

“Opportunities and Returns in the Nigerian Business Environment”

Wole Oshin BSc., MBA, FCIIN, ACII
GMD/CEO Custodian & Allied Plc

CIIN's 2015 Insurance Professionals' Forum



Introduction

- Let me start by expressing my appreciation for the kind invitation extended to me to participate as a guest speaker in this key forum on a topic which is central to our nation's development.
- The theme: “The Nigerian Business Environment – Implications for the Insurance Industry”, is a call to action to position our industry in its rightful place in the economy.
- This is suggestive of the fact that the insurance professionals through the management of the Chartered Insurance Institute of Nigeria are fully aware of the unfolding events in the business world.

1

**Overview of the Nigerian
Economy**

2

**The Nigerian Insurance Industry:
A Compelling Story**

3

Opportunities, Potential & Gaps

4

Conclusion

Overview of the Nigerian Economy



Custodian

Overview of the Economy

- Nigeria is the eighth most populous country in the world and stands as the most populous country in Africa and 60% of West Africa's population.
- The Nigerian economy has grown rapidly over the years, and following the rebasing of the GDP, our economy has become the largest economy in Africa (est. \$580bn)
- Emerging middle class, increasing rural-urban migration (3.75% per year) and increasing financial literacy.
- Nigeria is one of the most prominent members of the commonwealth nations and a member of the new economic power bloc MINTS (Mexico, India, Nigeria, Turkey). These countries possess the great potentials to become one of the world's largest economies in the 21st century.
- Nigeria is a country blessed richly with natural resources and Human capital providing technical services both home and abroad.

Overview of the Economy Contd.

- According to NBS (Nigerian Bureau of Statistics), at 3.96% y/y, real GDP growth is significantly lower than the first quarter 5-year average of 5.0% y/y, and is the lowest first quarter growth since Q1'2012, reflecting largely the impact of
 - (i) Weaker oil prices on government revenues: Goldman Sachs predicted oil prices could fall as low as \$20.
 - (ii) Political uncertainty on investment demand and
 - (iii) A weaker currency on manufacturing output and consumer expenditure
- GDP expenditure showed household consumption expenditure slowing to 6.8% y/y in Q1'2015 (Q4'2014: 10.6% y/y)
- Exports contracted by 18% y/y largely on the decline in the value of oil exports, although the impact was offset by only a modest growth in imports.
- Headline inflation in H1'15 reached a 2-year high of 9.2% y/y in June, after touching a low of 8.2% y/y. Inflation accelerated across all indexes; food, utilities, imported food etc.

Overview of the Economy Contd.

- The NGN/USD has weakened 8% YtD and 12% post November 2014 devaluation. The rationale was that the harmonization of the currency markets would allow for better flexibility in the control of FX supply, thereby moderating the attrition in reserves. (It is suggested that further devaluation of the Naira is inevitable).
- The nation's foreign reserve as at July closed at \$ 30 billion a marginal growth from previous months. Analysts are quick to link the latest rise to the recent decision by the apex bank banning importers of 41 goods from accessing foreign exchange from official inter-bank market. (Manufacturers differ on this policy as it impacts negatively on the production capacity).

The Nigerian Insurance Industry: A Compelling Story



Custodian

Industry Highlights

(i) Introduction

- It is expected that Nigeria's insurance industry will remain largely driven by the country's rich demography given the population of est.170 million at an estimated growth rate of 2.54% per year, a median age of 17.9 years, a rising urban population and emerging middle-class which our sector continues to explore.
- The Insurance industry is the engine room of growth of most developed economies and pivotal to infrastructure development such as roads, shopping malls, office blocks etc.

