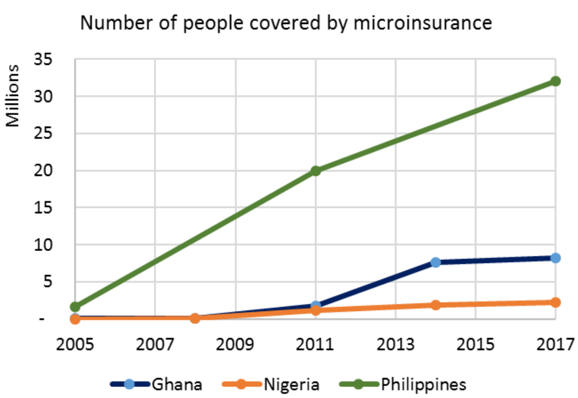
Microinsurance Assessment and Landscape Study in Nigeria: Supply-side Perspectives



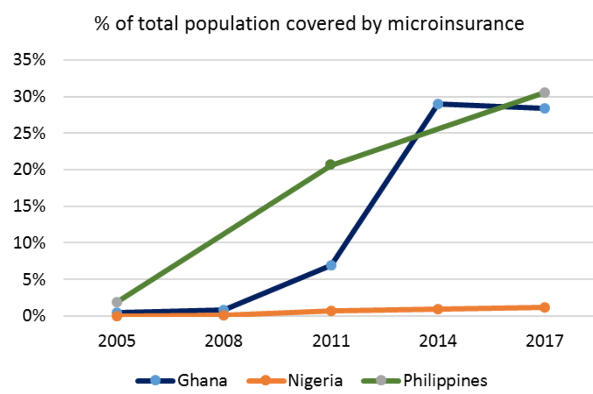


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Table of Contents

Figures

Tables

Market Comparison Boxes

I. Acknowledgements

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This supply-side Microinsurance study was prepared for educational purposes, providing a public good assessment of the current state of Microinsurance and its impact on financial inclusion in Nigeria. Milliman does not intend to benefit or create a legal duty to any third-party recipient of its work.

In performing any analysis in this study, the research team and authors relied on various sources of publicly available information as well as proprietary information from insurance providers and partners. The data was self-reported by insurers. If the underlying data, information, or assumptions are inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Certain assessments of the Nigerian legal framework for insurance have been included in this report. It is not our intent to provide legal advice, merely an indication of constraints and opportunities that may be present in the legal structure. Readers should confirm any such information with their own legal counsel.

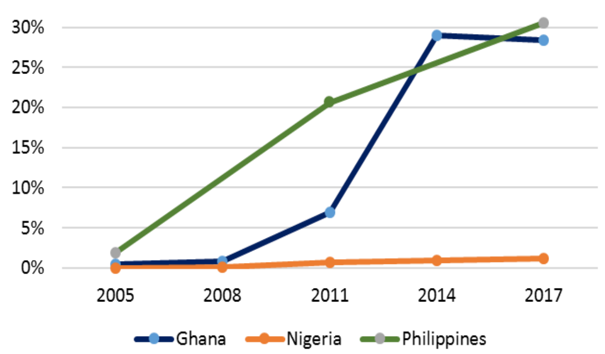
[1] Katie Biese, Michael J. McCord, and Mariah Mateo Sarpong of the MicroInsurance Centre at Milliman authored this study.

II. Executive Summary

Understanding the dynamics of a country's various industries helps governments and others to make effective decisions about priority areas. For Microinsurance (MI), there has been a rather extensive use of landscape studies that compile the key information about Microinsurance in a country—number of people covered, gross written premiums (GWP), distribution, sometimes claims, administrative costs and commissions. In some cases, where these studies have been conducted, they have been helpful to insurance regulators, government policymakers and insurance associations, as well as insurers and intermediaries in assessing the markets, identifying opportunities and using as the foundation for market planning. In Nigeria this supply-side Microinsurance landscape study, has been conducted to provide a status update on MI progress, to facilitate the stakeholders around key financial inclusion programs, regulations and build strong interest by insurers in expanding the market.

This report is based on results from a detailed Supply-side Landscape study of insurers in which every insurance company in Nigeria was contacted, including a qualitative survey. Based on a consistent definition, those insurers that offered Microinsurance' were provided with a quantitative survey with which to provide their key Microinsurance data. The data collected was as at December 31, 2017. This information was cleaned and analysed to provide the insights within this paper. The results were presented at the EFInA Microinsurance workshop of insurers, regulators, distributors and donors; the results were discussed in two groups - one of regulators and one of insurers with distributors. The discussions led to a series of proposed actions provided by the participants which have been reviewed and fed into this final report.

Figure 1: Percentage of Total Population Covered by Microinsurance



By the numbers, Microinsurance is growing in Nigeria. Of the total population, 1.2% was identified as being covered at year-end 2017, an increase from 1.0% in 2014, as per quantitative data submitted to the study by Microinsurance providers. The growth, however, is almost entirely the result of expansion of credit life insurance that provides cover for financial institutions if the borrower dies (or in some cases has an accident). This product is typically at the bottom of the list of risk management demands for clients. Other products—property, agriculture, health—have all declined over the period 2014 to 2017. Additionally, there is a significant decrease of 56% identified in lives covered if accounting only for products whose status was known in both 2014 and 2017. Such a decrease is almost unknown in any other Microinsurance market. Additionally, gross written premiums for the same products fell by 30%.

Nigeria is a country that has substantial potential for Microinsurance. The study shows interest, even optimism, from insurers, a tremendous potential market and a good base from which to grow. However, even within a continent that is weak in insurance penetration, in Nigeria, Microinsurance accounted for only 0.46% and 0.53% of total insurance sector premiums in 2014 and 2017, respectively, compared to 1.1% average for the continent in 2014.

Over the period from 2005 to 2017, other countries like Ghana and the Philippines, have shown amazing growth. The present supply-side Microinsurance study helped to illuminate these disparities, and then invites a more critical eye to understand what has happened in Nigeria.

In any country, distribution is a key to successful scale in Microinsurance. Issues facing insurers already in the quest for Microinsurance scale include:

- Restrictions against traditional insurers offering Microinsurance
- The requirement to start a new Microinsurance company (with minimum capital of USD 1.6 million for a national license)
- The requirements for traditional insurers to increase their own capitalisation
- The concern that there might not be a business case for stand-alone microinsurers

Given these issues, the limitations on distribution—seen in the limitation of mobile network operators and bancassurance as potential distributors—create a significant disincentive for insurers considering Microinsurance, as well as for those that struggle to gain scale.

The impact, at least in significant part, of these moves has resulted in a reduction of products available for the low-income markets in Nigeria. Of the supply in 2014, half of the products—accounting for 60% of lives covered and 30% of GWP—were no longer on the market in 2017. Clearly some of them were abandoned because of poor performance, and some may have been terminated to make major adjustments and relaunch as different products. However, without regulatory changes these market shifts would be unlikely to reduce the overall volume of Microinsurance in the market.

The National Financial Inclusion Strategy for Nigeria aims for 40% (or about 43 million people) of the adult population (about 107 million are over 15 years old based on 2017 population)[2] to be covered by insurance products by 2020.[3] At a current penetration of 1.2%, of the *total* population (or about 2.1% of the *adult* population), the contribution of Microinsurance is minimal in terms of this goal. Yet reaching this goal requires great expansion of Microinsurance. As the National Financial Inclusion Strategy is a sincere goal of the government of Nigeria it is necessary, now, to make substantial changes to the foundation for Microinsurance throughout the country.

To facilitate this change, workshop participants developed a series of planned actions around the areas of products, distribution, markets, legal structure and costs. Developing these as a multi-stakeholder group provides important compromise and identification of priorities.

[2] Statista. Nigeria: Age Structure From 2007 to 2017. Retrieved 18 December 2018 from https://www.statista.com/statistics/382296/age-structure-in-nigeria/. The chart shows 56% of the population as older than 15 years old. *NB: Financial Inclusion Strategy for Nigeria 2020 is targeting adults that are 18 years and above*

[3] Central Bank of Nigeria (July 2018). Exposure Draft of the National Financial Inclusion Strategy Refresh, Figure 1.

III. Introduction

A. Objectives

Overall objectives of study: The overall objectives of this study are to (1) understand the current state of Microinsurance in Nigeria, (2) assess how it has influenced financial inclusion, and (3) provide insights on how to move the Microinsurance industry forward. The study aims to:

- Understand the status and current modalities of the Microinsurance landscape in Nigeria
- Evaluate barriers and opportunities in Microinsurance from a supply-side perspective
- Enhance industry understanding of the financial and economic activities that will be benefited from increased Microinsurance penetration
- Provide insights from other landscapes where Microinsurance has deepened financial inclusion and show the impact it has had on these markets
- Provide recommendations to industry players on ways to deepen Microinsurance penetration

Expected outcomes: The hope is that the knowledge shared from this study will spark action among Microinsurance stakeholders in Nigeria. This study serves as a tool for insurers, regulators and distribution channels to understand the current barriers and opportunities that exist in the sector and should help them plan on how to take the next steps for growing the market.

B. Methodology

The main source of information for this study came from Nigerian insurance companies through responses to qualitative and quantitative questionnaires (a detailed quantitative questionnaire for those who agreed to provide data on their Microinsurance products). *All quantitative Microinsurance data was self-reported by respondents.*

Definition of Microinsurance: To fully understand the types of insurance being offered and the levels of outreach to the low-income market in Nigeria, the research team utilised a broad definition of Microinsurance. 'Microinsurance' refers to insurance intentionally developed for low-income households. The risk carrier should be a regulated insurer, the product should have a goal of sustainability or profitability and the product should have modest premium levels. See Appendix 1 for the complete version of the definition applied in this study. Note that this definition is consistent with that used for other landscape studies to allow for comparability.

