Critical Success Factors for Market Expansion and Penetration Strategies

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September 2015

Outline

- Background
- Nigeria Insurance Industry – The journey so far
- 2017 Industry Target
- Penetration Strategies – What we need to do
- Conclusion

Background

- The Insurance industry is an important component of the financial system in any country
  - ➢ Mitigates risks and provides foundation for smooth functioning of all business activities
  - ➢ Promotes savings and investments, increases the overall financial assets in any economy
- Major contributor to job creation for agents, brokers, underwriters, actuaries and other industries whose risks are covered by the Insurance industry
- Overall, Insurance can be a vehicle for growth in developing economies

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Overview of Nigeria Insurance Industry

- Post re-capitalization exercise

  - Insurance companies reduced from 103 to 58
  - The Industry has been slow to innovate and meet the challenges of expanding the market to the low income segments
  - Motor Insurance still the most dominant
  - Retail Insurance market remains greatly untapped
  - Inadequate enforcement of compulsory insurance

- In December 2014, the Federal Government convened a National Insurance Summit to ensure that it contributes more significantly to national economic growth

Recent reforms introduced to strengthen the Nigerian Insurance Industry

- Market Development and Restructuring Initiative (MDRI)
- Enterprise Risk Management (ERM) framework
- Adoption of International Financial Reporting Standards (IFRS)
- No Premium, No Cover enforcement
- Takaful, Micro-Insurance, and Bancassurance guidelines

Africa on the Global Insurance Landscape

1. **Total value of Africa's insurance premium in 2014 was US$69bn, down by 1.9% from the US$70.29bn in 2013**

2. **Africa's share in the global market was 1.4% in 2014**

3. **South Africa accounted for nearly 71% (US$49.2bn) of the total value while 53 other countries contributed only US$19.8bn**

4. **Life insurance premium in Africa totalled US$45.8bn in 2014, of which South Africa accounted for 81.5%**

Source: Swiss Re

Nigeria on the African Insurance Landscape

- Insurance penetration in Nigeria hovers around 0.5% in 2008 to 0.3% in 2014 (post rebasing); lower than the African average of 2.8% (2014)
- This points to the potential for growth inherent in the industry with emphasis on the need for new penetration strategies to explore these potentials
- South Africa has the highest insurance density ($925) in Africa

Country	Insurance Premium ($bn)	Population (millions)	Density (Premiums per Capita, $)	GDP ($bn)	Penetration (Premium as % of GDP)
South Africa	49.2	53.2	925	351	14.0
Mauritius	0.8	1.2	613	13	6.2
Namibia	0.9	2.3	396	13	6.9
Morocco	3.4	33.5	102	107	3.2
Tunisia	0.9	11.1	80	49	1.8
Angola	1.1	22.2	52	145	0.8
Algeria	1.6	39.9	40	226	0.7
Kenya	1.8	45.6	39	61	3.0
Egypt	2.0	83.4	24	286	0.7
Nigeria	1.8	178.8	10	586	0.3
Other Countries	5.5	653.3	8	633	0.9
Total	**69.0**	**1,124.50**	**61**	**2,470**	2.8

