

# *The Non-Oil Sector and Opportunities for Insurance*

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# Outline

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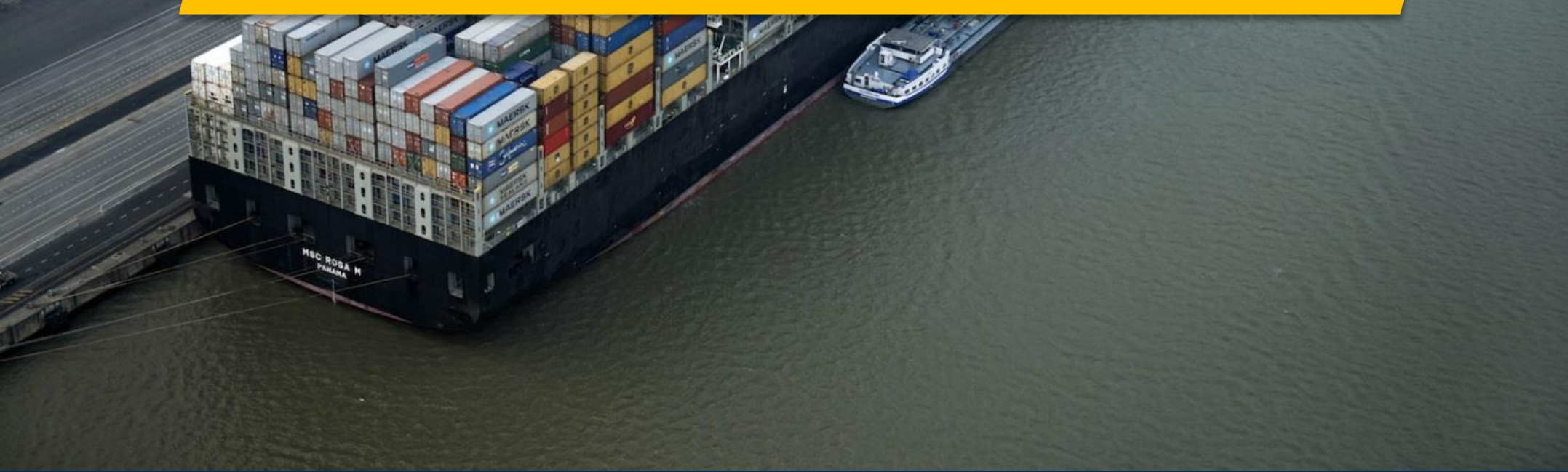
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# Introduction



## *Our Focus for Today...*

- Key highlights and implications of the macroeconomic environment
- Review of the government's diversification to the non-oil sector and the opportunities for insurance
- Existing potential of the insurance sector – recession and diversification efforts notwithstanding

