THE INSURANCE INDUSTRY, NATIONAL ECONOMIC SHIFTS AND NEW BUSINESS REALITIES

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By

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PROTOCOLS.

I am happy to be here once again as a guest speaker in this august gathering of insurance professionals. The topic chosen and for which I have been invited to speak is “The insurance Industry, National Economic shifts and new business reality”. The major elements of my discussion are evidently three in number. These are:

- The insurance industry
- National economic shifts
- New business realities

The above reminds me of the notion of the holy trinity in the Christian doctrine. However, the present business situation in Nigeria represents largely, an unholy trinity of a frightening interface between a very fragile, almost disappearing national insurance industry and a national economic shift that has moved perilously to recession, thus creating new but harrowing business realities.

Our role in this discussion will be to explore how we can disentangle the three elements and use our geniuses to recreate the insurance industry on a sustainable basis.

THE INSURANCE INDUSTRY

In the preface to it’s Global insurance market trends 2015, the organization for Economic co-operation and development (OECD) affirmed that " the insurance industry is a major component of the economy by virtue of the amount of premiums it collects, the scale of its investment and more fundamentally, the essential social and economic role it plays by covering personal and business risks".

Swiss Re 2016 sigma report indicates the following trend for the global insurance industry-

- ✓ The global insurance premium growth increased to 3.8% in 2015 from 3.5% in 2014.
- ✓ Life premium growth rate slowed down to 4.0% in 2015 from 4.3% in 2014. This moderate fall was attributed to the weaker performance of the advanced markets and the mixed performance of the emerging markets. The non-life sector presented a different scenario. The strong growth in the advanced markets of Asia and improvement in North America and Western Europe contributed to 3.6% increase in global premiums up from 2.4% growth in 2014.
- ✓ There was a noticeable growth in advanced market's life premium while the outlook for non - life remained mixed.
- ✓ The global slow down in trade impacted negatively on marine and credit insurance premium growth rate.
- ✓ Over all, the prevalent low interest rates weighed down on profitability though the insurance industry remained well capitalized.

The global consulting giant Mckinsey identified the factors said to explain the modest increase in global premium as follows:

- The performance of health insurance peaked appreciably and indeed showed the highest growth.
- Growth in property and casualty insurance remained stable at modest 5%.
- There was tremendous growth of the emerging markets (12%) as against the matured markets (5%). This has been explained by the huge potential of the emerging markets in terms of its low penetration level together with higher nominal GDP growth.
- The above not withstanding, the penetration rates for the mature markets at 8% far exceeds that of the emerging markets. Mckinsey is emphatic that this trend will continue since the growth seen in the emerging markets is not yet strong enough to largely surpass nominal GDP growth and thus increase penetration.

How ever, any discerning observer will see in the foregoing trend, a triple issue of slow growth, market fragility and dynamic competition. It is within this perspective that it should dawn on us that the United States and European insurers who were once the champions of the insurance world are now losing ground to Asian companies as the emerging markets grow. The inherent issues in the matured markets and which has slowed them down in recent times can explain the decline in performance. With respect to the US markets, SwissRE has in its 2016 report observed that "while developments in real terms signal strength, premium volumes in USD at running exchange rates contracted by 4.2% in 2015". The report concludes that though this could be seen as a sign of weakness of the insurance sector but it is only caused by widespread currency depreciation against the US dollars. What does this portend for the Nigerian insurance market where the Naira has taken severe beating in recent times; a situation that has led to renewed calls for redenomination of the naira?

Another issue of concern in all these developments has been the fragile, unstable or at best flat return on investment and which some analysts have attributed to strains of expansions from mature markets to the emerging markets. The dominant opinion however is that the ROE figures are not spectacular because of inherent contradictions evident in the slow growth rate of the mature markets. The consequence of this situation is that most insurers are barely managing to improve their bottom line and return on investment. Globally, the significant impact of this development is largely evident in the decline of incidences of mergers and acquisitions in recent times. NigeriaRE in its 2016 Report confirms this situation for the Nigerian insurance market. According to the report, "few mergers and acquisitions were recorded in 2015 with most of the acquisitions done by foreign companies".

Though Africa's insurance penetration as a percentage of GDP is said to be 3.5% and relatively higher than the emerging market's average of 2.72%, this insurance density profile is lower than the advanced market's average of about 8%. What this certainly shows is that we in Africa are not learning enough from the strategies that raised and sustained the advanced markets.