Data collection methodology: The research team collected primary data, employing a census method by which all NAICOM regulated insurers were contacted for participation in the study via a qualitative questionnaire and follow-up phone calls. The research team focused further follow-up communications on those identified as Microinsurance providers, requesting basic product-level data via a quantitative questionnaire. Participation in the study was completely voluntary. The research team conducted a significant data-cleaning exercise and addressed resulting questions directly with the insurers.

To obtain a high-level overview and various perspectives, the research team also conducted qualitative interviews with the Nigerian Insurers Association (NIA), the National Insurance Commission (NAICOM), and additional brief interviews with several insurers and distributors. Insurers were promised confidentiality and that all data would be aggregated in such a way as to retain anonymity of individual data providers.

Participation/response rate: Fifty-five Composite, General, Life and Takaful insurers were contacted. Of these, 27 companies responded to the study in some way (49% response rate). These 27 companies accounted for a 70% total market share in terms of gross written premium (for all insurance business, Microinsurance and traditional insurance, life and non-life) in 2016.[4] The overall response breakdown is:

- 16 insurers with a combined 61% gross written premiums (GWP) market share reported data on MI products
- 11 insurers with a combined 9% market share do not offer MI, but provided qualitative responses
- 3 insurers with a combined 2% market share are believed to offer MI but did not participate in the study
- 26 insurers with a 28% market share did not participate in the study and their MI status is not confirmed though it is suspected that they offer no MI

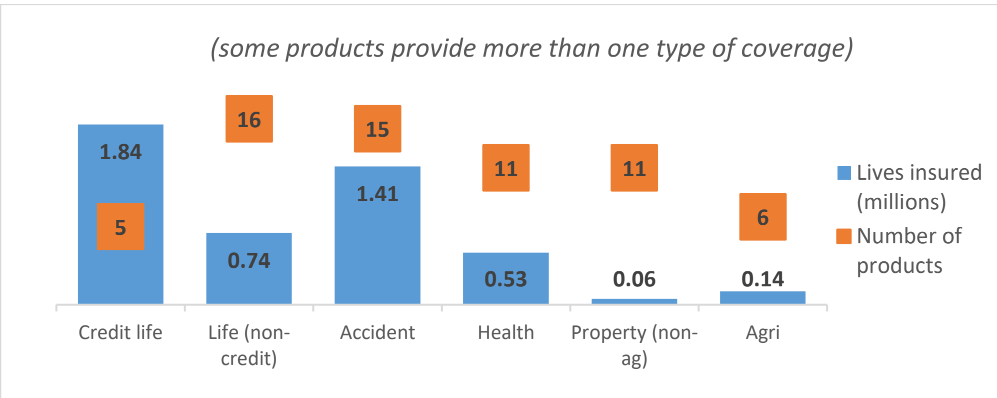
IV. Current state of Microinsurance in Nigeria

A. Key Figures Identified

Thirty-seven Microinsurance products were reported to the study, underwritten by 16 insurers. However, three companies were identified as having Microinsurance offerings but declined to participate in the study.

Lives insured. The study identified 2.2 million lives covered (1.2% of the total population of 190.9 million[5]) by one or more types of Microinsurance coverage as of the end of 2017. Figure 2 provides a breakdown of lives insured and numbers of products by type of insurance coverage.[6] Note that the total number of products identified is 64 even though total MI products is reported as 37. This difference reflects the impact of bundled products; here some products may cover life, accident and

Figure 2: Products and Insureds by Type of Coverage



[4] Source: NAICOM 2016 life and general statistical reports; company annual reports.

[5] World Bank (2017). Population, Total. Retrieved 18 December 2018 from https://data.worldbank.org/indicator/SP.POP.TOTL.

[6] Note that the volume of coverage by product type adds up to more than the total covered lives, reflecting that many products are offered as riders and add-ons to primary microinsurance products. Thus, many people are protected against more than one type of risk.

health, such products would be considered as one. Figure 2 breaks out the components of the bundled products to better show the coverage that people are receiving.

Of the 37 products reported to the study, 38% were bundled products providing more than one type of coverage. Health (hospital cash or critical illness), property and accident (including disability) covers are offered for the most part as secondary coverages to a primary life product. With the exception of those linked to credit, most of such bundled products have not reached significant scale. There are also a relatively high number of agriculture insurance products, covering a mix of crops, livestock and perils. They have also not achieved significant outreach.

The outreach is dominated by credit-linked covers offered through microfinance banks (MFBs), accounting for almost 83% of lives covered. While credit life alone does not usually provide significant value to clients (though it can when well designed), most of the credit life products reported to the study provide additional coverages. Over half a million of the 1.8 million lives covered by credit life were insured for benefits beyond loan forgiveness, including additional term life payout in case of death, hospital cash or damage or loss of microbusiness.

Health insurance context: In addition to formal Microinsurance as identified in this study, an additional estimated 86,000 low-income people have some health insurance coverage through community-based health insurance (CBHI) schemes.[7] These schemes are registered as associations with local governments, regulated by the National Health Insurance Scheme (NHIS), and led by a board of trustees that is nominated by members of the community. Typical annual premiums of NGN 1,800 (about USD 5)[8] provide coverage for primary care services, and payments to healthcare providers are made on a capitation basis. Health maintenance organisations (HMOs), which manage private sector health insurance as well as the NHIS, do not currently reach the low-income market. EFInA Access to Financial Services in Nigeria 2016 Survey revealed that 31% of the adult population was interested in having health Microinsurance coverage, indicating rather significant demand.[9] This means that, with just 86,000 people currently covered by CBHIs, and another 530,000 identified as covered by health Microinsurance, there is an enormous gap in outreach, and potential for insurers to provide needed coverage.

Premiums: Gross written premiums were reported for 30 products,[10] totaling NGN 1.5 billion (about USD 4.6 million)**.** The annual premium per insured[11] ranged from NGN 400 to NGN 36,000 (USD 1 to USD 108), with the majority (71%) between NGN 1,000 and NGN 10,000 (USD 3 to USD 30).

[7] NHIS data.

[8] USD conversions use the 2017 annual average exchange rate of 334 NGN/USD, as retrieved from https://www.oanda.com/currency/average.

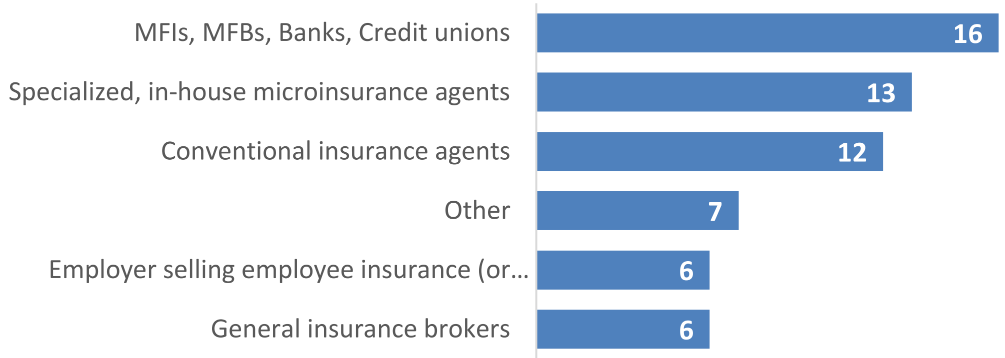
[9] EFInA Access to Financial Services in Nigeria 2016 Survey. Presentation at inaugural Microinsurance Working Group Meeting of May 3, 2017.

[10] These 30 products accounted for 2.208 million (out of a total 2.209 million), or over 99% of the total identified lives covered.

[11] Calculated either based on reported GWP and number of insureds, or as reported directly by insurer as 'typical annual premium.'

Distribution: Nigeria lacks the wide variety of distribution channels utilised in other Microinsurance markets globally. As shown in Figure 3,[12] distribution of Microinsurance in 2017 was limited largely to microfinance banks (MFBs) and other financial institutions, in addition to agents and brokers. While the data reported to the study did not allow for a precise estimate of how many insureds were reached through each channel, MFBs clearly reached the large majority. In other landscape studies of Microinsurance, it has been shown that agents and brokers typically have low outreach compared to other channels, as they rely largely on individual sales, which are not cost-effective or efficient for Microinsurance. The limitation of distribution to agents and brokers can explain the relatively low outreach when credit life covers are excluded. The major channel missing from the list is of course mobile network operators (MNOs), as all insurers were forced to terminate their mobile offerings by the end of 2017.