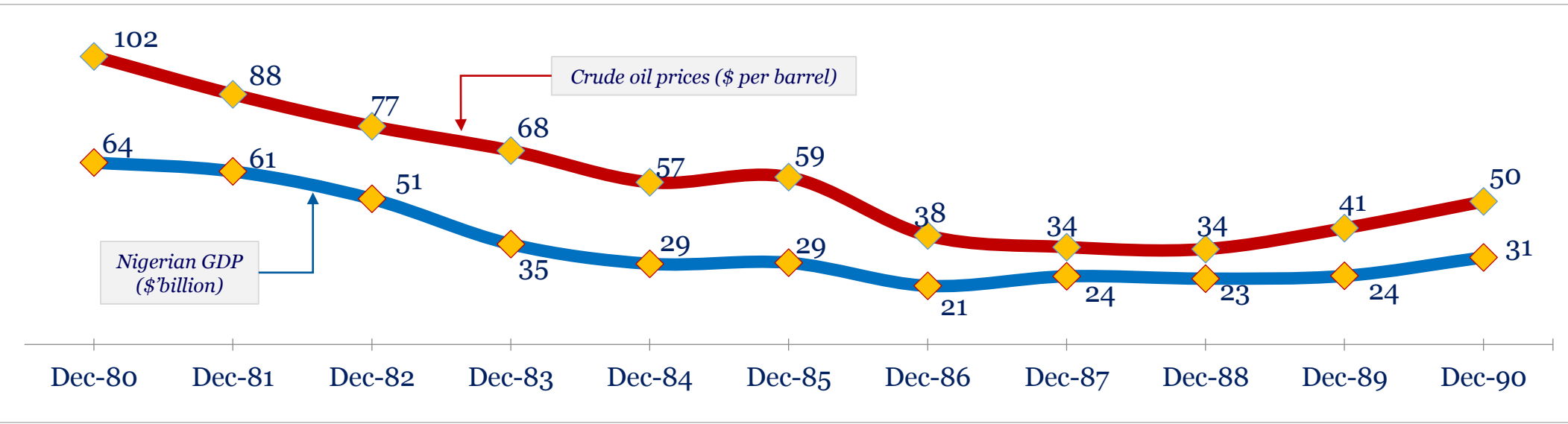




# Key Macroeconomic Trends

The crash in crude oil prices is not a new phenomenon – in fact it tends to happen at least once every decade. As shown below, the crude oil prices crashed in the 1980s...

### Crude oil prices vs. Nigeria's GDP (1980 to 1990)

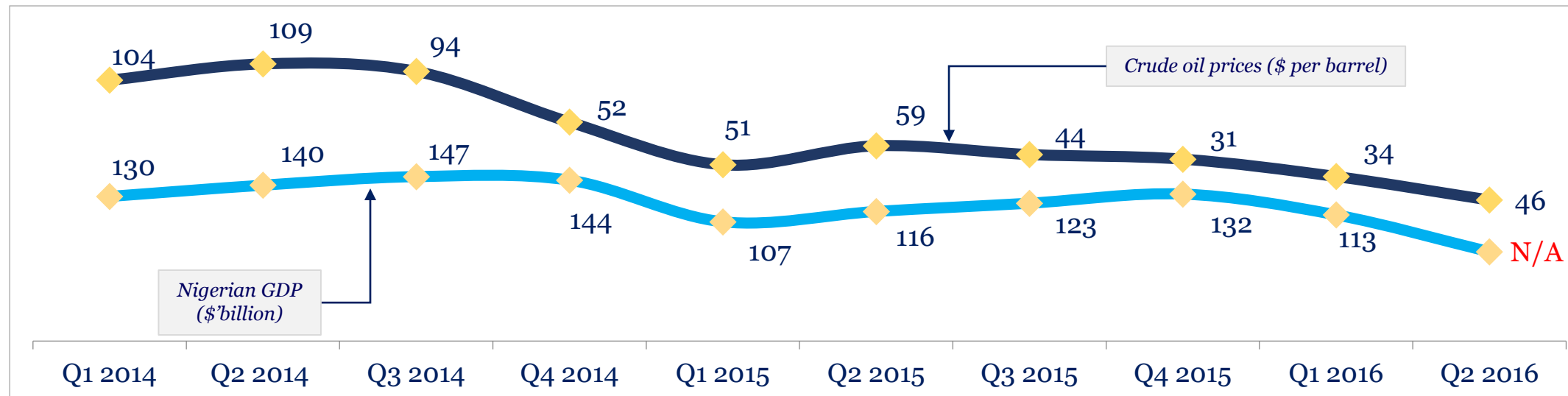


- Crude oil prices fell steadily over a 7-year period from 1980 to 1987 and gradually recovered from 1987 to the early 1990s
- During this period, Nigeria's GDP mirrored the oil price trends – falling and rising along with changes in the oil market
- This prompted the government to embark on drastic initiatives such as cutting of government expenditure, expulsion of 2 million foreigners (citizens of Ghana, Cameroon, etc.) and the adoption of the Structural Adjustment Program (SAP)
- The government also promoted exports through credit incentives which triggered growth in non-oil exports from about **\$200m in 1986 to \$1billion in 1988**. However, upon recovery of the oil price, the government shifted focus back to the oil sector.