Source: Swiss Re

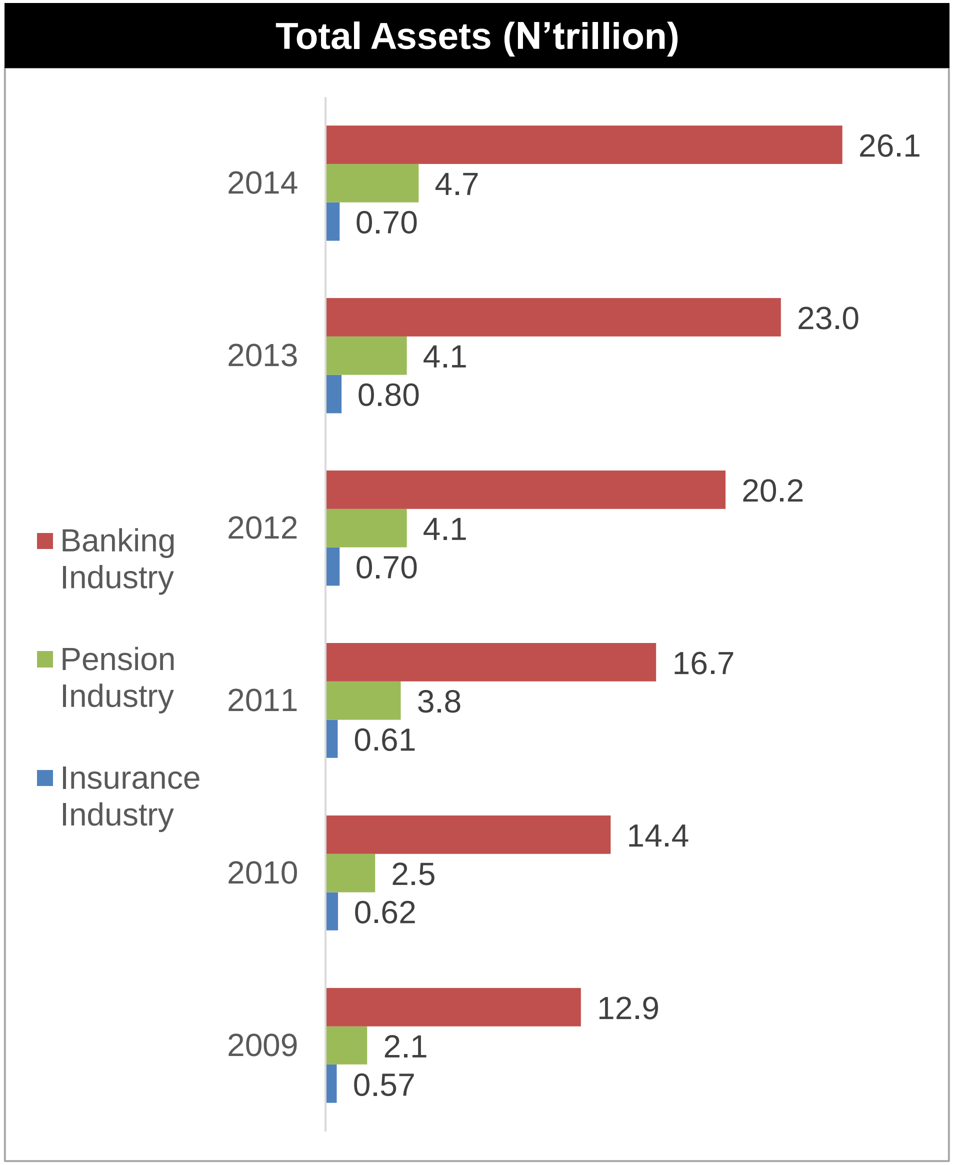
Nigeria Insurance Industry is still developing…

- The Industry gross premium income (GPI) increased from N178billion in 2009 to **N339billion** (estimated) in 2014 while the banking industry recorded **N2.8trillion** in 2014 (2009: N1.5 trillion)
- Though, both industries recorded the same compound annual growth rate (CAGR) of 14% over the 5 year period but Insurance industry is yet to attain a N1trillion topline
- Insurance industry recorded a profit before tax (PBT) of about N28bn (estimated) in 2014 while the banking industry recorded N609bn in the same period
- General business segment has consistently dominated the industry (70:30)
- Life segment has grown faster than General buoyed by regulation on compulsory group life insurance and annuity (2009: 79/21)

Source: NAICOM, Agusto & Co., NIA

2014 Total Assets: Nigeria Insurance within the Financial Sector

- Insurance Asset : N700billion
- Pensions Assets: N4.7trillion
- Banks Assets: N26.1trillion
  - ➢ Largest Insurer : N104billion
  - ➢ Largest Bank : N4.3trillion
  - ➢ Largest PFA : N1.5trillion



Source: Agusto & Co., NAICOM, PENCOM

Challenges facing Nigeria Insurance industry

1

- Unhealthy competition especially on premium rating
- Lack of product innovation
- Poor adoption of technology

2

- Customer apathy
- Limited skilled manpower
- Cultural and religious inclination

3

- Governance and Risk Management issues
- Solvency and weak capital base
- Unfriendly tax regime
- Prevalence of fake insurance policies

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3-Year (2015-17) Strategic Plan