Figure 3: Distribution Channels Used (number of products sold through channel)



B. Has Microinsurance advanced in recent years, thereby contributing to financial inclusion?

Key considerations when reviewing multiyear Microinsurance data: This section presents comparisons to previous years of data from past Microinsurance landscape studies.[13] Though the research teams for this and previous studies endeavoured to collect the most accurate data possible, readers should take into consideration the following:

- Possible differences in data collection may exist between the different studies although similar methods were implemented
- Though the current and historical researchers used a consistent definition of 'Microinsurance,' there could be possible differences in the perception of the definition by different staff at the insurance companies, and thus between the studies
- There could be possible biases or inconsistencies because the majority of Microinsurance data submitted to this and previous landscape studies was self-reported by insurers

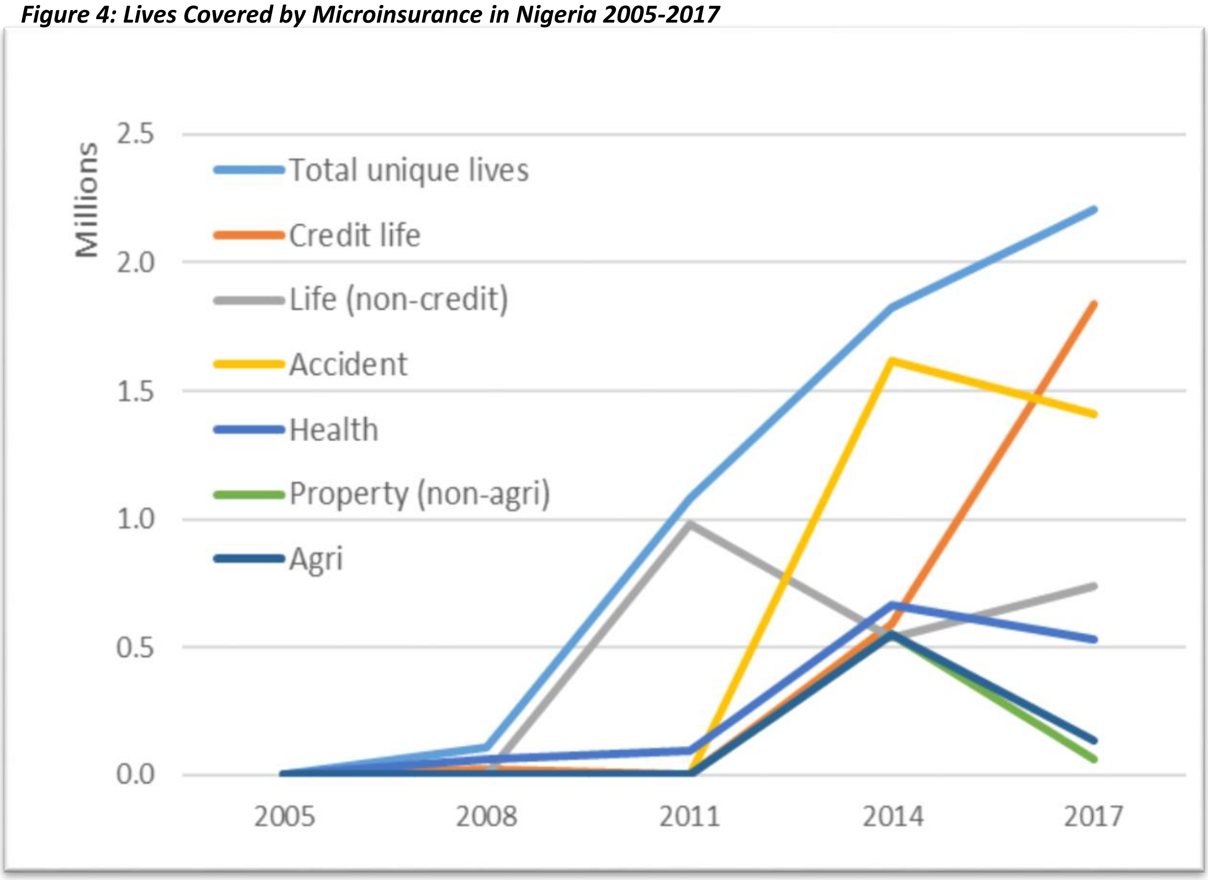
[12] In Figure 3, the category 'Other' includes the following channels: pharmacies, hospitals, nongovernmental organisations (NGOs), apartment complexes, educational institutions and SMEs.

[13] *Landscape of Microinsurance in Africa* studies from the following data years: 2005, 2008, 2010, 2014. Publishers of these studies (for different years) include: Microinsurance Network, Munich Re Foundation, Making Finance Work for Africa, the ILO's Microinsurance Innovation Facility (now Impact Insurance Facility), and the MicroInsurance Centre (now the MicroInsurance Centre at Milliman).

Advancement of Microinsurance. A 2014 landscape study of Microinsurance in Nigeria identified 1.82 million lives insured (1.02% of the total population).[14] Thus, the 2017 estimate of 2.2 million represents a 21% increase in lives covered over the three-year period. However, there is a significant decrease of approximately 56% in lives covered if accounting only for products whose status was known in both 2014 and 2017, as not all insurers responded to both studies. This is compared to a 69% growth over the period 2011 to 2014, and 909% growth from 2008 to 2011 (considering all data, not just data for those providers that responded to both studies being compared). The main driver for growth is an increase in credit life covers and to a lesser extent basic life covers, while lives insured for other types of coverage, which typically offer greater client value, have dropped.

There is a significant <u>decrease</u> of 56% in lives covered if accounting only for products whose status was known in both 2014 and 2017. <u>Such a decrease is unknown in any other Microinsurance market!</u>

Figure 4: Lives Covered by Microinsurance in Nigeria 2005-2017



In terms of premiums, the NGN 1.5 billion (USD 4.6 million) GWP in MI reported to this study represents 21% total growth over the NGN 1.28 billion GWP identified by the 2014 landscape study, not accounting for inflation. As with covered lives, a comparable GWP *decrease* of 30% is estimated if accounting only for products whose status was known in both time periods, as not all insurers responded to both studies.

[14] World Map of Microinsurance. "Nigeria country profile". Luxembourg: Microinsurance Network. https://microinsurancenetwork.org/sites/default/files/Nigeria_Country%20Profile.pdf retrieved Sept 26 2018.

Companies that reported Microinsurance premiums accounted for an estimated 1.2% of their total insurance premiums.[15] On a national basis (Microinsurance premiums / total insurance premiums), Microinsurance accounted for 0.46% and 0.53% of total insurance sector premiums in 2014 and 2017,[16] respectively, compared to 1.1% average for the continent in 2014.[17] This would seem to indicate that, for those insurers that are selling Microinsurance, it is becoming a more significant portion of their portfolios, yet has essentially stagnated as a product type in Nigeria.

This apparent slow and steady increase in the market (among those offering MI) masks what is in fact a significant amount of turbulence in the sector. Several insurers reported discontinuing products since 2014 due to regulatory reasons:

- At least four mobile products that had together reached over 1 million people and NGN 317 million (USD 0.95 million)[18] in gross written premiums were discontinued by the end of 2017 due to recent changes in telecommunications regulations which disallowed mobile insurance.
- Another five products were discontinued as companies restructured in the wake of new Microinsurance regulations. These products covered 26,000 people for mostly life and accident and accounted for NGN 50 million in GWP (USD 0.15 million).[19]

Altogether, the discontinued products represented half of all products reported in 2014 and accounted for 60% of the lives covered and 30% of the gross written premiums from 2014. This kind of turnover can have negative consequences in the sector, as clients that may have started to become familiar with insurance suddenly no longer have it available to them. This can create or perpetuate mistrust in the insurance sector.

Of the supply in 2014, half of the products—accounting for 60% of lives covered and 30% of GWP—were no longer on the market in 2017.

In Nigeria, Microinsurance accounted for 0.46% and 0.53% of total insurance sector premiums in 2014 and 2017, respectively, compared to 1.1% average for the continent in 2014.

[15] Estimated based on company's GWP as reported by NAICOM for 2016.

[16] Total national premiums for Nigeria as reported in Swiss Re Sigma, April 2015 and March 2018.

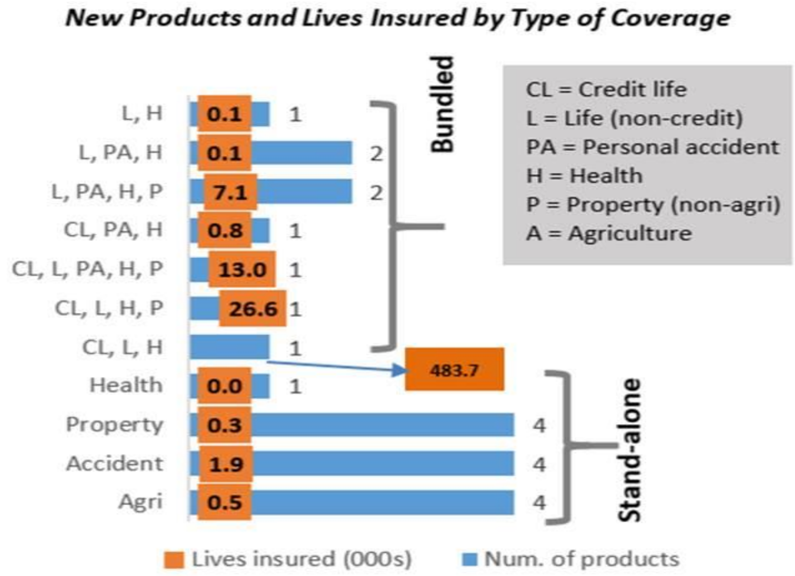
[17] World Map of Microinsurance. Nigeria, West Africa. Luxembourg: Microinsurance Network. Retrieved 18 December 2018 from https://microinsurancenetwork.org/sites/default/files/Nigeria_Country%20Profile.pdf; and Biese, Katie, Michael J. McCord and Mariah Mateo Sarpong (2015). *The Landscape of Microinsurance in Africa 2015*, p. 7. Luxembourg: Microinsurance Network.

[18] 2017 exchange rate used.

[19] 2017 exchange rate used.

In addition, at least 22 new products were launched since 2014, many of which offer more complex coverages (bundles that include health, property and agriculture) and seemingly strive to meet deeper needs of clients (see Figure 5). For the most part, however, these products have yet to reach scale. *Just four credit-linked products with MFBs account for 98% of the new lives covered and 90% of premiums.* The lack of scale for the other newer products could largely be an issue of distribution—as shown above, most products are relying on agents or brokers, which are difficult for scaling Microinsurance.