Source: Trading Economics; Macrotrends

*Just as in the 1980s, crude oil prices have declined from 2014 to 2016 triggering sustained fall in Nigeria's GDP growth over the same period...*

### **Crude oil prices vs. Nigeria's GDP (Q1 2014 to Q2 2016)**



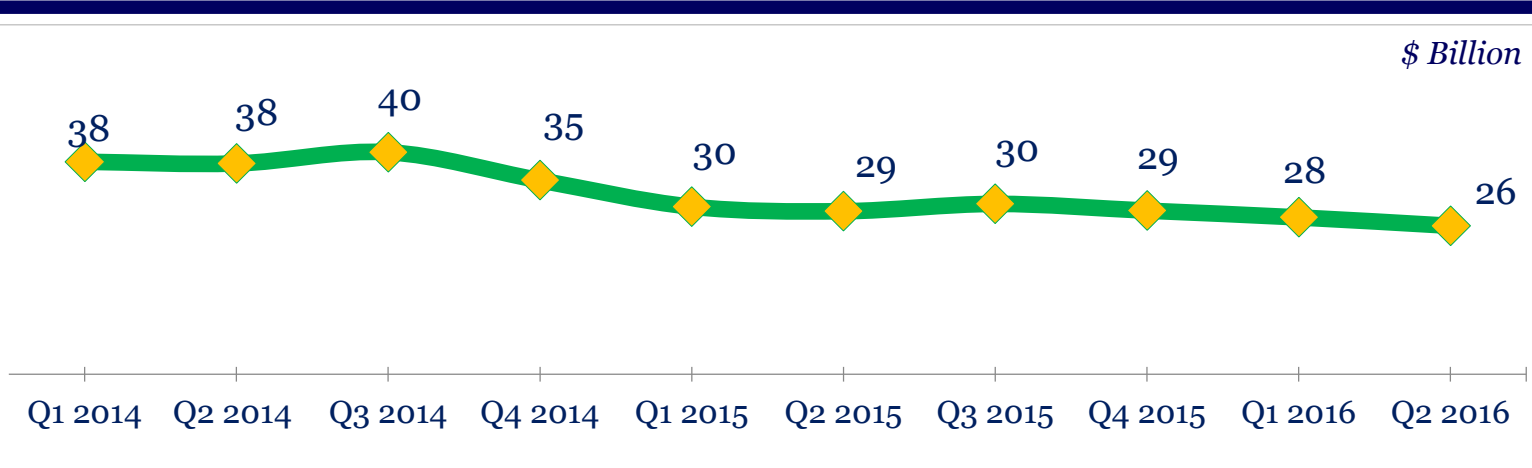
- The fall in crude oil prices have again exposed the fundamental weaknesses of Nigeria's mono-product economy
- In Q1 2016, the economy contracted and is believed to have contracted further in Q2 2016
- As in the 1980s, the government is now embarking on initiatives that would diversify the economy to the non-oil sector

Source: OPEC Basket Price; Strategy Team Analysis

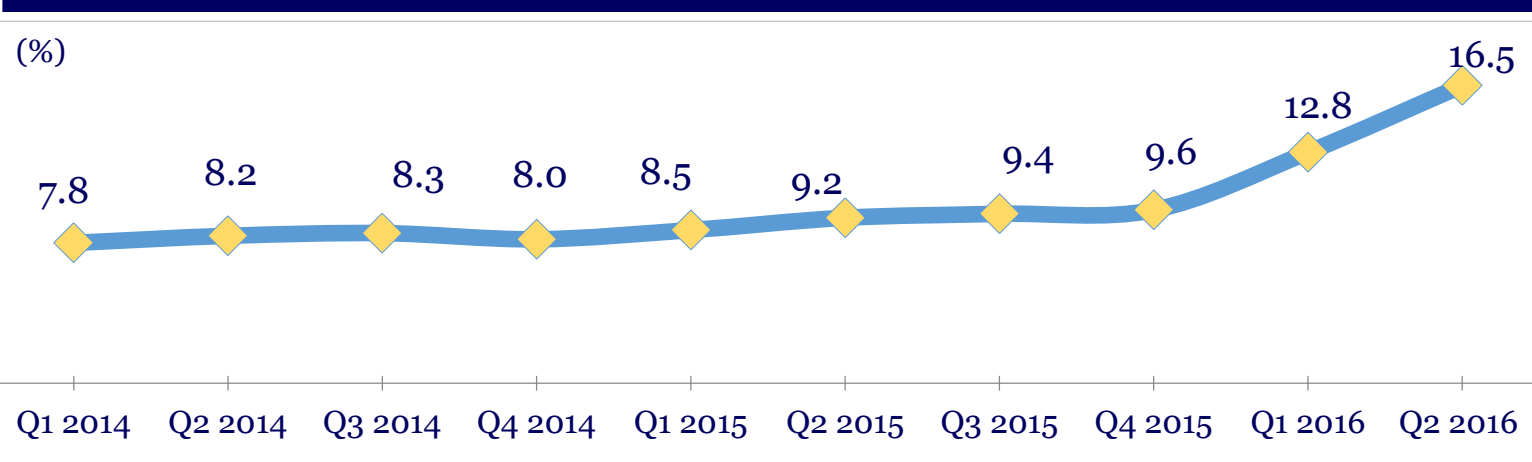


Other economic indicators such as the FX rate and NSE ASI have also maintained negative trajectories. Shown below is the impact on foreign reserve and inflation rate...