Harnessing full potential of the Industry

1. Grow premium to N1 trillion from over N300 billion mark in 2014

2. Widen number of policyholders from 3 million to 10 million

3. Create direct jobs for 100,000 Nigerians from the over 30,000 in 2014

4. Reduce insurance gap from 94% to at least 70%

Source: 2014 National Insurance Summit, MDRI

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Short-Medium Term Penetration Strategy 1/3

1

Pricing and Market Conduct

- Operators to maintain price discipline to deal with rate-cutting issues
  - Insurance Committee to take up
- Greater collaboration between underwriters and brokers
- Operators to be self regulated as an Industry

2

Product Offerings

- Alignment of innovative products with the customers' real needs
- Increase Micro-Insurance penetration in new segments such as Agriculture
- Introduction of Takaful insurance (Islamic-compliant insurance) to rural parts of the country to further deepen insurance penetration

Short-Medium Term Penetration Strategy 2/3

3 Distribution Channels

- Full exploitation of the opportunities offered by the banking distribution platforms
- Use of technology to improve products distribution
- Leverage on the 126 million active lines to boost insurance penetration (mobile phone ownership in urban (84.9%) and rural (55.6%)

4 Regulations

- Enforcement of the 6 classes of compulsory insurance through collaboration with other relevant stakeholders
- Improved tax environment for operators and policyholders
- Greater collaboration between operators and regulator to expand the market

Short-Medium Term Penetration Strategy 3/3

5

Training and Awareness

- Attract new and diversified talent base to meet changing customer demands
- Develop series of trainings and customized insurance offerings to SMEs considering the nature of risk faced by the segment
- Partnership with banks and other financial sectors on the ongoing **financial inclusion and literacy programmes** to drive insurance literacy and awareness
- Joint intensive awareness campaign among Operators to educate the masses on benefits of insurance via Media Relations, Radio, TV, Prints Publication
- Use of social media to increase the variety of distribution channels

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Conclusion

- N1 trillion… in 3 years…Yes, it is achievable
- According to EFInA (2014), 14.3 million adult population would like to have insurance products
- Market discipline is very crucial
- Public awareness on products and claims settlement
- What are we waiting for... **The Future is indeed Assured!**

THANK YOU

Cornerstone

APPENDIX

Drivers of growth in top African countries

1 South Africa

- With a well-developed insurance market in life & non-life segments, South Africa recorded a gross premium of US$49.2bn in 2014 and a penetration rate of 14%
- Life Insurance has remained critical to the insurance market growth in the country
- Key factors for the high insurance penetration include:
  - large number of wealthy populace that can afford insurance
  - trust on the local financial providers in managing their long-term savings
  - high level of risk awareness intensified by the high crime level and car accidents in the country
- There are **65** licensed insurance companies in the country (2014)

2 Mauritius

- Mauritius has one of the most developed insurance industries in Africa with a gross premium of US$766m in 2014 and penetration rate of 6.2%
- Life insurance segment accounting for 68% of its market
- It has the second highest insurance density in Africa after South Africa
- Key factors for the high insurance penetration include:
  - high level of income
  - macroeconomic stability
  - established financial sector
  - business friendly investment climate
- **18** licensed insurance companies (2014)

