2 High expense ratio</li> <li>3 High contingent liabilities</li> <li>4 Relatively low policy reserves</li> <li>5 Regulatory actions</li> </ol>

Source: Ecographics, Proshare Content

## Conclusion



## Conclusion - Peace, Patience and Insurance

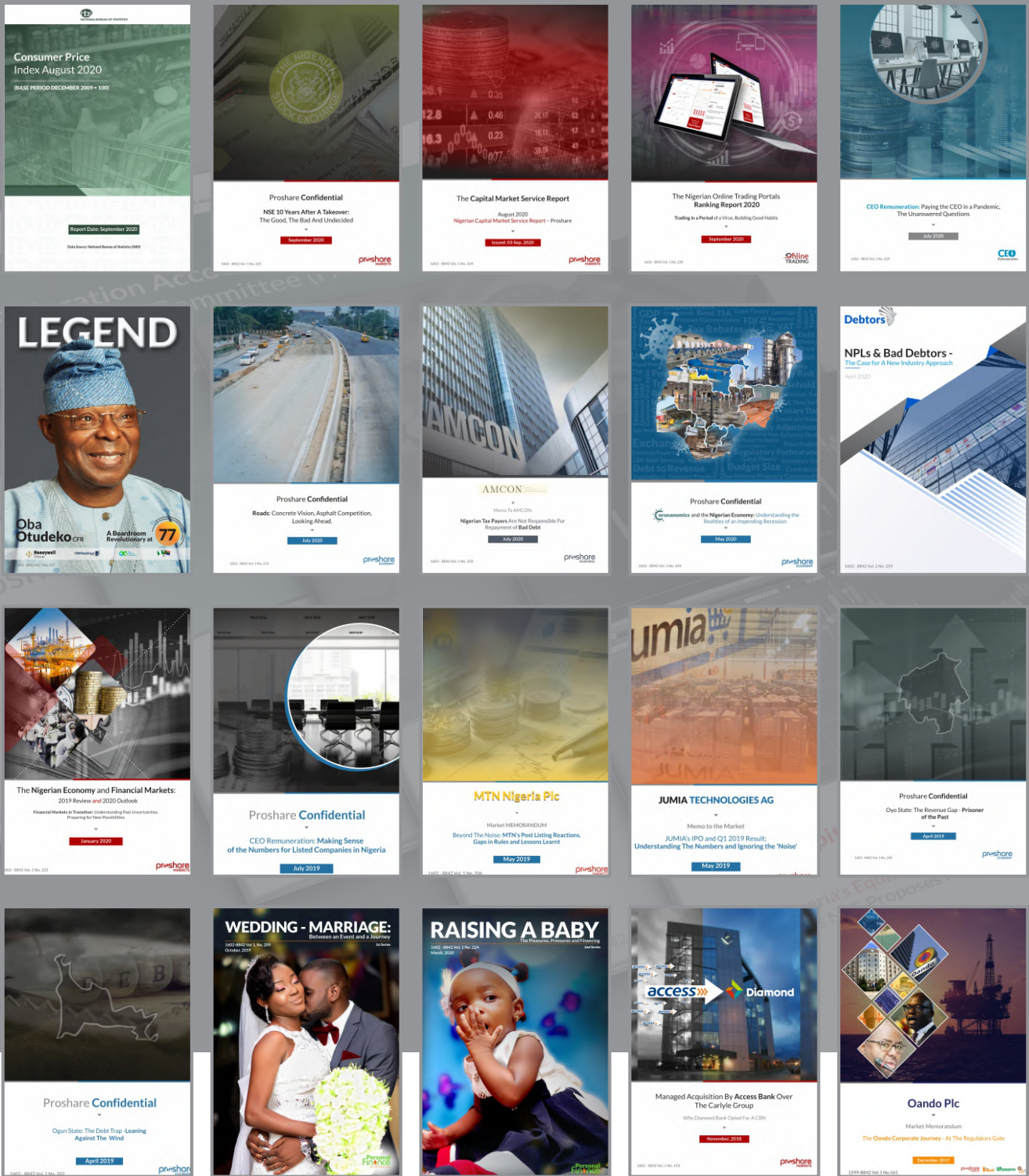
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Peace of mind is an intangible asset, it is not traded directly but financial institutions such as Insurance companies provide some tangible risk- protection service that supports a less distressing state of being. Put simply, Insurance companies help individuals and companies recover from adversity in a structured manner. The knowledge that adversity does not represent a physical or financial death sentence provides a sense of stability that enriches corporate and personal lives.

While several people and corporate organisations have a disdain for insurance on the grounds of the activities of unscrupulous corporations and individuals, the incidence of poor insurance practice has declined over time and the profession has slowly but patiently reinvented itself and established an ethical code that is respected and implemented by major insurers and their brokers. Insurance of health and property needs to become an integral part of the lives of companies and individuals to ensure that Nigeria evolves into a society that governed by processes, procedures and plans rather than whims, caprices and ideologies of individuals and corporate offices.

Insurance embeds planning, organization and awareness into the lives of companies and the individuals that work for them thereby ensuring greater social order. While Insurance is a business it is also a behavioural tool that provides society a means of ensuring order and forward-facing social touchpoints. If peace is a measure of social wellbeing then Insurance is a method of social measurement, or at least it should be.





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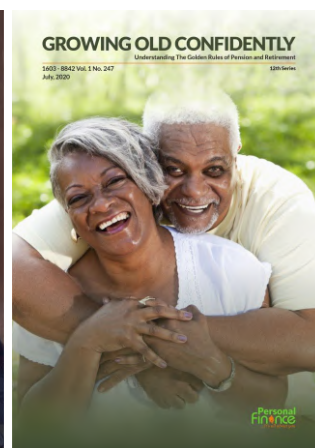
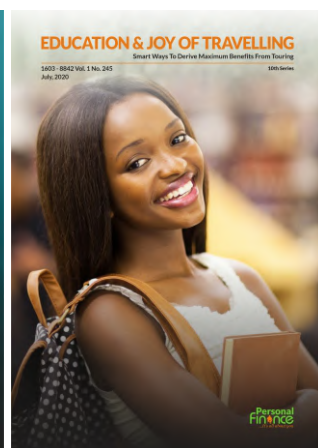
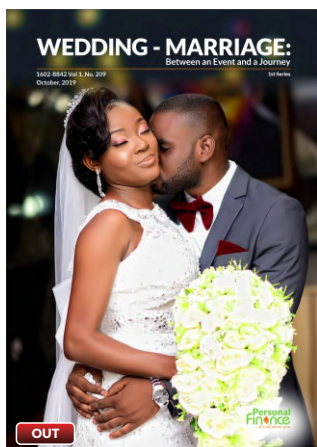
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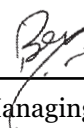
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Director, CBMO



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