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# Transformation and Insurance Growth in Nigeria

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**A thriving insurance sector is not only the result of an efficient financial services sector but is also an important aspect of a healthy modern economy...**



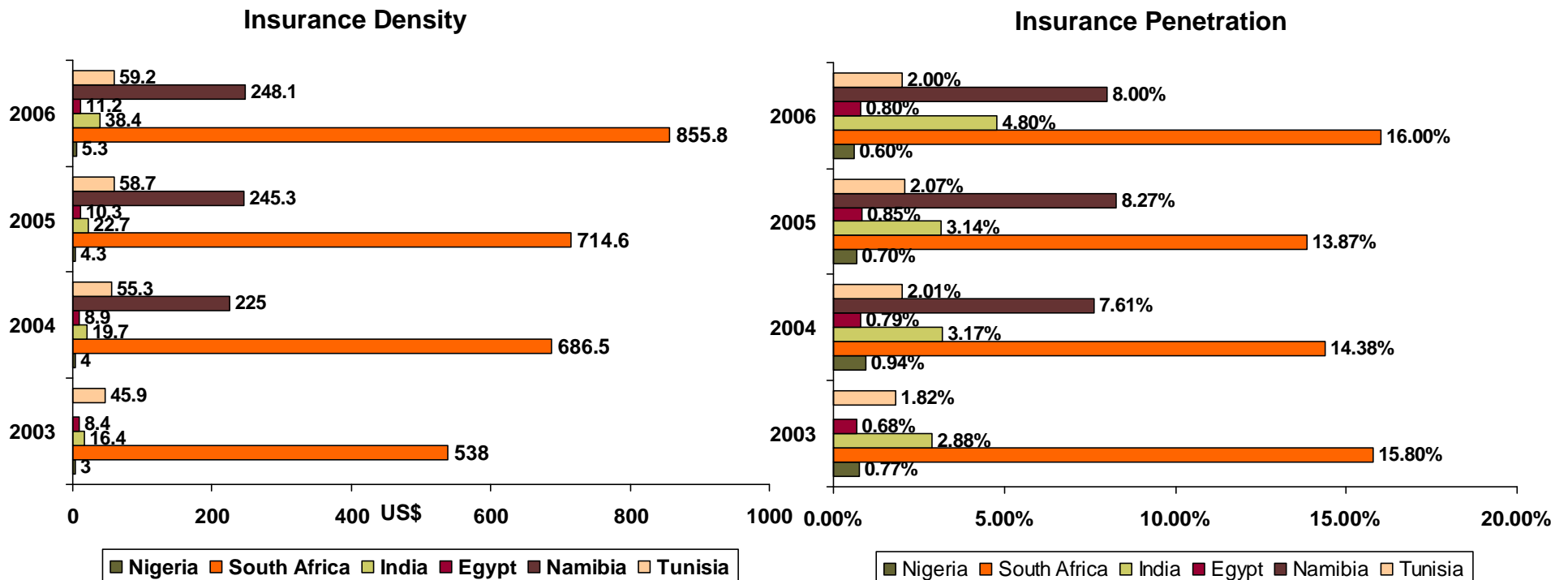
- ❑ The insurance sector promotes long-term savings, that support sustainable long-term development:
  - Create long-term large investments for infrastructure development
  - Generate funds to support a deep mortgage industry
  - Provides a safety net to government, rural and urban enterprises and productive individuals

***Insurance companies are typically the biggest investors in long-gestation infrastructure development projects in all developed and aspiring nations***

# The Nigerian insurance industry is still underperforming its potential and remains at a very under-developed stage...



**South Africa is ranked 2<sup>nd</sup> and 32<sup>nd</sup> compared to Nigeria's 84<sup>th</sup> and 86<sup>th</sup> in terms of Insurance Penetration and Insurance Density respectively**



Source: Swiss Re Sigma Reports (2004 – 2007)  
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**Note:**