**Foreign Reserve (Q1 2014 to Q2 2016)**



**Inflation Rate (Q1 2014 to Q2 2016)**



- Foreign reserves depleted by a much as \$2 billion in 2016 alone
- Inflation rate is also becoming alarming.
- This is due to a combination of factors such as high cost of sourcing FX for importation and removal of subsidy leading to hike in PMS price
- These and other key factors have led to the sharp increase in the cost of living

Source: National Bureau of Statistics



In spite of these prevailing economic drifts, it is important to note that economies often follow a **“boom-gloom-recovery-boom”** cycle. Therefore, it is important to note the key trends during these phases and the resultant effects on insurance for strategic planning purposes...

**Boom**  
*WHERE WE WERE*

**Gloom**  
*WHERE WE ARE*

**Recovery**  
*WHERE WE ARE HEADED*

**Key country trends**

- High crude oil prices
- High government expenditure
- Relatively lower unemployment levels
- Lower inflation rate
- Consumers possess more disposable income

- Low crude oil prices which prompts diversification
- Cost optimisation strategies employed by companies e.g. staff rationalisation and cutting costs for training, travel, insurance, etc.
- Higher unemployment rates and inflation rates
- Consumers refocusing spending to essential commodities

- Gradual increase in crude oil prices
- Growing consumer confidence leading to more flexible spending patterns

**What happens to the insurance sector?**

- Government and corporate organisations are more disposed to purchasing insurance
- Less resistance to purchase insurance by existing and new consumers

- Increase in termination of life policies
- Existing insurance buyers (retail and corporate) seek discounts or stop purchasing

- Gradual uptake of insurance

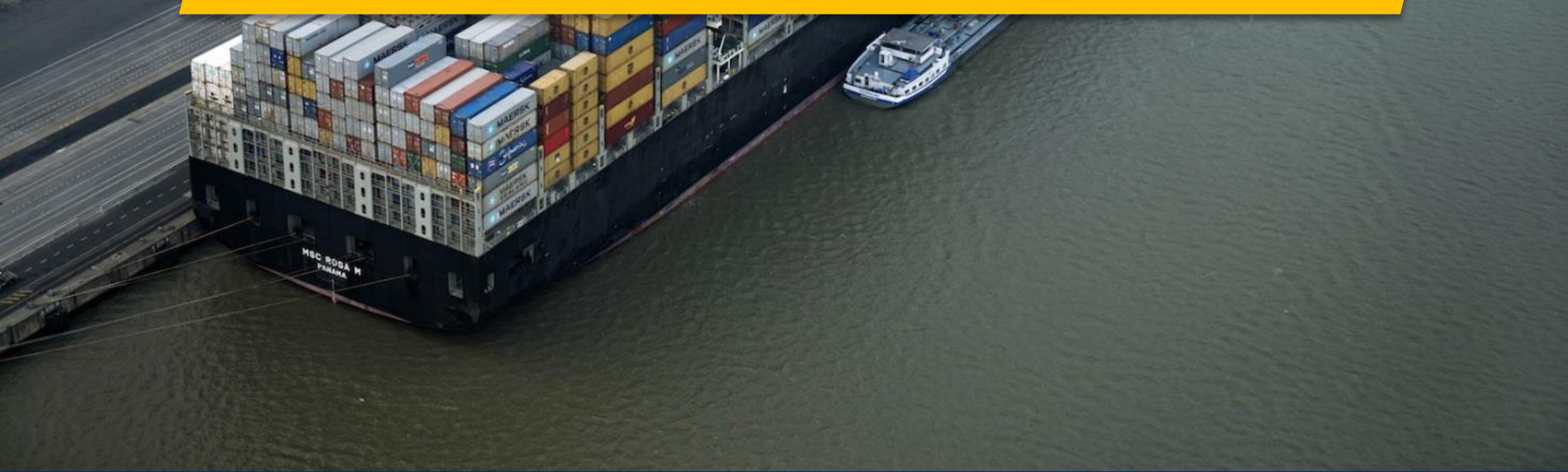
Knowing that existing insurance buyers will seek discounts and/or reduce/stop insurance purchases in a recession, the following **critical strategic imperatives** will be key for the survival of insurance companies in Nigeria...