Africa's very low insurance penetration level becomes more worrisome when it is considered that much of what is the 3.5% was contributed by South Africa. In terms of global comparative statistics, South Africa's penetration level is 15.4% and is ranked 2nd in the world ahead of all but one mature market. Nigeria's performance needless to say remained dismal and unacceptably bad especially when compared to the size of the economy. The total premium volume generation for Nigeria is USD1.86bn and ranks 58th in the world. Behind South Africa and Nigeria is Kenya. Kenya's total premium volume of USD1.52bn ranks her as the 64th in the world. In real terms however, the Kenyan market is performing far better than the Nigerian market. For instance, the population of Nigeria is put at 171 million compared to Kenya's 44 million people. Before now, Nigeria had a rebased GDP of USD509bn compared to Kenya's GDP of USD44bn. However, while the insurance penetration in Nigeria is 0.6% of GDP, Kenya's is 3.4% and is ranked 44th in the world. No person takes away the fact that Nigeria represents potentially, the largest growth market in Africa but it is essential that we as insurance professionals begin to critically examine the factors that have continued to hold it down from performance with a view to neutralizing them. Nigeria stands out clearly as an eyesore in the global and continental insurance market performance statistics. This fact speaks to the need for all hands to be on deck to develop the economy and to create a cyclical trend where all sectors of the economy will find opportunities to contribute substantially to the growth of the GDP of the country.

In the context of Africa, Price Waterhouse Coopers [PWC] noted that Africa's insurers are grappling with disruptive social, technological, economic, environmental and political changes. This is very true of Nigeria and is grossly distracting the Nation from evolving meaningful approaches to growing the per capita income of the citizens and which in effect will create leapfrog in the consumption of services such as insurance and financial services. We cannot by our actions be sustaining underdevelopment and still expect the economy to grow. The average premium per capita for Africa was a mere USD66 in 2013 relative to the world average of USD3620. There seems to be no significant positive change in this position for Africa today. We are all used to the cliché that Nigerians exist on less than one dollar a day. This may have gone from bad to worse. Though a few analysts see this bad situation as a growth opportunity but the fact remains that the present hardship in Nigeria is disruptive of the choices Nigerians are ordinarily capable of making on vital issues such as insurance. We must therefore get down quick to fixing our structural economic issues otherwise we will be wasting our time talking of how to grow the insurance sector or any sector at all.

ECONOMIC SHIFTS; THE GLOBAL AND NATIONAL SITUATION.

Despite what may seem as global slow growth rate in the post financial crises era, the truth is that the world is moving. There are significant economic shifts that are generating new business realities. The major economic shifts in the world today are being driven by

- Globalization
- Democratization
- Global trade [agro-products, oil and gas]
- Information and technology
- Demography
- Terrorism
- Other local and global economic issues.

The economic shifts are at once creating prosperity, opportunities and poverty in the bipolar world.

Factors that have aided the momentum of growth of the global market have been identified as follows:

- Explosive growth in world GDP. According to Mckinsey, the global growth rate of 6.3% in 2014 far exceeded the growth rate of 2.8% reported in 2013. This trend is being pushed by the accelerating growth of China and the other Asian emerging markets and with Britain remaining somewhat stable though the current BREXIT issues are expected to create a momentary downside.
- Cost cutting and improvement of product quality
- Revolution in communication technology
- The growth of large pool of funds in mature and saturated markets. A look at the South Africa situation shows that the high growth of insurance penetration [15.4%] and the accelerating growth of annual gross premium income is suggestive or indicative of a highly saturated market in which growth potential has become limited. This explains why the big insurance companies in South Africa are now in aggressive geographic expansion gear. In this context therefore, the coming to Nigeria of such

companies as Old Mutual and The Sanlam group should be seen not as acts of benevolence but simply, a recognition of the fact that our confused domestic situation may offer significant growth opportunities outside their already saturated local environment.

- Increasing efficiency of the capital market as a channel for quick deployment of excess capital to various attractive investment destinations.
- Improved financial, logistics and business management techniques enabled by the developments in information, communication and technology [ICT].

The above factors notwithstanding, the truth as has been pointed out in this discussion is that there is a significant loss of momentum in global trade. In other words, the noticeable growth is not at par with the worlds potential. SwissRE notes in this regard “the average annual growth rate of the global insurance premiums since financial crises remains below pre-crises rate. The trend mirrors slow economic growth of global trade volumes”. The grim reality however is that this may get worse for the Nigerian market as the country’s various intra-national crises destroy the ease of doing business.

THE NATIONAL ECONOMIC REALITY

The Nigerian economy is in a state of flux. It is now officially declared to be in a recession. The National Bureau of Economic Research [NBER]; a US business cycle dating committee defines recession as negative growth for two consecutive quarters. The bureau further explains that recession is a business circle contraction, which results in general slow down of economic activity. Thus under recession, the GDP, investment spending, capacity utilization, house hold income, business profits etc. go down while bankruptcies and unemployment go up.