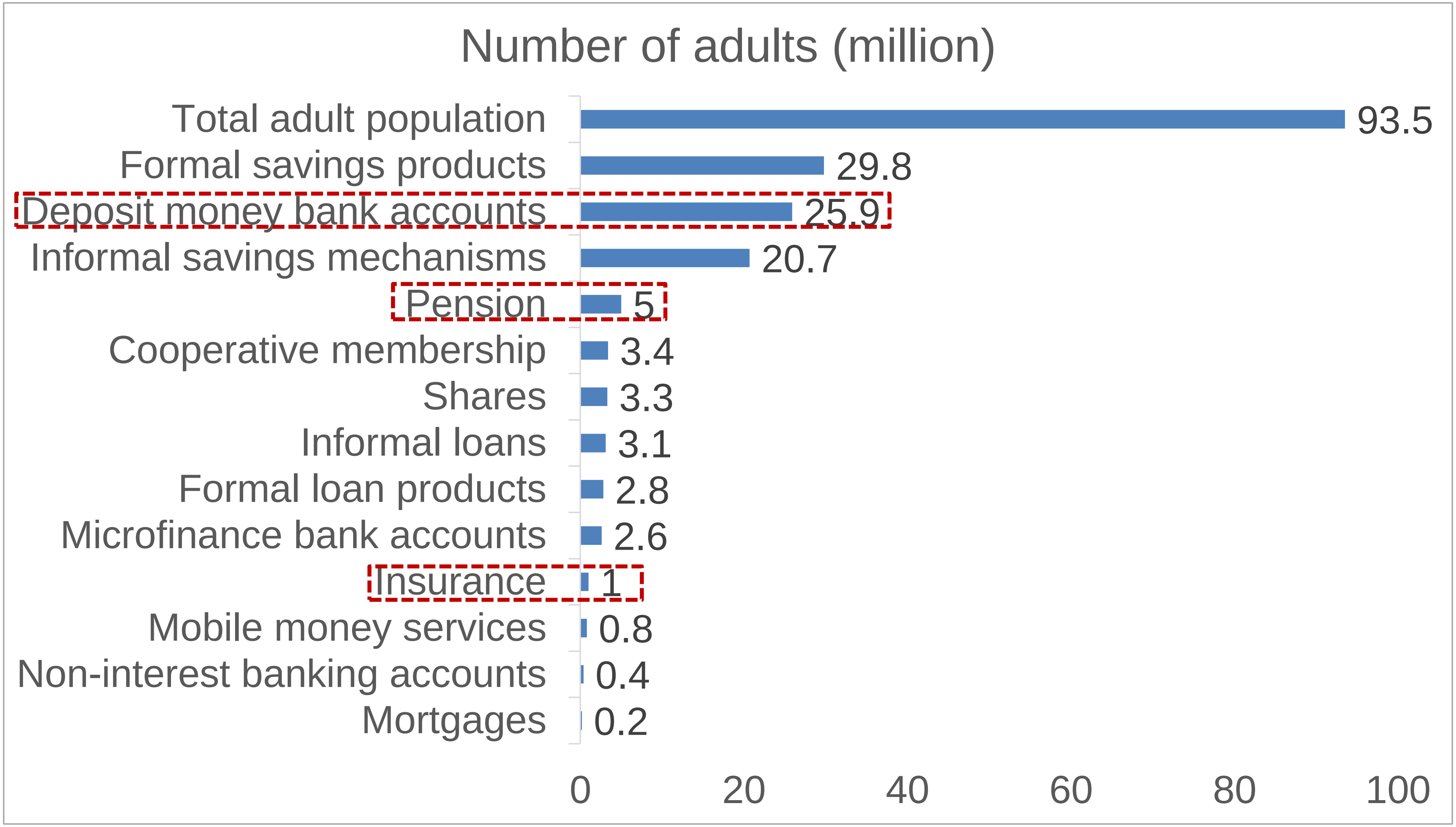
3 Namibia

- The Namibian insurance industry is dominated by the life segment, which accounted for 70% of overall gross written premiums ($931m) in 2014
- Insurance penetration stood at 6.9%, which was higher compared to other African countries in 2014, such as Kenya (3.0%) and Morocco (3.2%)
- Key factors for the high insurance penetration include:
  - large number of wealthy populace that can afford insurance
  - benefited from the presence of large South African companies, which has provided the foundation for a competitive and efficient industry
- **30** licensed insurance companies in 2014

4 Morocco

- Morocco is the second largest insurance market with **17** licensed insurance companies
- Gross premium in 2014 was $3.4bn and a penetration rate of 3.2%
- Non-life insurance accounts for 68% of total premium, led by the car insurance offerings
- Key factors for the high insurance penetration include:
  - Early introduction of bancassurance in 2005 significantly increased access to insurance in the country
  - Takaful (Islamic) insurance provided a strong prospect to the large muslim population to take up insurance products
  - Adoption of the Islamic finance law in 2014 attracted investments from the Arab Gulf states which also boost the insurance market

Nigeria: Only 1% of adult population have insurance compared to 28% and 5% that have banking and pension accounts respectively



Source: Enhancing Financial Innovation & Access (EFInA 2014)