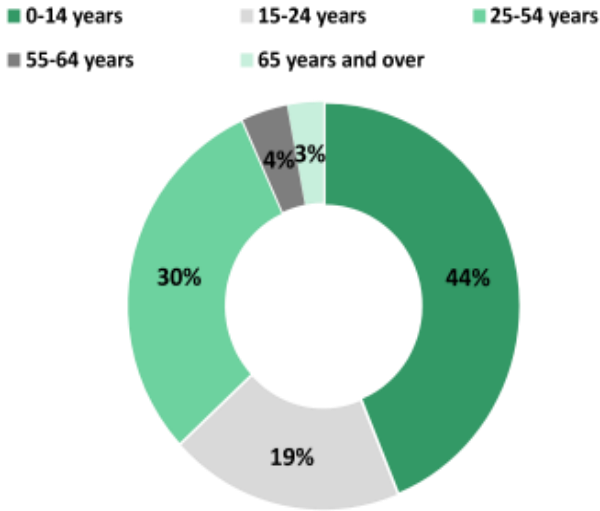


Chart 1.1 Nigeria's Age Distribution

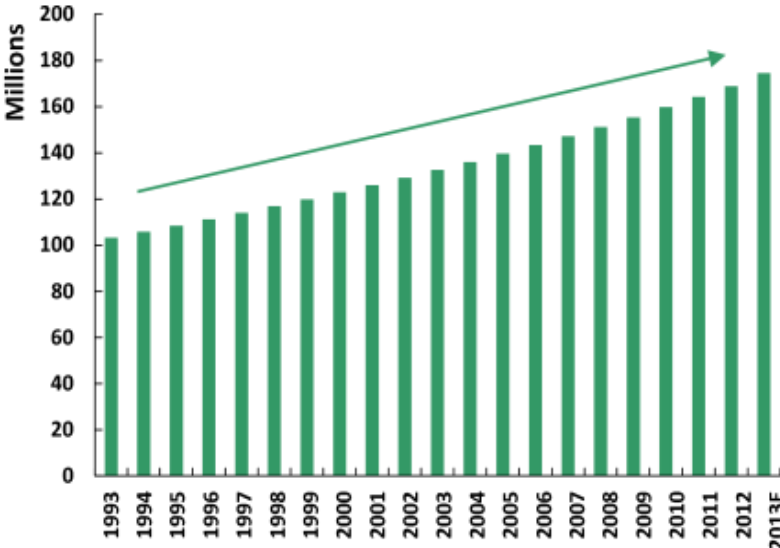
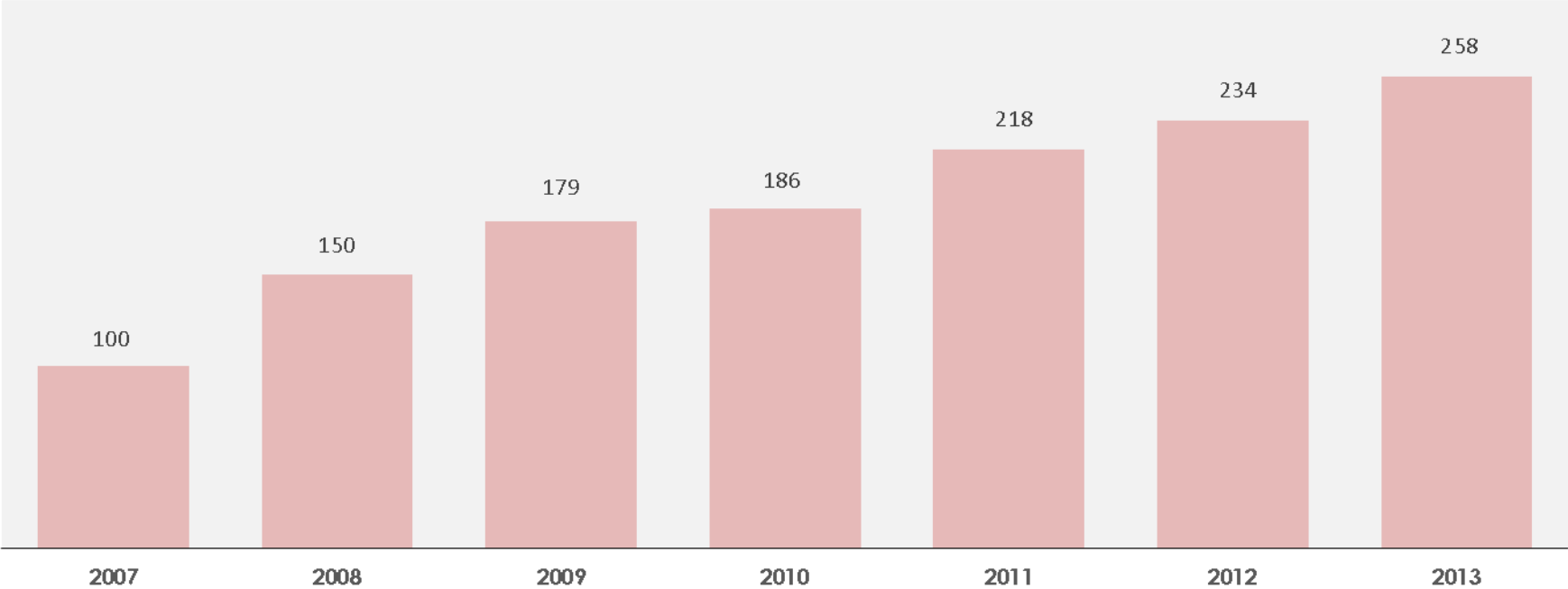


Chart 1.2 Total Population in Nigeria (1993 - 2013)

(ii) Market Size and Historical Growth

- The nation's insurance industry's total assets have hit =N=711.4 billion from about =N=347.1 billion in 2007, indicating an increase of 104 percent.
- An impressive industry performance, which saw the gross premium income growing from =N=100 billion in 2007 to =N=302 billion at the end of 2014, an increase of over 200 percent
- The Insurance sector is dominated by the General Insurance Sector (Motor & Oil & Gas being the largest products). This trend is however changing rapidly.
- Low insurance penetration compared to other countries with similar GDP per Capita
- Certain regulatory changes has enabled growth (e.g. “no premium, no cover”, IFRS adoption, etc.) enforcement of MDRI.