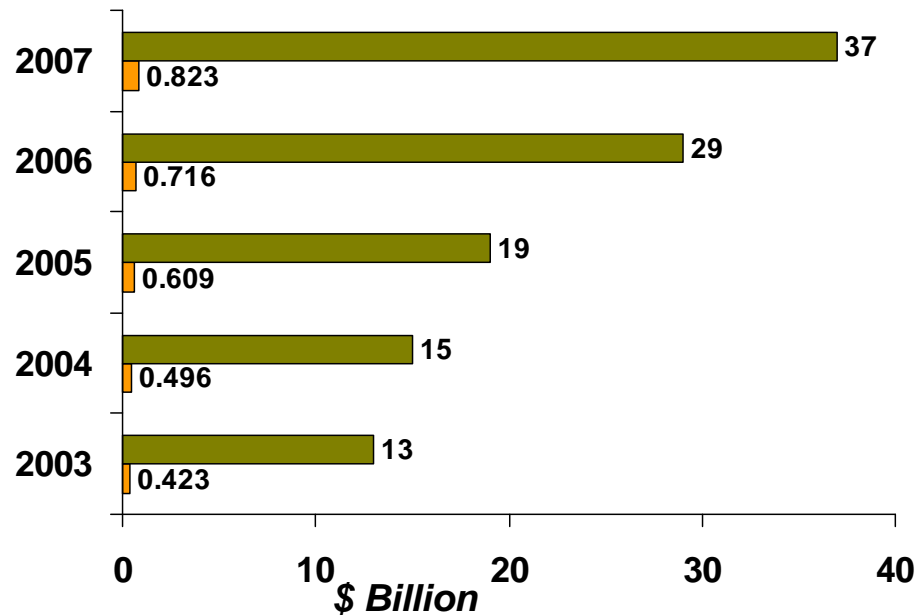
- 1) Insurance Density: Premium per Capita (USD)
- 2) Insurance Penetration: Premium Income as % of GDP

# Compared to the banking industry, the Nigerian insurance industry has not done very well...

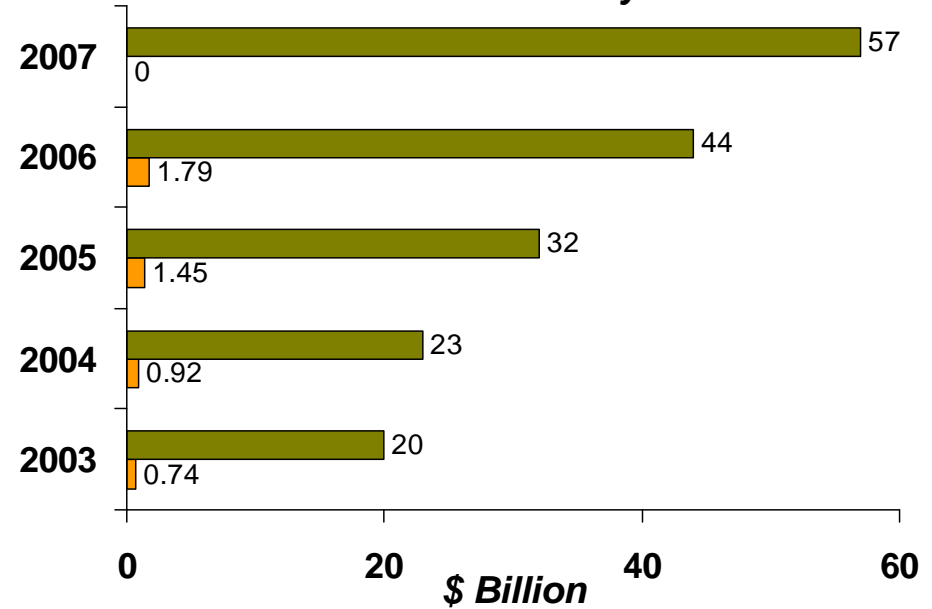


*This has become more obvious post consolidation...*

**Total Banking Industry Deposits versus Gross Premium Income**



**Total Banking Industry Assets versus Insurance Industry Assets**



■ Banking Industry    ■ Insurance Industry

## Regulation-driven consolidation to date has wrought some market disruptions but little economic impact in the insurance market in Nigeria...