Figure 5:



Market optimism. Responses from insurers suggested optimism about where the sector is heading. Of the respondents, 12 out of 21 agreed with the statement 'Microinsurance products available have increased over the past few years'. However, two-thirds disagreed that there is competition in Microinsurance—there is clearly huge potential and room to grow. Five of eight respondents that are not currently offering Microinsurance responded that they have plans to do so.

When asked to project lives insured by Microinsurance at the end of 2019, participants responded with a median of 5 million insureds (12 million average). This would represent 127% growth over the 2.2 million insureds reported in 2017. Similarly, insurers projected median gross written premiums of NGN 4 billion (18 billion average), a 159% increase over the 2017 reported premiums of NGN 1.5 billion. With premium growth predicted as slightly higher than growth in lives insured, this suggests an anticipated increase in premium per covered life. This may reflect anticipated movement in the market towards:

> *'There is competition [in Microinsurance] but not from best practices—it's a price competition.'*

- A continued focus on bundling and thus getting people to purchase more insurance types or coverage
- Additions to the product mix that might bring better value and potentially a higher premium
- A shift upmarket with a focus on higher-income clients

In addition to general sector growth, a large portion of respondents seemed to be reasonably confident of their ability to offer Microinsurance profitably (see Figure 6). However, based on discussion with insurers in October 2018, it seems that these optimistic projections (numbers, premiums and profitability) are predicated on a belief that there will be regulatory change that facilitates Microinsurance expansion.

Impact on financial inclusion in Nigeria: The National Financial Inclusion Strategy aims for 40% (or about 43 million people) of the *adult* population (about 107 million over 15 years old based on the 2017 population)[20] to be covered by insurance products by 2020.[21] At a current penetration of 1.2%, of the total population (or about 2.1% of the adult population), the contribution of Microinsurance is minimal in terms of this goal. Substantial changes in market incentives will be necessary, immediately, to even begin to approach this level of penetration. It took 10 years for the Philippines to reach 30% penetration behind a major effort in developing and implementing a facilitative Microinsurance legal framework, market promotion, coordinated government policies and a strong infrastructure of distribution. In Ghana, reaching 30% penetration after eight years was the result of government agency coordination to facilitate Microinsurance development, a proportionate approach to Microinsurance distribution, a principle-based Microinsurance legal structure, extensive use of mobile networks and innovative insurers and intermediaries. Because of the low penetration of Microinsurance in Nigeria, there is little evidence of financial inclusion related to it. The potential for a substantial influence by MI on financial inclusion is evident but getting to a scale that delivers on that potential will require big adjustments to the current Microinsurance environment.

Figure 6: Respondents' Perceptions on Their Companies' Ability to Offer Microinsurance Profitably

V. Stakeholders' perceptions of the market: What are the barriers and areas for improvement?

Responses to the qualitative portion of the survey shed some light on reasons the Microinsurance sector has not made significant advances in recent years. Table provides the top barriers to Microinsurance and interventions that are considered 'most needed' as reported by both

[20] Statista, op. cit.

[21] Central Bank of Nigeria (July 2018). Exposure Draft of the National Financial Inclusion Strategy Refresh, Figure 1.

Microinsurance providers and non-providers, whose responses were very similar. The top responses are discussed separately in the following sections.

Table 1: Ranking of Top Barriers to and Interventions Needed for Microinsurance Development (by importance)

	Insurers currently offering MI: ***What is most needed for the development of MI?***		**Insurers not currently offering MI:** ***Why not?***
1	Market education and financial literacy efforts for consumers	1	Lack of **distribution channels**
2	More and better **distribution channels**	2	Unfavourable **regulatory** environment
3	More favorable **regulations**	3	Insufficient **market information** to aid in design of insurance products
4	IT systems specific for microinsurance	4	Just have not gotten to it yet
5	**Market demand studies** to help better understand clients' needs	5	Do not see **demand** for insurance in the low-income population

A. Distribution channels

Importance of distribution: A lack of distribution channels was one of the top concerns for most respondents. Indeed, as seen by the available products in the market, insurers have currently limited their distribution to MFBs as well as agents and brokers. Over 85% of respondents said that the 'Presence of distribution channels that effectively reach the low-income market is' either low or marginal. Effective distribution is essential to significant expansion of Microinsurance. The International Association of Insurance Supervisors (IAIS) notes, in its 'Issues Paper on Conduct of Business in Inclusive Insurance' (provided in Sidebar 1),[22] that the importance of allowing innovation in inclusive insurance distribution is a key to reaching scale. In Nigeria, distribution channels remain limited in type and outreach.

> Sidebar 1: Innovation in Distribution
> 'Alternative modes of distribution are of particular relevance in the inclusive insurance market and a core consideration in distinguishing between different inclusive insurance business models. Due to low premiums and thus low margins, the emphasis within inclusive insurance falls strongly on reducing distribution costs. Furthermore, the relative difficulties in reaching the lower income market due to limited infrastructure, poor connectivity, low education levels and limited experience with insurance underline the importance of distribution innovation in inclusive insurance'.

Regulated channels. The 2018 'Guidelines for Microinsurance Operation in Nigeria' issued by NAICOM specifically authorise 15 different distribution channels, including 'any other regulated associations.' Interestingly, about 37% of respondents believed that corporate agents and brokers and/or loss adjusters should *not* be used for Microinsurance distribution (see quotes in box). Additional channels suggested for inclusion to the list include commercial banks, big retailers and grocers and community

[22] IAIS (2015). Issues Paper on Conduct of Business in Inclusive Insurance, p. 11.

and independent agents. The mobile channel is clearly one of interest to many insurers, which has been closed off due to regulatory hurdles imposed by the Nigeria Communications Commission (NCC). This will be further discussed in the next section.

> ***On brokers***:
> *'I do not see the Brokers as having the capacity to boost Microinsurance. Also, their presence will increase the cost.'*
>
> *'[Brokers] create friction in the whole negotiation with distribution channel and increase cost when not empathic to this target population.'*

It appears that NAICOM is taking a somewhat proportionate approach in allowing a range of distributors. As indicated by the IAIS above, innovation in distribution is crucial to the success of Microinsurance. Such innovation precludes strict lists of potential distribution and is maybe better served with a principle-based approach to distribution.

In most countries with massive outreach of Microinsurance, insurers note that the most important component of the Microinsurance value chain is the distributor.[23] Without effective distribution channels, even the best Microinsurance products will not reach scale with products that provide real value to the economy of their country. With a proliferation of credit life Microinsurance products in Nigeria, it is clear that the predominant distributors are MFBs. Unfortunately, these MFBs are not substantially prompting insurers to expand the range of products for their clients. At the same time, insurers appear to be constrained in identifying and developing more innovative distribution channels to expand Microinsurance. Finally, distribution through the substantial channels of bancassurance and mobile network operators is

> ***Microinsurance in International Markets 1: Distribution Examples in Ghana and Peru***
>
> - The IAIS notes that 'a variety of distribution models are employed' and overseen by the 'insurers' board [which] bear the overall and strategic responsibility for the distribution of inclusive insurance products.' This may require the supervisor to 'develop a tailored approach to the supervision of products in inclusive insurance business.'
> - In Ghana, NIC has 'adopted the position of not regulating ahead of development.' It argues that there 'should be fixed rules for distribution channels and be careful about rules that inhibit distribution just for the sake of rules. Suitability of the channel is key; you are looking for what works.'
> - In Peru, with 16% MI penetration in 2016, and where distribution is not specifically dictated, insurance companies are directly liable for any wrongdoing committed by the commercialisation channels working on their behalf. Insurers must:
>   - Be responsible for the failure of channels to explain the features of all products.
>   - Provide brochures for each product to their channels.
>   - Ensure that 'sales forces' are suitable, competent and solvent.
>   - Maintain a code of conduct and a register of insurance promoters.
>   - Provide training to channels.
> - EFInA's 'Comparison study on Microinsurance' found that using a variety of channels, including mass channels, was a key success factor in Ghana, Zambia and South Africa.

[23] References for Microinsurance in International Markets 1: Ghana: Discussion with Kofi Andoh, Head of Supervision, National Insurance Commission, 31 March 2016. Peru: Andrea Camargo and Leticia G. Furst Gonçalves. Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved population. A2ii April 2014. Peru penetration: The World Map of Microinsurance. The Landscape of Microinsurance in Latin America and the Caribbean 2017, Final report. MIN 2018. IAIS: Application Paper on Product Oversight in Inclusive Insurance. IAIS. 2017. Paragraphs 22, 62, and 151.

constrained by their related regulators. The Central Bank of Nigeria (CBN) in March 2017 released the 'Revised guidelines on Bancassurance referral model' for institutions under its purview while NAICOM in April 2017 released the 'Bancassurance referral operational guidelines' for insurance market operators. Under the CBN Bancassurance guidelines, banks can only partner with a maximum of two insurers. Similarly, insurers can only partner with a maximum of two banks, which includes both Deposit Money Banks (DMBs) and Microfinance Banks (MFBs) as stated in the NAICOM Bancassurance guidelines. This restriction is considered as a major limitation to Bancassurance success in Nigeria.

Costs of distribution: An issue closely related to distribution is that of commissions and administrative costs. An effective distribution partner should reduce the overall costs of a Microinsurance product, by being able to play a more active role in key insurance processes such as enrolment and claims payment, in a more efficient manner than the insurer can do themselves. More efficient distribution should therefore provide greater access at a reduced cost for the end client.

Indeed, 12 of 20 respondents saw efficiencies in the Microinsurance guidelines, including the helpful clause that claims payments may be made through intermediaries (6.2 iv)—five were neutral and three saw it as a hindrance. In general, passing more administrative responsibilities to a distribution channel partner has the potential to reduce the overall cost of the product because the distributor can take advantage of existing markets, and then leverage their costs. This could result in a slightly higher commission, given the additional work of the intermediary, and a reduction in the administrative cost ratio of the insurer, as well as creating lower premiums and better access to the market.