- 1** *Product innovation based on customers segments and peculiar needs*
- 2** *Refocusing distribution strategy to reach the uninsured*
- 3** *Improved service delivery to retain existing and new insurance buyers*





# Non-Oil Sector Opportunities





The insurance sector must position itself as a key stakeholder in the government’s diversification to non-oil sectors. Outlined below are the key initiatives being explored by the government, most of which are anchored around **INCREASED GOVERNMENT SPENDING**...

SECTOR/ INITIATIVES	SHORT TERM ( < 2 years)	MEDIUM TERM ( 2 – 5 years)	LONG TERM ( > 5 years)
<b>Non-Oil Sectors</b>	Agriculture <i>(The Agriculture Promotion Policy 2016–2020; CBN Intervention Fund)</i>		
	Manufacturing <i>(CBN Intervention Fund)</i>		
	Transportation <i>(China’s investment)</i>		
	Power Sector & Infrastructure revamp <i>(China’s investment)</i>		
	Solid Minerals and Mining <i>(China’s investment)</i>		
<b>Other Initiatives</b>	SME Funding <i>(CBN’s Youth Entrepreneurship Development)</i>		
	CBN Export Stimulation Fund		
	National Tax Policy Review		

Source: Various media publications; Strategy Team Analysis

# Key Non-Oil Sector Opportunities (cont'd)

## 1 CBN Export Stimulation Facility



### Government Initiatives

- CBN, in partnership with NEXIM Bank, has launched a **N500billion** Non-oil Export Stimulation Facility
- The fund will provide low interest facilities with interests ranging from 7.5% to 9% depending on the loan tenure

Source: Various media publications; Strategy Team Analysis

# Key Non-Oil Sector Opportunities (cont'd)

2

## Agriculture Sector



### Government Initiatives

- The CBN has set aside ***N750billion*** as intervention funds for the Agricultural sector. The loans will be at single digit interest rates
- Government as also rolled out its long term policy for Agriculture called the Green Alternative with the major objective to achieve self-sufficiency (especially in crops such as rice, wheat and maize)

Source: Various media publications; Strategy Team Analysis



# Key Non-Oil Sector Opportunities (cont'd)

3

## SME Funding



### Government Initiatives

- CBN, through Heritage Bank, has launched a Youth Innovative Entrepreneurship Development Programme (YIEDP)
- The initiative aims to provide affordable loans (**up to N3million**) to youths (serving and non-youth NYSC corp members)
- CBN is targeting disbursing loans to 10,000 youths over 4 years
- Collateral required from recipients include academic credentials, NYSC certificates, third party guarantee and other moveable assets

Source: Various media publications; Strategy Team Analysis

# Key Non-Oil Sector Opportunities (cont'd)

4

## Manufacturing Sector



### Government Initiatives

- The CBN has set also aside ***N235billion*** as intervention funds for the manufacturing sector. The fund will also be assessable at single digit interest rates
- The Manufacturers Association of Nigeria in conjunction with the DFID launched a “***Made In Nigeria***” (MaIN) advocacy campaign to reduce dependence on imported consumption by both the government and the general public

Source: Various media publications; Strategy Team Analysis

# Key Non-Oil Sector Opportunities (cont'd)

5

## Power & Infrastructure



### Government Initiatives

- China has agreed to invest **\$6 billion** on multiple projects. Some of which include:
  - **\$470 million** loan facility agreed with for the construction of a 300MW solar power plant
  - **\$1billion** for the development of a greenfield expressway for Abuja-Ibadan-Lagos
  - The Lagos metro rail transit red line project was secured at **\$2.5 billion**
  - **\$363million** for the establishment of a farm and industrial park in Kogi state