- ❑ Flurry of mergers and acquisition, with very little synergy rewards
- ❑ Entry of some foreign players
- ❑ No closure of poor performing companies and very limited rationalization of players
- ❑ Wealthy company owners, but 'poor' institutions

***The overall objective of creating a stronger and more competitive industry is not apparent***

## And the issues that have historically limited performance in the past still persist...



- ❑ Very poorly developed distribution channels as influence of brokers remain high, with insurance brokers possibly controlling as much as 80% of non-life business
- ❑ Collections remain poor, resulting in relatively high receivables
- ❑ Unsophisticated products offerings, mainly 'plain vanilla' with only a few companies creating new opportunities and exploring ways of filling existing gaps in the market
- ❑ Poor public perception, market is suspicious of insurance companies' willingness to pay claims as and when due
- ❑ Lack of requisite skill to participate in highly specialised transactions especially in high value risk segments such as marine, aviation, oil and gas
- ❑ Inability to attract and retain skilled talent
- ❑ Low technology leverage
- ❑ Low investment and asset management capabilities
- ❑ Poor regulatory oversight


# The expected signs of a thriving industry and synergies from consolidation have not been realised ...



## Business Rationale

- ❑ Expand to new markets and territories
- ❑ Develop new distribution channels
- ❑ Develop new complementary products/ broaden business lines
- ❑ Acquire critical mass, and benefit from economies of scale
- ❑ Develop new business models/ Diversify as a hedge against volatility in market
- ❑ Acquire new strategic business locations
- ❑ Acquire technology, or to add/ replace own technology
- ❑ Acquire skills/ management; to add/ replace team skills
- ❑ Enhance operational efficiency

## Value Expected

- 
- Revenue Enhancement
  - Cost Reduction
  - Improvements in ROCE
  - Improvements in ROI
  - Improvements in ROA
  - Improvements in Productivity

.....especially when compared to the banking industry consolidation.....



- ❑ Larger financial capacity: ability to participate in bigger ticket transactions and ability to fund global expansion
- ❑ Entrance of global players: increased interest in Nigeria and response to international players and foreign investments
- ❑ New Products: development of new innovative products that are appealing and meet consumer needs
- ❑ New Channels: significant large investments in the development of alternative service delivery channels

## Post regulatory consolidation, the insurance industry structure still suggests that there is a need for a transformation...



- Highly fragmented industry
- Homogenous companies
- High-cost distribution system
- Poor governance
- Dwindling competitiveness
- Under-developed channels
- Commoditised products