Remuneration for the intermediary has become a particularly challenging issue in Nigeria, where MNOs, and maybe others, had been charging high fees for access to their markets, in a way unrelated to their impact on overall cost reduction. One way to address this is through commission caps. The industry seems to be divided on the issue of commission caps—just over half of respondents felt that commission caps of 15% on life products are helpful, while about one-third felt the same way about caps on non-life products. Caps on commissions for insurance sales tend to have unintended consequences, and they also tend not to address the problem at hand. In place of higher commissions, distributors may charge exclusivity fees, as in Mexico, or service fees in other countries, in order to retain the overall revenue flow from insurance sales. Imposing a cap on commissions, especially for MNOs and other corporate agents, simply makes the transaction more opaque.

Though data reported to this study regarding commissions was limited, commissions in the 10% to 20% range were the most commonly reported, because by this point MNOs had been denied the ability to sell Microinsurance by the NCC, likely in part because of the seriously high commissions MNOs were charging.[24]

In general, commissions should be based on a factor of actual costs plus a profit margin. A structure like this provides a legitimacy behind the commission rates and reinforces the need to have

[24] Commissions requested by MNOs were in some cases between 60% and 70% of the gross premiums according to discussions the author had in 2016 with Nigerian insurance executives. Interestingly, one of the predominant models of MI distribution among the MNOs actually has the MNO paying the premiums for their subscribers as a means of increasing loyalty.

distribution channels that are more efficient. There was no evidence in this survey of a commission calculation approach based on costs for any distributor in Nigeria, or substantially in any other jurisdiction.

An expansion of legal distribution channels, active incentives from the government for distributing MI and even moral suasion might positively impact the commission levels through market mechanisms.

B. Regulations

After distribution, regulation was the next most important barrier noted by responding insurers.

Guidelines for Microinsurance Operations in Nigeria: The new Microinsurance guidelines issued by NAICOM in January 2018 aim to establish a uniform set of standards for the sale and distribution of Microinsurance in Nigeria. These guidelines adopt a definition of Microinsurance that is consistent with the rest of the industry. Under the Guidelines, *Microinsurance products are those that are designed for low-income individuals and small-scale enterprises and that are funded by premiums*. This definition addresses both the scale of the insurance policy and implies that Microinsurance business should be self-sustaining. The Guidelines are framed around the principle that products should be Simple, Understandable, Accessible, Valuable and Efficient (i.e. SUAVE).

The objectives of the guidelines revolve around the key insurance areas of:

- Operations:
    - Addressing the marketing and sale of products
    - Guidelines revolving around customer services, e.g., handling of complaints and consumer protection
    - Knowing your customer requirements
- Finance:
    - Minimum capital requirements
    - Solvency requirements
    - Reserve requirements
    - Reporting of key performance indicators
- Distribution:
    - The guidelines discuss a broad array of channels that insurers may use to distribute their products. These channels are consistent with, though more limited than, those used by microinsurers in other markets.
    - Licensing and oversight of distributors

Insurers' perspectives on the Guidelines: Half of the respondents agreed that insurers have taken a role in the development of the Microinsurance regulations in Nigeria, and 90% believe that support for Microinsurance from NAICOM is high or moderate. However, just 35% of respondents believe that the new Guidelines promote the expansion of Microinsurance in Nigeria (40% were neutral, 15% noted the Guidelines hinder development, and 10% had no opinion). About 40% of respondents indicated that they do plan to obtain a national

> *'Many insurers already offer Microinsurance products. Then, what benefit is there to setting up a subsidiary to sell what you already do with less cost?'*
>
> *'All Insurance companies should be allowed to introduce Microinsurance products in the market. Separate license requirements for micro insurance should be abolished.'*

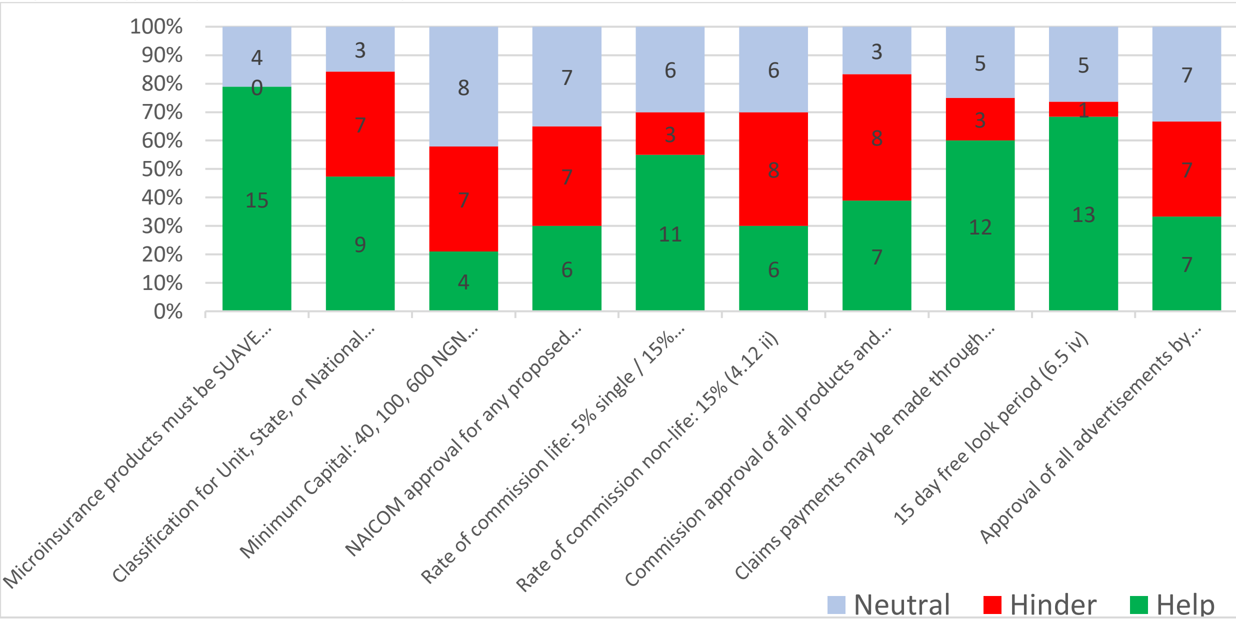
Microinsurance license, though almost 50% overall viewed the classifications of unit, state, or national microinsurers as a hindrance to the development of MI. At least 27% (10 out of 37) of the products reported to the study are not officially registered as MI though they meet the study's criteria.

The approach of NAICOM in disallowing Microinsurance operations from traditionally licensed insurers is unique across the globe. Where there are the very few independent Microinsurance-only companies, they tend to have significant cost issues and difficulties competing with traditional insurers that can also offer Microinsurance. Much of the issue is related to overcoming the costs required to operate an insurance company even with reduced capital requirements. An independent microinsurance-only insurer must cover their own costs for management, IT systems (both front office and back office), accounting and finance, actuarial, regulatory and an array of other costs. Traditional insurers can share the expenses of these issues across their product lines and markets, resulting in a lower expense burden for their microinsurance operations, and thus the potential for lower premiums charged to the markets.

One of the benefits of separated MI operations is that the Microinsurance company can more easily structure their operations with Microinsurance in mind. This allows for a stronger focus of management on Microinsurance development, delivery and servicing. However, some traditional insurers have achieved this through the set-up of a special and focused Microinsurance departments. This is substantially less expensive than starting a new Microinsurance company, and still provides the laser focus on MI.

With Microinsurance, it is particularly important to generate efficiencies (the 'E' of NAICOM's SUAVE) at every possible point. The prohibition of traditional insurers from offering Microinsurance increases the cost of offering Microinsurance, and an increase in costs yields an increase in premiums to cover those costs and results in fewer people being able to obtain Microinsurance because of the higher price.
Regarding specific aspects of the Guidelines, insurers are largely divided (see Figure 7).

Figure 7: Effect of Certain Aspects of the Microinsurance Guidelines



[25][26]**NAICOM's perspective**: NAICOM states that it wants to see Microinsurance thrive in Nigeria and endeavour to reach the financial inclusion target of 40% of the adult population in the country covered by 2020. The industry is currently in a transitional period, with the issuance of the 2018 Guidelines giving insurers a 24-month period to 'wind down' their current Microinsurance offerings and apply for the new Microinsurance company licenses at the unit, state, or national level. This likely has contributed to some of the product interruption discussed previously. NAICOM notes that the minimum capital base requirements will incentivise insurers and non-insurers to (re)enter the microinsurance space.

A main driver behind the new licensing and requirement to set up a separate structure for Microinsurance was the fear of losing the low-income market. Based on NAICOM's experience with products designed by insurers who previously held Microinsurance window licenses, the focus became telco-led insurance, which came with challenges in terms of prohibitive commission rates.[27]

Microinsurance in International Markets 2: Regulatory Example in the Philippines and Peru

- The Philippines is an international example of the insurance regulator taking a strong interest in effectively advancing Microinsurance in its jurisdiction. Important to this effort were the extensive dialogues with insurers, the development of a National Strategy and a National MI Framework (both in 2010), cooperation across government agencies, and maybe most importantly, a clear set of five objectives. This level of organisation around Microinsurance was critical to the success of the industry.

  In a regulatory Impact Assessment conducted in 2014, it was noted that 'The interplay of these strategies helped stakeholders to achieve important milestones in all five Key Strategies, which had and are having a measurable impact.'