Chart 2. Industry Gross Premium from 2007 to 2013 NGN Bn



Market Size & Historical Growth Contd.

- Industry returns are moderate compared to both developed and other emerging markets with a combined ratio of 80.2% and Return on Equity at 5.7%.
- The industry is still dominated by corporate clients
- The industry is mostly dominated by local players with African and Global Insurers moving in.
- The market is consolidating with a number of mergers and acquisitions e.g. Custodian/Crusader, Cornerstone/FinInsurance, AllCO Life/AllCO General.
- Significant interest from foreign players e.g. Prudential, Liberty Holdings, AXA Mansard, NSIA/ADIC, Unitrust/Saham Finance, Old Mutual/Oceanic, etc.

(iii) Strengths

- Regulatory drive has improved confidence in the Industry
- Improved industry financial performance
- Increased awareness of consumer protection initiatives
- Emergence of alternative distribution channels e.g. Telcos, Car Shops, Travel Agencies etc.
- Vastly untapped markets creates opportunities for growth and an attraction to foreign insurers

(iv) Challenges

- Negative perception of the industry still persists
- Information Technology below par. Industry-wide data gathering and document management is poor. This invariably affects proper product pricing and development.
- The industry is highly fragmented and competitive, thereby affecting the pace of growth in overall market size.
- Challenges in the enforcement of compulsory insurances.
- Scarcity of Human capital in certain specialized areas e.g. Actuaries.
- Rise in fraudulent claims.

Opportunities, Potential & Gaps



Custodian

Opportunities, Potential & Gaps

- The industry has recorded a year-on-year turnover of 18.4% and 17.4% compounded average growth (CAGR) between 2007 and 2013 respectively.
- The Life business contributes 25% and growing with a potential to surpass the General business within 10 years.
- A shift in focus to retail business would largely unlock hitherto uninsured risks through product channels such as mobile phones and retail outlets
- The bottom of the pyramid and low income mass market holds a huge potential for the industry albeit in the medium to long term e.g. Agricultural Insurance.
- The industry remains largely underpenetrated with insurance density (insurance premium as a percentage of GDP) at 0.225% considering industry premium of approximately \$1.5bn in comparison to other African countries. The gap as a result of low penetration is actually an opportunity.
- A regulatory environment that is favourably disposed to change and growth.
- Closer collaboration between government and the Industry.

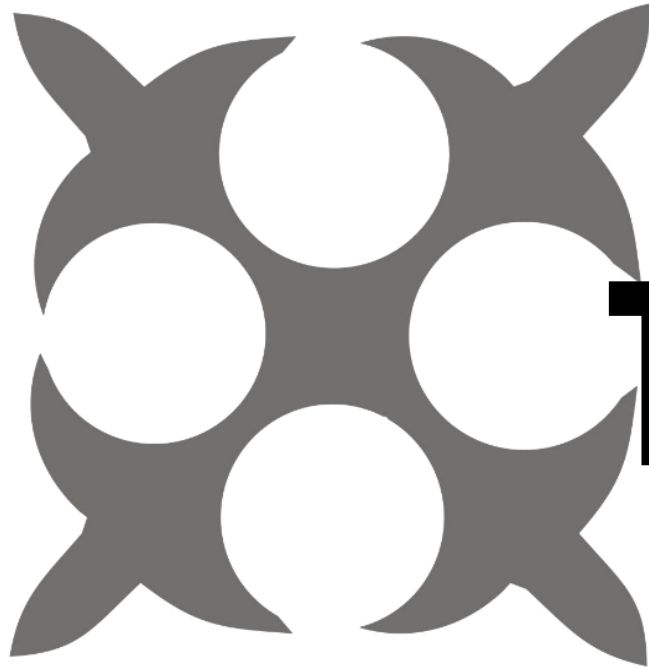
Conclusion



Custodian

... In conclusion

- The recent happenings in our industry are pointers to a reinvigorated and competitive industry which includes:
 - ✓ Favourable economic performance, recent policies and government support through various legislations (the Oil and Gas sector, the Maritime sector etc.), and
 - ✓ The repositioning among industry players to harness the huge market potentials through Mergers and Acquisitions
- A note of caution however, is that our economy has been slow and maybe sliding into recession which naturally affects our business across board.
- The insurance sector is going through a process of change and recovery, however with recent developments in the economy, the companies that will stand tall are those who are savvy enough to navigate through the predicted downturn in the economy.
- Thank you for listening.



Thank You!

Contact Us!

16A, Commercial Avenue,
Sabo, Yaba,
Lagos.
Tel: (+234) 1 2707206-7, 2793740, 27937401 0700-
CUSTODIAN, (+234) 1 2774000-9

Fax: (+234) 1 2707203
P. O. Box 2101, Lagos.
Email: enquiries@custodianinsurance.com; carecentre@custodianinsurance.com

Website: www.custodianplc.com.ng