Nigeria is currently witnessing a lot of business closures and capital flight to safer economies. The banking sector is showing obvious signs of stress with so many of their workers now thrown out to an infertile labor market. The grim economic situation is further made worse by gory situations represented by the following:

- ✓ Contraction in government spending. This is curiously opposite to what economists think should be the case in a recessionary economy.
- ✓ The noisy fight against corruption becomes a distraction to the Government's effort at creating the momentum to reflate the economy.
- ✓ The naira becomes increasing fragile and vulnerable thus distorting trade and commerce and precipitating inflation. We are once again witnessing calls for the redenomination of the naira.
- ✓ The lean finances of all tiers of government are increasingly creating a very hostile tax and regulatory environment. Indeed, the business environment is now a hectic battlefield. Every tax man and regulator wants to extort pounds of flesh; not out of patriotic fervor but for selfish survival purposes.

- ✓ An epileptic power generation and supply situation that almost brings the nation down on her knees.
- ✓ Escalating terrorism, militancy, kidnapping, religious fundamentalism and self - determination agitations ruins the reputation of the country as an investment destination.
- ✓ A reign of confusion persists with the macro-economic environment now replete with ill digested policies that unleash uncertainty and despondency on businesses and consumers.

These issues are in themselves both triggers and consequences of recession. Insurance business under this situation is bound to suffer terribly. This is more so because insurance business in Nigeria is a tiny factor in the country's economic equation. Thanks to the rebased economy, insurance now contributes about 0.7% to the GDP as against former figure of about .3%. The insurance sector's contribution to the country's labor force [estimated at 74 million] is 4.2%. The total number of policyholders in the country is still below 2 million. Insurance business and practice in Nigeria is therefore undoubtedly very vulnerable to the shocks being generated by the country's economic situation. This fact calls for serious introspection and inquiry on what we as a market and as professionals need to do to ensure that the insurance industry survives the present hard times.

FACING THE NEW BUSINESS REALITIES

New business realities are emerging in Nigeria on daily basis. South Africa has just over taken Nigeria as Africa's biggest economy. [This Day, 11th August 2016 Pp1 and 6]. South Africa was able to reclaim this position because of the appreciation of the Rand and the devaluation of the Nigerian Naira following the introduction of flexible foreign exchange regime. Consequently, the size of South Africa's economy is now USD301bn as against Nigeria's current GDP of USD296bn. The This Day news report noted that while it remained unlikely that Nigeria will be unseated as Africa's largest economy on the long run, the momentum that took it there in the first place is now long gone. The current low economic momentum in Nigeria is a big challenge to the survival of the nation's insurance industry. Corporate budgets are shrinking, profit margins are narrowing, balance sheets are convulsing, work force are being downsized while customers are beginning to exhibit new buying behaviors and expectations. Sadly, it is under this situation when all hands should be on deck to defend the market that some segments of the same market such as insurance broking and loss adjusting are almost being forced to close shop by overhang of regulatory sanctions, fines, queries and delisting.

To survive in this chaotic environment, it has become imperative that we join hands to do the following and more:

- Encourage the government to design appropriate economic policies and strategies to uplift the country from its present financial ailment. The government must indeed walk the talk. The period of politicking and political campaign should be over. A crack economic team is required to face, advise and tell truth to power.

- Insurance regulation must aim at cultivating and fertilizing the growth of the insurance market through design and implementation of policies that will unlock the tremendous growth opportunities for insurance business in Nigeria. Adversarial regulation with high emphasis on fines and sanctions may not be the best for a fragile, immature and almost stunted market. Again, though the notion that the law is an ass is generally accepted as a building block for the rule of law, most renowned jurists advise that it should never be turned into an axe or a machete.
- Insurance companies must create effective strategies to embrace the opportunities arising from InsurTech and artificial intelligence. It is no doubt based on the platform of these emerging technologies that creative destruction of existing product and service lines and business models can lead to phenomenal creation and growth of new and diverse income earning opportunities.

  Though the term creative destruction is attributed to the 20th century economist Joseph Schumpeter, another deep thinker Buck Minster Fuller had joined with his admonition that "You never change things by fighting existing reality. To change something, build new model that makes the existing model obsolete".