Source: Various media publications; Strategy Team Analysis



# Key Non-Oil Sector Opportunities (cont'd)

## 6 Review of National Tax Policy



### Government Initiatives

- The review of the Policy is aimed at ensuring effective implementation of the National Tax Policy with a view to enhancing the revenue of the Federation, among other reasons
- IMF has indicated that Nigeria's VAT rate is below the rates of other ECOWAS members and among the lowest in the world

*Source: Various media publications; Strategy Team Analysis*

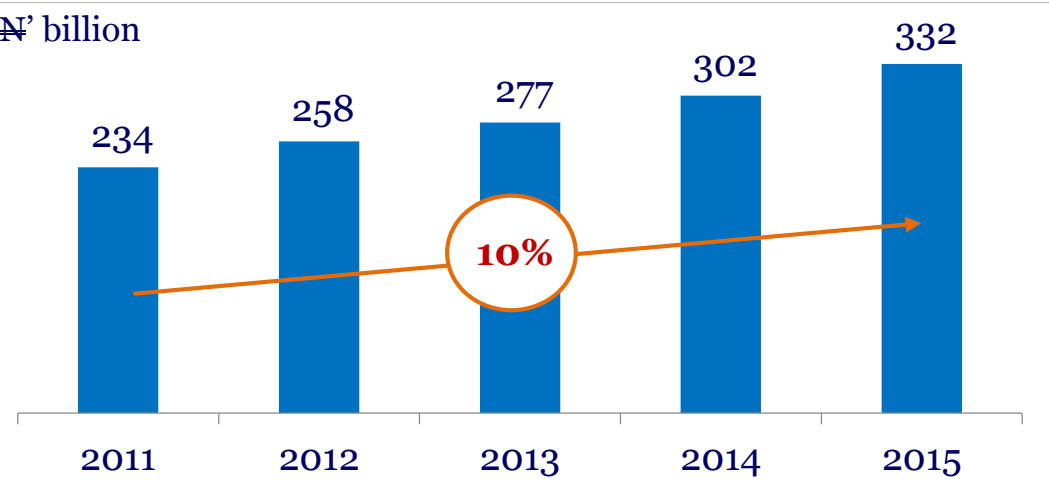


# Existing Insurance Opportunities

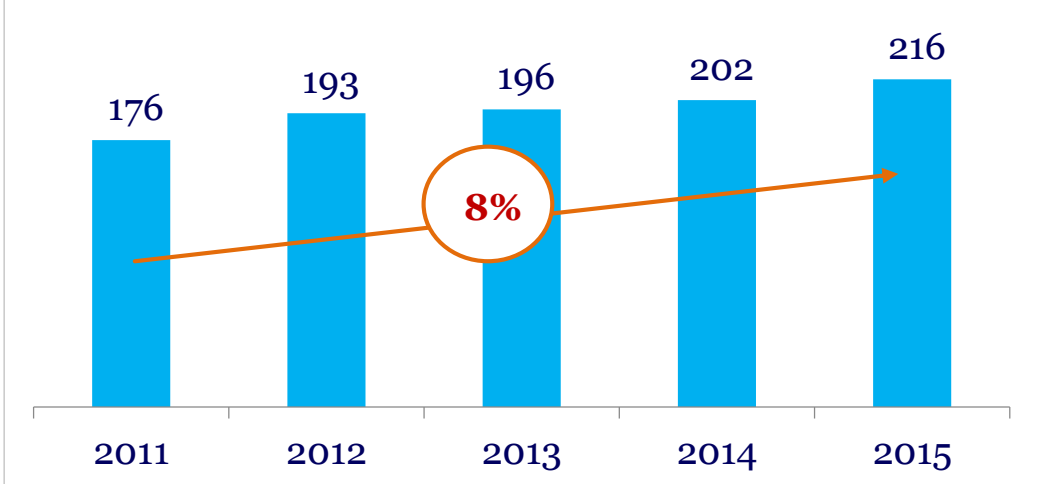