Philippines: Overview of Key Strategies including all 5 Objectives

Key Strategies	Strategic Objectives	
1-Private sector participation	Increased participation of the private sector in the provision of microinsurance services	**5-Consumer Protection-** Rights and privileges of the insured poor are protected
2 – Regulation and policy	Establishment of an appropriate policy and regulatory environment for the safe and sound provision of microinsurance by the private sector	
3-Formalization	Mainstreaming of existing informal insurance, insurance like, and other similar activities/schemes	
4-Financial literacy	Institutionalization of national financial literacy framework	

- Regulation can also have a negative impact as was experienced in Peru. Peru was the second jurisdiction after India to pass a Microinsurance law. Among other components, the law required all Microinsurance claims to be paid within five days. Although insurers said that they wanted to pay within five days, they worried that any problematic claims that took longer would result in penalties from the regulator. Being averse to such potential problems, insurers simply chose not to register Microinsurance.

[25] Regulatory Impact Assessments: Microinsurance Regulations in Peru and the Philippines

[26] Regulatory Impact Assessment - Microinsurance Philippines

[27] Based on information obtained via a key informant interviews with NAICOM.

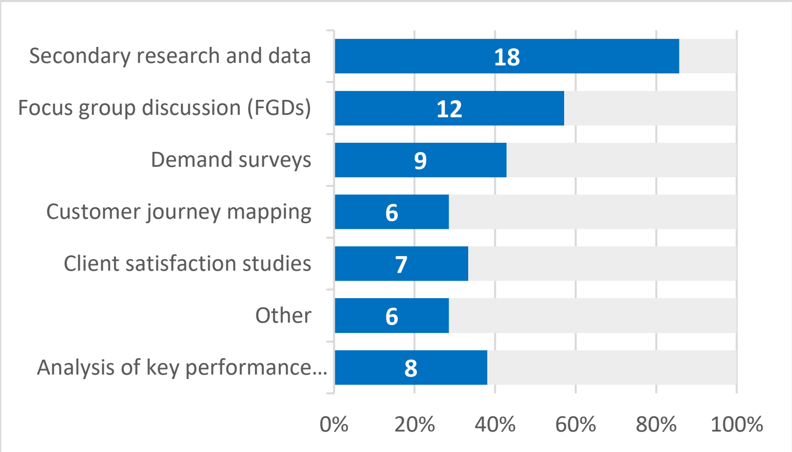
Other regulators that affect insurance regulation: One key complicating factor to the regulatory environment is that it is not just the insurance regulator that influences Microinsurance. In particular, because Microinsurance relies on unique distribution channels, regulatory jurisdiction is spread across multiple bodies. In the case of Nigeria, this means the banking and telecommunications regulators—the Central Bank of Nigeria (CBN) and the NCC—among others.

'Use of MNOs and technology should be allowed in the market.'

C. Market demand studies

Importance of information: Obtaining information on the target market was an important issue for both those currently offering and those not offering Microinsurance. Appropriately designing products to meet the specific needs of the low-income market requires a good understanding of their economic lives, risks and behaviours, among other things, but almost 76% of respondents indicated that the availability of information to help in the development of insurance products for the low-income market is low.

Figure 8: Methods Insurers Use for Gathering Information about Low-Income Populations



Current sources: The most common source of information currently used by insurers (more than 86% of respondents) to get information on the low-income market are secondary research and data (see Figure 8). Many insurers do not go directly to potential clients to conduct research. Nearly 57% of respondents reported conducting focus group discussions, while approximately 30% reported using other direct methods such as surveys, customer journey mapping or client satisfaction studies. For those who do collect information on the low-income segment, most (around 70%) do it infrequently at best.

What is needed: Respondents indicated a willingness to pay for certain types of market information, if it were available. The top ranking types of data were:

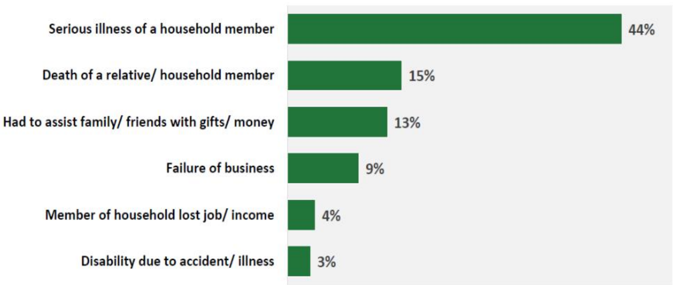
1. Willingness to pay for insurance
2. Demographic characteristics (income, cash flows, economic activities)
3. Ranking of top risks and/or needs as seen by potential clients
4. Magnitude of costs faced after a shock

What is out there? While not covering willingness to pay, EFInA's large-scale, 'Access to Financial Services in Nigeria 2016 Survey' includes many of the important types of data mentioned above. The full data set is updated every two years (beginning in 2008) and is available for purchase. While not limited to low-income households, the survey data does include demographic characteristics that allow for segmentation of the data by income level.

Some limited information on Microinsurance demand among the adult population in Nigeria has been made public,[28] including:

- Financial shocks experienced in the past 12 months (see Figure 9); 44% pointed to serious illness of a household member. Death and assisting relatives were other common responses.
- Current usage of Microinsurance: 2% of respondents (an estimated 300,000 adults) reported having a Microinsurance product. The most commonly held was a health coverage of some kind.
- One-third of adults (representing a potential market size of 32 million) indicated they were interested in Microinsurance, with business coverage of most interest, followed by agriculture, and then health.

Figure 9: EFInA Access to Finance Study: Financial Shocks Experienced in Past 12 Months



This report is a good starting point, confirming that current outreach is low, and both need and demand are relatively high. A more in-depth demand study could be beneficial to the industry. This might include probing into specific needs and current coping to quantify risks and identify willingness to pay.

Market data challenge: Implications and key questions

Implications:

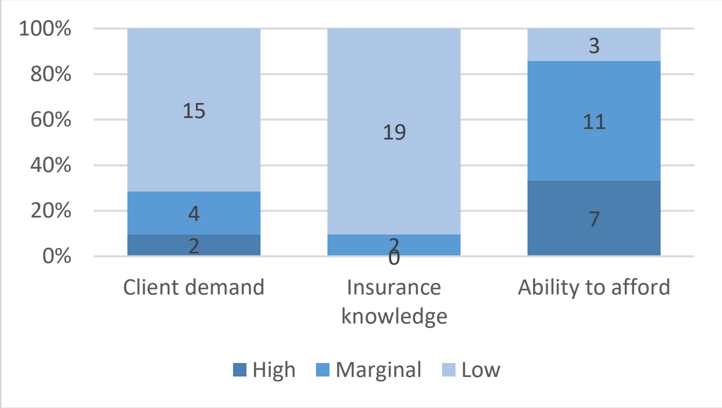
- If insurers are not collecting data on the low-income market, it is very difficult to design products of value for this segment
- Almost all respondents said that there is very little information to help in the development of insurance products for the low-income market, e.g., demand information and actuarial data.

[28] EFInA Access to Financial Services in Nigeria 2016 Survey, op cit.

D. Market education and financial literacy

The challenge: As commonly found in other Microinsurance landscape studies, the top issue for Microinsurance providers is market education and financial literacy efforts for consumers. Ninety percent of respondents said that potential clients' insurance knowledge is low, and 71% said demand generally is low (see Figure 10). Knowledge and demand are seen as bigger issues than affordability—just three insurers believed that the ability to afford Microinsurance is low.

Figure 10: Insurers' Perceptions of Target Market



Understanding clients' knowledge and perceptions: Is this a *market education* issue or a *marketing* issue, or even a product issue (where the market does not see value in the products offered by insurers)? It does no good to provide market education to the population generally, if there are no good Microinsurance products available for them to purchase. No knowledge of insurance is different from no knowledge of available products, or from negative perceptions of insurers. Insurers seem to have differing opinions on what is the current situation and what might specifically be needed to address this. A sampling of insurer's comments on client knowledge of insurance is provided in the box below.

On potential clients' knowledge of insurance:

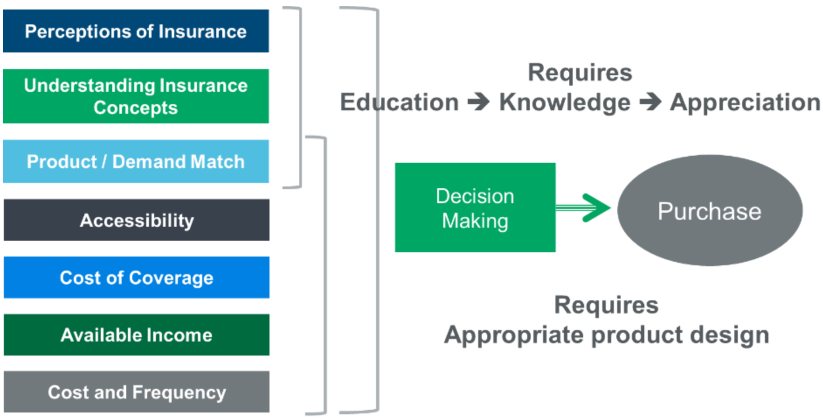
'Emerging customers might not know about insurance but they do know about risk management solutions - and they value specific interest in their demand - but this needs to start by the appropriate education on the solutions.'

'It may help if benefits of the policy are known and payment is guaranteed.'

'Lack of continuous sensitisation on the knowledge of Insurance is one of the major challenges responsible for the low responses for insurance. Also negative perceptions of insurance, and lack of viable products for low-income earners.'

'Insurance knowledge among the low-income population in Nigeria is not only low but negative.'

Figure 11: Factors in the Microinsurance Purchase Decision



There are several components in the purchase decisions of the target market. Figure 11: Factors in the Microinsurance Purchase Decision

Figure 11 shows these components, which must be considered by insurers when offering a product.[29] With these issues addressed, sales success is much more likely.