- Key market leaders must develop the capability to embrace big data analytic framework in business decisions. There is a growing volume of all manner of data in the new world which on the face of it may be a nuisance or even an albatross to markets that are deficient in big data analytical power but in the big data lies big growth opportunities in diverse segments of the population.
- The above will dovetail into the management of market segment challenges and opportunities including the opportunities inherent in cyber insurance commercial lines.
- The insurance industry must upscale the strategies relating to training, re-skilling, retooling and in matters of shifting current paradigm in order to efficiently manage new risk scenarios and also to respond to increasing regulatory complexity and the multiple, rather authoritarian tax regime that we have in Nigeria. The statistical evidence is that we have not done enough to open up the space. This is why the insurance penetration level is very low despite the country's huge potentials. The Nigerian insurance industry should within the most elastic scope of our laws be opening up channels for product generation and distribution. That micro-insurance [which is yet to make any meaningful impact in Nigeria] is today globally acclaimed, as the source of the greatest innovation and disruption in the insurance market is due largely to the efficiency of product innovation and distribution channels created by

a few companies. As an example, BIMA, a leading insurance tech player has used mobile technology to disrupt the global insurance industry and fuel financial inclusion by providing affordable insurance and mobile health services for low-income families. The company already has 23 million customers; 40% of which comes from Sub-Saharan Africa. Interestingly, 60% of the customer base is also said to be living on less than $2.50 a day. Insurance premium on most of the products are as low as $0.50. This profound development can still take place in Nigeria but we have to first deal with issues of institutional and regulatory myopia.

The list of what can be done is not exhaustive. Ken Blanchard has strongly advised that to survive in the new business reality, organizations and leaders must do the following:

- ✓ Develop a shift in mindset
- ✓ Create a culture that supports the shift
- ✓ Create the capacity for change
- ✓ Cultivate the kind of leadership that can walk the talk of the culture towards developing the talents in the organization to the fullest.

I welcome you all to the new business reality. As the popular SCOA advert bye-line of the 1980s goes, the future starts today.

THANK YOU.

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ABOUT THE AUTHOR

Paschal Emeka Egerue is a multi-disciplinary insurance practitioner and intellectual. He commenced his insurance career in 1986 as a Superintendent in the United Nigeria Insurance co ltd [later known as UNIC plc.]. In 1990, he was selected as a member of the technical team that set up the Imo State owned Lake Insurance co ltd. He was the pioneer technical services manager of the company and later its head of Lagos operations. In pursuit of greater challenges, he in 1992 moved to the high brow Industrial and General Insurance company ltd as a Marketing Manager. At the Industrial and General Insurance Company, he was a star team member in all the innovative efforts, which effectively made the company a leader of the time. Responding to the allure of challenges, Mr. Egerue's next move was to Afribank Insurance Brokers in 1995 as an Assistant General Manager. It was through his overwhelming strategic thinking that the company was transformed from a loss making, process challenged company to become of the most profitable subsidiaries of the Afribank group. He became the MD/CEO of the company in December 1999 and remained on that seat for a record period of 16 years after which he took a voluntary retirement to face other endeavors.

Mr. Egerue also served as a board member of Central Insurance Company ltd for over 6 years and as an elected governing board member of the Nigerian Council of Registered Insurance Brokers for 6 years. He has been a consistent active member in virtually all the strong committees of both NCRIB and CIIN.

A lover of knowledge and a respected writer and analyst, Mr. Paschal Emeka Egerue graduated BSc [Hons] Sociology, second class upper from UNN in 1982, MSc in Industrial Sociology from University of Ibadan in 1984, MBA in Management from University of Lagos in 1999 and also a Postgraduate diploma in Public Relations from the Nigerian Institute of Journalism. He is also an Associate of the Chartered Insurance Institute of London [ACII], a Fellow of the

Nigerian Council of Registered Insurance Brokers [FCIB], a Fellow of the Chartered Insurance Institute of Nigeria [FIIN], a Fellow of the Certified Institute of Cost Management of Nigeria, a Fellow of the Professional Excellence Foundation of Nigeria and a Distinguished External Reference Group member of the African Capacity Building Foundation, based in Harare, Zimbabwe. Mr. Egerue's current academic interest is in Law especially commercial, maritime, oil and gas law and is hopeful of fulfilling the requirement for the award of LL.B in Law in the next few months. Paschal Emeka Egerue is an author of four standard books in insurance and 50 articles in journals and the other critical media. Amongst the out come of his research is the Rent Assurance product of NEM Insurance plc. His desire to take the insurance industry to greater height led him to single handedly establish the industry's first and only Insurance focused Newspaper- ***INSURANCE&MONEY***.

He is currently on the board of Enterprise Trust Insurance Brokers LTD as the MD/CEO and has been honored by his people as UGOMBA of Umuezeala ancient Kingdom and Obi-udo of Nkumeato autonomous community; all in Imo State Nigeria.