# Insurance Industry Premium Trends....

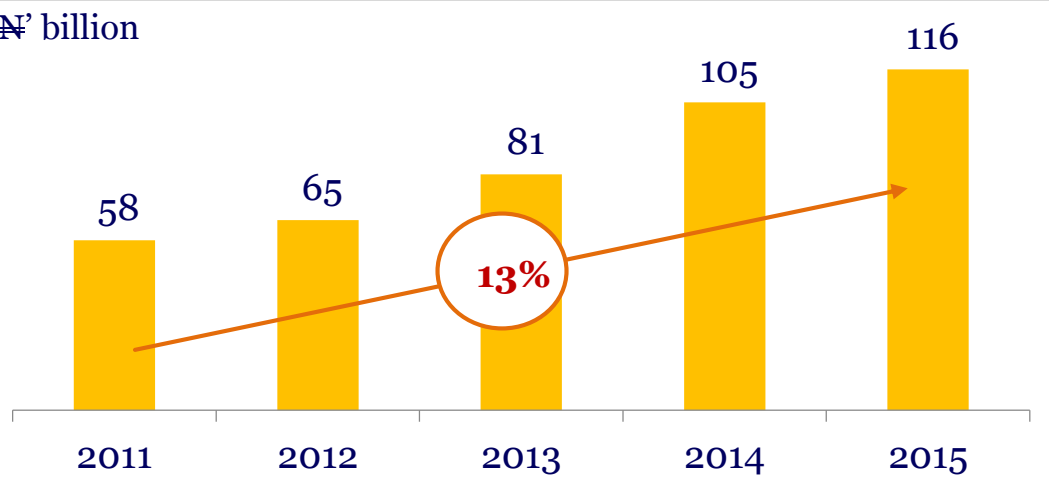
## Industry Premium Trend



## General Insurance Premium Growth



## Life Insurance Premium Growth



- The insurance industry has maintained moderate growth over the period under review
- Industry growth is primarily driven by the life sub-segment growing at double digits

Source: NAICOM; NIA; Strategy Team Analysis;



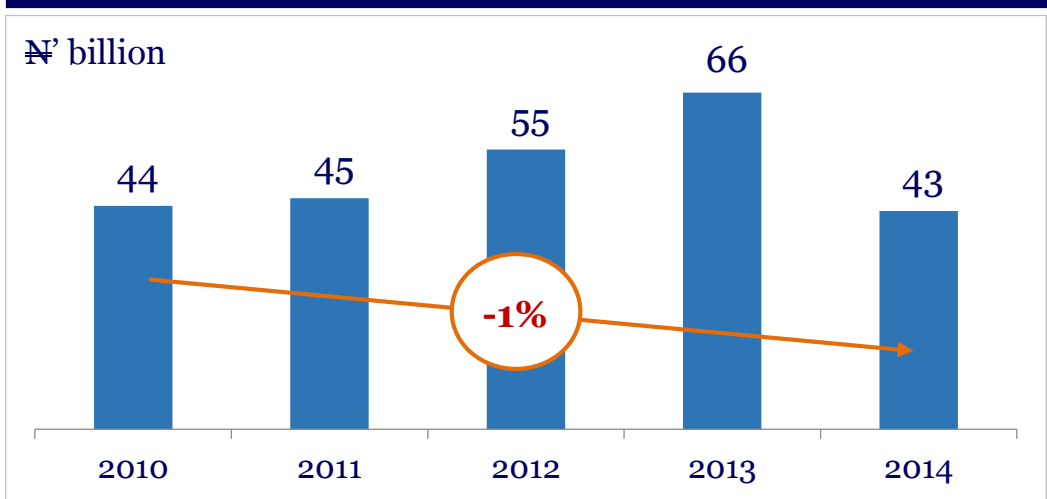


Key general insurance products have witnessed mixed fortunes in premium trends over a 5-year period...

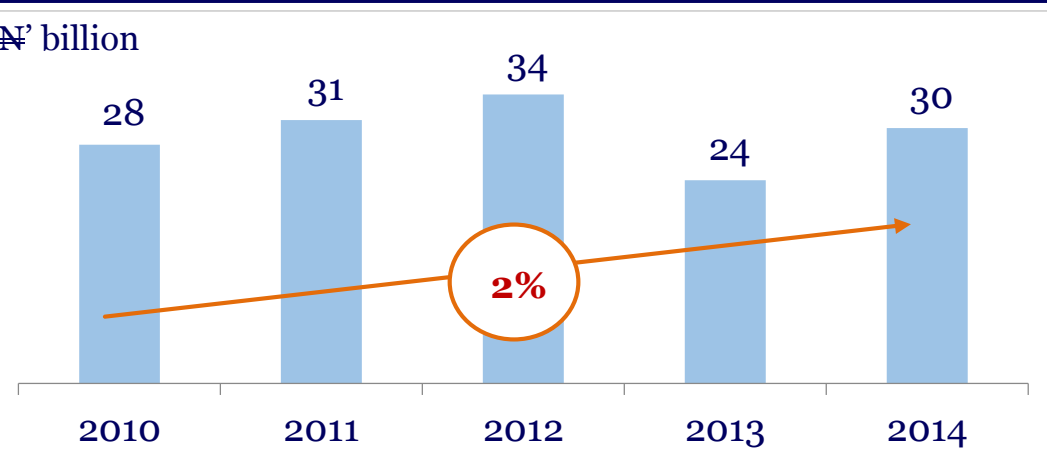
**Marine & Aviation Premium Trend (2010 to 2014)**