There are two general requirements of action within these factors: generating knowledge and developing a responsive product. Among the knowledge component, two sub-areas are particularly well addressed by market education—perceptions of insurance and understanding insurance concepts.

Commonly, as in Nigeria, there tends to be a negative impression of insurance among the potential market. This impression has many causes, but without changing it will be hard to sell Microinsurance at scale. It is not uncommon to hear from the target market that 'insurance cheats us.' People also tend not to understand the insurance concept. It is not uncommon to have MI clients ask for their money back at the end of the year because they did not die. Helping clients to understand that indeed insurance can be helpful to them, and that their premiums go to cover all those who paid and experienced the covered event. By promoting such understanding, this will help the insurers, if they develop products of value, pay claims on time, make the products accessible and recognise their financial needs and limitations. In Ethiopia this is done with radio. In Kenya and Romania with television. In Uganda and Mongolia with comic books. It is important that funding for these programs is monitored to ensure that objectives are met, and for insurers to actively leverage the broader efforts of NAICOM, NIA, and/or other funders in market education.

[29] Source: MicroInsurance Centre.

VI. Microinsurance in international markets: Market growth in Ghana, the Philippines and Nigeria

Globally, two of the strongest Microinsurance markets are Ghana (GH) and the Philippines (PH). Looking at these countries against the growth of Nigeria (NG) may be helpful in identifying key operational and regulatory differences that might result in such different results.

Figure 12: Number of People and Percentage of Total Population Covered by Microinsurance in Ghana, Nigeria, and the Philippines, 2005-2017

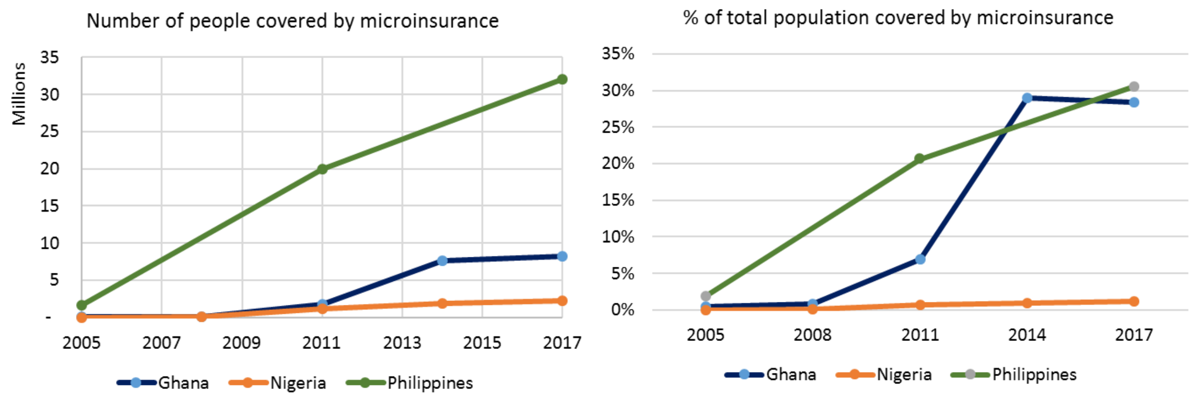


Figure 12 shows the growth of the absolute numbers identified as being covered by MI and the percentage of those identified as covered by MI against the total population. The movement in Nigeria from 0.002% in 2005 to 1.2% in 2017, is dwarfed by the growth of MI coverage in Ghana (0.53% to 28.3%) and the Philippines (1.87% to 30.5%).

Table 2: Some Key Factors in Microinsurance Growth Compared in Ghana, the Philippines, and Nigeria

	Nigeria	Ghana	Philippines
% of population covered	1.2%	28.3%	30.5%
Potential for scale	Very high	Fair	High
Traditional insurers in MI	Not allowed	Allowed	Allowed
Use of MNOs	Not allowed	Allowed, extensive	Allowed, minimal
Use of Bancassurance	Not allowed	Allowed	Allowed
MI legislation	2018	2010	2006
Primary distribution channels	MFBs	MNOs	Mutual benefit associations (MBAs)
Predominant products (in order of use, life ≠ credit life)	Credit life, PA, Life	Life, PA, Health	Life, PA, Health
Coordination of regulations	Low	High	High
Govt. Fin. Inclusion Policy	Yes	Yes	Yes

What happened to yield so much growth in Ghana and the Philippines while Nigeria was left behind? Table 2 provides a series of indicators that have a role in driving Microinsurance. Qualitatively, the authors assessed the various factors for the three countries with the expectation of identifying differences that might explain the differences in growth. Here we see that the potential for scale, maybe the key indicator of Microinsurance expansion, is actually better in Nigeria than in Ghana (much lower population) or the Philippines (with its nearly 2,000 inhabited islands). So if the potential for scale is not the problem what are some of the more significant factors?

The presence of a wide range of insurers providing Microinsurance is a key point in the Philippines, where there has been a strong focus on bringing informal insurers under insurance regulation. This has increased the number of regulated insurers offering Microinsurance, which has led to an almost level playing field, yielding competition in Microinsurance and a wider variety of products and better service for the low-income market. All of that helps expand Microinsurance. In Nigeria, the ability of insurers to provide Microinsurance has been severely restricted.

On the issue of restricting insurers in the Microinsurance market, the International Association of Insurance Supervisors (to which Nigeria is a member) notes: '*To overcome barriers to inclusive insurance markets, insurance may need to be offered by a variety of insurers with different institutional forms*.'[30] They further note that '*Barriers making it uneconomic for formal insurers to provide products and services result in insufficiently inclusive insurance markets where a part of the market is underserved, and without "effective access."*'[31] Finally, in terms of restrictions on insurers offering Microinsurance, the IAIS points out the risk of regulatory arbitrage noting that: '*if the regulation recognises a specific class of product with special treatment, arbitrage is reduced if all existing insurers can also provide the product to the market.*'[32] Blocking regulated, traditional insurers from the business of Microinsurance is holding back expansion in Nigeria, and the requirement to start a specific Microinsurance company with substantial required capital at the same time that capital requirements are being increased for traditional insurers, has had a strong negative impact on the Microinsurance market.

The ability to sell Microinsurance through the widest array of channels possible has been a key to Microinsurance growth in Ghana. The use of mobile network operators (MNOs) both as Microinsurance servicers and purchasers of Microinsurance for their subscribers has resulted in dramatic growth of Microinsurance covered lives. Additionally, the massive growth possibly enhanced the understanding, appreciation and trust of insurance among the low-income populations which in turn potentially made it easier to sell Microinsurance through other channels. The 2018 Guidelines for Microinsurance Operations in Nigeria actually offer a broad range of distribution options (in Section 2.2), including distribution through MNOs and corporate agents (which might include banks). However, the Central Bank of Nigeria has restricted the provision of bancassurance, and the Nigerian Communications Commission has restricted the use of MNOs in the sale of Microinsurance. Both of these channels provide coverage to large numbers of people in Ghana and the Philippines. And indeed, the implementation of these restrictions is clearly a dominating factor in the reduction of Microinsurance-covered Nigerians between 2014 and 2017. In the Philippines there had been conflicts among different regulating agencies, but they were quickly resolved to allow expansion of MI while maintaining proportionate consumer protection.

[30] IAIS (2012). Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets, paragraph 1.30.

[31] IAIS (2012), ibid., paragraph2.2.

[32] IAIS (2012), ibid., paragraph 1.8.7.

On the issue of distribution and coordination, the IAIS notes that: '*Increasingly, supervisors are facilitating an "inclusive" insurance market. These initiatives are aimed at developing legislation and supervisory practices that encourage existing insurers to serve low-income populations, or that motivate informal providers and intermediaries to integrate with the formal insurance sector. To do this, coordination and cross-sector cooperation is often needed between public authorities including central banks, revenue authorities, telecommunications regulators, health authorities, and departments of agriculture and social protection.*'[33]

In the Philippines and Ghana, there is a wide variety of Microinsurance products on offer. Even though credit life insurance is an important component of the Microinsurance market, it does not show up in the top three product types available in these countries. The movement towards product variety in response to market needs has been an important factor in the expansion of MI in both the Philippines and Ghana. In Nigeria, the predominant product by far is credit life while all other types (except for small growth in life covers) declined during the period 2014 to 2017.

On product variety, the IAIS offers: 'Recently, various insurers and intermediaries (among them commercial actors) have started to design innovative products and delivery models that fit the requirements of low-income populations rather than simply present miniaturised versions of conventional products. Embedded products—insurance covers tagged along with other products—and group cover proved to be effective. To achieve scale, curtail costs and enhance access, more insurers are expected to innovate with new products, and distribution and servicing models.'[34] In Nigeria, insurers should be facilitated and even incentivised to innovate in terms of products. Other jurisdictions offer, for example, regulatory 'sandboxes,' tax incentives, ease in product approvals, and a generally proportionate approach to pilot testing new products. These actions help to advance MI.

VII. Going forward: Opportunities for dramatic expansion of Microinsurance

The National Financial Inclusion Strategy for Nigeria aims for 40% (or about 43 million people) of the *adult* population (about 107 million over 15 years old based on 2017 population)[35] to be covered by insurance products by 2020.[36] At a current penetration of 1.2% of the *total* population (or about 2.1% of the adult population), the contribution of Microinsurance is minimal in terms of this goal. Yet reaching this goal requires great expansion of Microinsurance. Seeing that the National Financial Inclusion Strategy is a sincere goal of the government of Nigeria it is necessary, now, to make substantial changes to the foundation for Microinsurance throughout the country.