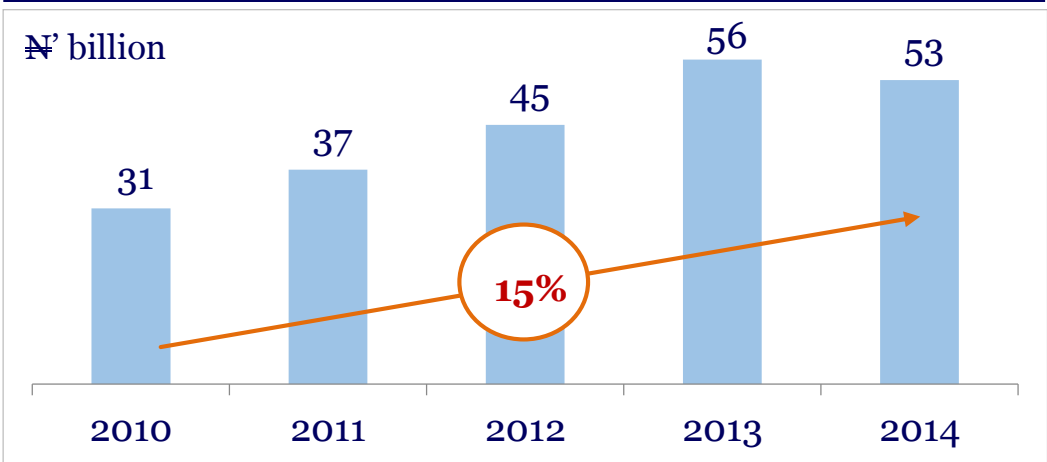
**Motor Premium Trend (2010 to 2014)**



**General Accident Premium Trend (2010 to 2014)**



**Oil & Gas Premium Trend (2010 to 2014)**



Source: NAICOM; NIA; Strategy Team Analysis;

*Key statistics indicate that Nigeria is well suited for retail oriented businesses in spite of the prevailing economic and infrastructural limitations...*

Active Labour Force  
**53.9 million**

Number of insured  
**~8-10 million\***

Insurance Penetration  
**<1%**



**11 cities** with  
populations over 1 million

Internet Users (June 16)  
**92 million**

**40 million**  
Nigerians belong to the  
households with an annual  
income of USD7,500 and above

Source: National Bureau of Statistics; NCC; NIA; Strategy Team Estimates\*

## Case Studies on exploiting Nigeria's population potentials

# SHOPRITE

LOWER PRICES YOU CAN TRUST *Always*

- Inception: December 2005
- Now has **18 stores across 8 states** including covering the north, south, east and west
- 1 additional store to be launched at Sangotedo, Lekki



- Inception: May 2001
- Number of locations/ outlets: 223
- Number of subscribers: 57 million as at Q1 2016
- 2015 PAT: N190billion

*Despite Nigeria being regarded amongst the worst on the ease of doing business index, foreign companies such as Shoprite and MTN have continued to deploy means of working around the difficulties. The insurance industry must do likewise*



## *Conclusion: Imperatives for the insurance industry in the next 1 – 3 years*

- The vast population supports a retail oriented insurance business

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- Government's urgent and inevitable diversification drive to non-oil sector such as agriculture, mining etc. will create opportunities for innovative insurance services – especially for SMEs

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- Securing public sector businesses will remain a major but unpredictable premium generation source

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- Government's encouragement of exportation to create maritime insurance opportunities

***FBN Insurance*** 

***Thank you***