This supply-side landscape study and the discussions around it showed that in fact some fundamentals are in place for Microinsurance expansion:

[33] IAIS (2012), ibid., paragraph 1.19 (and reiterated in paragraph 5.15).

[34] IAIS (2012), ibid., paragraph 1.23.

[35] Statista, op. cit.

[36] Central Bank of Nigeria (July 2018). Exposure Draft of the National Financial Inclusion Strategy Refresh, Figure 1.

- Insurers report optimism in terms of potential clients, premium income and even profits. They speak as though they are ready to make serious investments in the effort of generating scale.
- They see the potential for Microinsurance, and indeed the study suggests much potential opportunity in the Nigerian market.
- The National Financial Inclusion Strategy is nicely aligned with what needs to happen in the market to facilitate such expansion. However, the actions of some government agencies do not align with the Strategy.
- There are potential partners with proven records of massive growth that are waiting to enter the Nigerian market and work with insurers specifically on Microinsurance. They are being held back by the current restrictions in the market, while some have withdrawn from the country.
- Major distribution channels are dormant because of the lack of legal authority to sell Microinsurance.

As has been shown in examples throughout this paper, other countries have addressed the problems and concerns that hold back Microinsurance growth in Nigeria. There are precedents, and business cases, and even Application Papers from the IAIS that can help open up the Microinsurance market in Nigeria. There is a strong role for government in addressing the facilitation, rather than the restriction, of innovation in products, distribution, market education and other key factors.

In October 2018, a two-day workshop was convened by EFInA with senior-level attendees from the insurance industry and associations, NAICOM, current and potential distribution channels and donor organisations. This workshop was designed to review the results of the supply-side Microinsurance study, assess what the results mean in the context of the various represented groups, and most importantly to identify actions that could be taken by each constituency. Table 3 provides an annotated listing of the actions that came from the workshop participants that are based on the results of the supply-side study discussions over those two days.

Table 3: Workshop Participants 'Planned Actions' by Topic Area

Microinsurance topic area	**Planned actions from workshop participants**
Legal structure	Do not let regulators be the limiting factor; identify the need and tailor the products towards the need so that the consumer can get value from the service
	Regulatory alignment (CBN, NAICOM, PENCOM, NCC); joint regulator engagement
	National Insurance Commission should implement an effective feedback mechanism, in order to improve on regulations
Products	Create an innovative product that will address the need of the common person that individuals (possibly through groups) would be willing to pay for such a basic need via premium
	Build insurance components in noninsurance products
	Product innovation reviews: • Cross-selling • Pricing policy • Monitoring by NAICOM
	Keep the process simple
	Expand the product mix in order to meet the needs of the customer
	Be innovative and creative in ways that add value for the market

Microinsurance topic area	Planned actions from workshop participants
	Revamp and make efficient the risk management processes within our companies
Distribution	Secure better commitments from both partners
	All possible channels should be available without restriction
	More practical collaboration between partners ensures each is benefitting from the relationship
	Focus innovation on distribution channels—which channels and how to work with them effectively.
	Convince the management of the MNOs to look into the long-term values of the projections and not into immediate gains
Markets	Build or restore the trust of the Microinsurance space
	Increased research on the market—both public and private good research
	Market sensitisation and education and the research to make those efforts most effective
	Identify and develop indirect tools that could be used to market insurance to the consumers
	Develop approaches and products for the 'low-hanging fruits' (agriculture, SMEs)
	Show the market that it can trust insurance through prompt and convenient service, rapid claims settlement and products that actually respond to the needs of the market
Costs	With accounting departments, break down the insurance premium components to the barest minimum the low-income can pay, get coverage and move on with their lives with peace of mind.
	Have profit at the back of mind in the short-term. Prioritise impact, and profits will come in the medium- and long-term
	Understand the costs involved in offering Microinsurance through process mapping and other means so that we can actively and knowledgeably work towards improved efficiencies and the resulting cost reductions

VIII. Important considerations and recommendations for Microinsurance in Nigeria

- Recent (since 2014) changes by government have led to a decline in access to Microinsurance. There are insurers that want to access the opportunities of this market and because it is possible for insurers to simply develop and offer Microinsurance as a retail product, the actions of the government *could lead to movement into retail insurance which could leave low-income people behind*, and result in exactly what NAICOM says it is trying to prevent.
    - Regulators, insurers and distributors should work in partnership to address the issues from Table 3 above.
- Insurer creativity and innovation has been limited. Credit life insurance leads the market and this is typically *the last product potential clients will suggest as a risk management tool*. They do not see real value from this product. To improve this:
    - There should be a more facilitative platform for insurers to offer products. The restrictions in the Nigerian market make it much more challenging for insurers to ultimately see

profitability. The wider the opportunities the more incentive insurers will have towards innovation.

  - Offer more events in Nigeria where products from other markets are shown, evaluated and considered for adjustments to bring success in Nigeria. There is also a need to look at the failed products and processes. This could be done as a public good as creativity is a challenge in many countries.
  - The Microinsurance operators should spend time to understand what potential clients want and what they need. Studies should be conducted around the following questions:
    - What risks do the target customers face and how do they mitigate these risks?
    - What gaps are there in the options being used by the customer and how can the insurer fill such gaps?

    These simple questions will help insurers that are really interested in the market to develop products starting from the client.
  - Spend time understanding what potential clients want and what they need. Studies should be conducted around the following questions: What risks do you face? How do you face them? And what gaps are there for you? These simple questions will help insurers that are really interested in the market to develop products starting forum the client.
  - SUAVE training (with tangible outputs)
    - For regulators
    - For insurers
- There is a disconnect between the Financial Inclusion Strategy and the regulations that should support it. A serious approach to the Strategy and its objectives will require a rapid movement from the legal requirements currently hindering the advancement of MI (indeed promulgating the deterioration of market results). This could be mitigated with:
  - Better communication between the Insurance Commission and the industry which could help in terms of clarity of issues.
  - Regulatory rationality could be improved with better interagency communications. The effort should be on aligning regulations in a unified way to create a platform for the Financial Inclusion program to be successful.
  - This will likely require the leadership of the government on the level of the Vice President.

IX. Conclusion

The Microinsurance supply-side study has revealed serious gaps in the Microinsurance market in Nigeria. While there is great potential, it is not being realised. Indeed, 2014 to 2017 actually saw a decline in the number people and the gross written premiums resulting from products that were available in both years, declining 56% and 30%, respectively. This occurred simultaneously with the expansion of Microinsurance throughout much of Africa and Asia. The overall growth in Microinsurance in Nigeria is based on credit life insurance.

At the same time, insurers in Nigeria have somewhat broadened their product mixes, and are beginning to see some traction with these products. However, the insurers report major challenges in distribution and growth resulting from changes in the regulatory environment for MI. These issues can be addressed, and the market can be facilitated by government, donors, insurers and distributors.

The Microinsurance supply-side study results point to a great challenge in meeting the Nation's Financial Inclusion goals. It will take rapid action on all parts, along the lines of the recommendations above, to even begin to come close to achieving them. Many of the core components to success are however present. The stakeholders therefore need to gather and clear the road to success for Microinsurance in Nigeria.

X. References

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Abbreviations

Agri	Agriculture
CBHI	Community-based health insurance
CBN	Central Bank of Nigeria
CHEERS	Centre For Health Eandation, Economic Rehabilitation and Social Security
EFInA	Enhancing Financial Innovation & Access
FGD	Focus group discussion
GH	Ghana
GWP	Gross written premium
IAIS	International Association of Insurance Supervisors
IT	Information technology
MBA	Mutual benefit association
MFB	Microfinance bank
MI	Microinsurance
MNO	Mobile network operator
N/A	Not available (no opinion in the context of questionnaires)
NAICOM	National Insurance Commission (of Nigeria)
NCC	Nigerian Communications Commission
NG	Nigeria
NGN	Nigerian Naira
NHIS	National Health Insurance Scheme
NIA	Nigeria Insurers Association
PA	Personal accident
PENCOM	National Pension Commission
PH	The Philippines
SME	Small and medium enterprise
SUAVE	Simple, understandable, accessible, valuable, efficient
USD	United States dollar
U/S/N	Unit, State, National (relating to microinsurance licenses)

Exchange rates applied:

- 2017 annual average
    - NGN 1 = USD 0.00299
    - USD 1 = NGN 334

Source: https://www.oanda.com/currency/average retrieved 16 November 2018.

XI. Appendix: Microinsurance definition utilised for the study

Microinsurance refers to insurance for low-income households. Individuals with Microinsurance pay small amounts on a regular basis to the insurance company with the agreement that the insurance company will pay out some of this money when the individual experiences a shock that leads to financial loss (i.e., losing a harvest, losing specific assets, or medical costs as a result of being ill or injured or in the case of death, among many other examples).[37]

For the purposes of this study, products should meet each of the following criteria to be considered as Microinsurance. *Products do not have to be registered as Microinsurance with NAICOM nor do companies need to have a Microinsurance license to qualify as Microinsurance for this study*.

- **Developed for low-income people**: The product is developed intentionally to serve the low-income population (insurance that is not just purchased also by low-income people, but products that are designed for low-income people). Mass market products may be included if they meet this and the following criteria.
- **Risk carrier**: The focus should be on the insurer being the risk carrier. Government must not be the sole risk carrier (not social security programs); the program must be managed based on insurance principles.
- **Goal of sustainability**: The product must be working towards profitability or at least sustainability and managed based on insurance principles.
- **Modest premium levels and affordability**: Microinsurance has modest premium levels based on the risks insured. The base or minimum annual premium amount is generally commensurate with the income level of the low-income sector.

[37] Microinsurance definition used by EFInA.