***...overall, there is no real source of competitive advantage for players in the industry***

# What should be the objectives of the Nigerian insurance industry transformation?



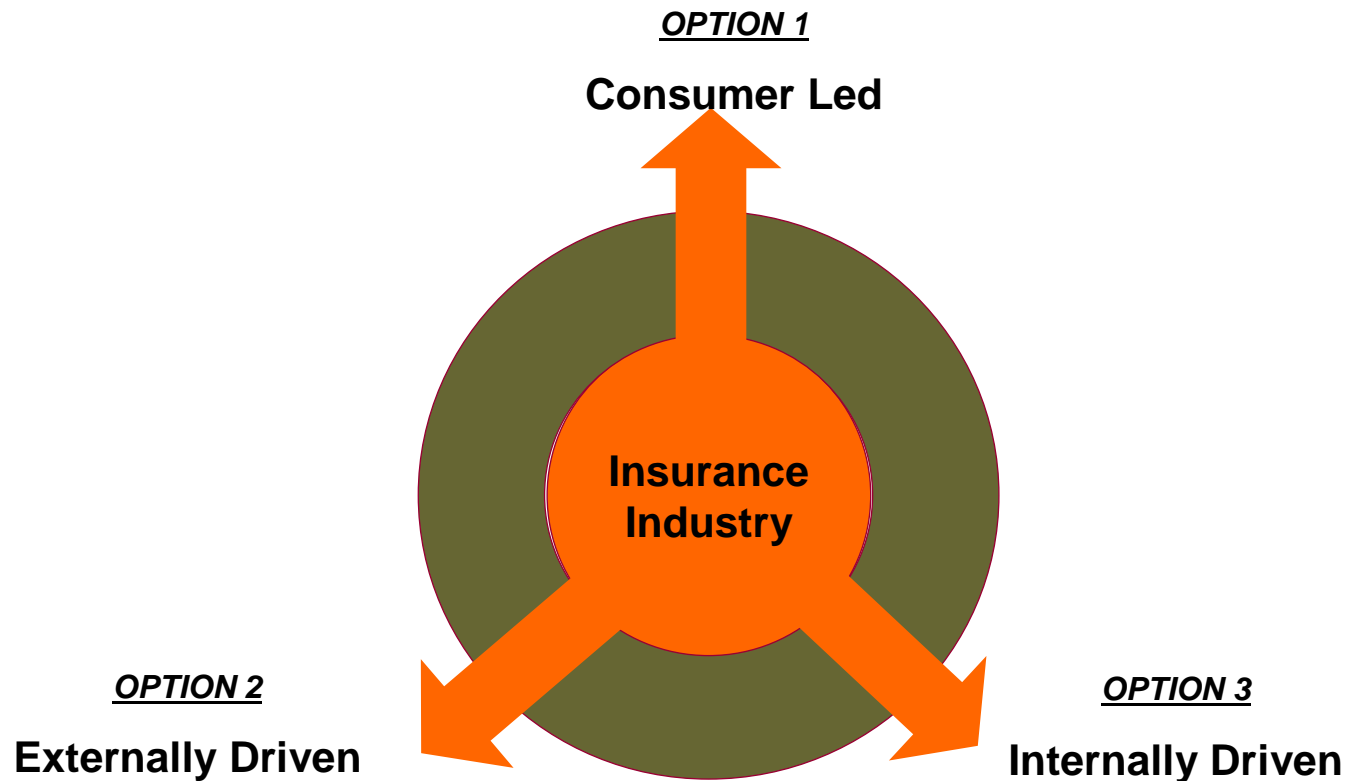
- ❑ Relevance/ Size/ Capacity of the Insurance businesses
- ❑ Appeal of insurance to consumers, especially the retail segment
- ❑ Ability to effectively compete/ partner globally
- ❑ Developing/ building skills
- ❑ Proliferation of alternative channels
- ❑ Development of appropriate regulatory framework

***In the UK, the FSA reform programme had three distinct objectives:  
Improve regulatory framework, reform of firms' business models/  
operating practices and protection of customers***

# Three possible transformation scenarios could emerge.....



- There are three possible forms that the transformation could evolve



## Consumer-led transformation will be driven by more sophisticated customers ...



- ❑ Sophisticated customers, exposed to the developed markets, demand insurance products and services which are at par with what is available in more advanced countries
  - Customers are demanding of a more personal approach, along with a comprehensive range of banking, insurance and asset management products and services
  
- ❑ This should result in:
  - Strong consumer control
  - Price transparency
  - Value-adding products
  - Channel proliferation

## Externally-driven transformation would entail the entrance of more global players...



- ❑ Responding to the emerging opportunities in the Nigerian insurance industry, international companies will enter the Nigerian insurance market space
  
- ❑ The typical entry strategy for the global players will be to focus on areas where the local players have been traditionally weak
  - Focus on the retail sector
  - Develop innovative products
  - Develop alternative service delivery channels
  - Pricing
  
- ❑ This should result in:
  - Bigger companies with deeper pockets
  - More expertise in the market place
  - Access to larger distribution networks
  - Ability to attract quality skills

# Internally-driven transformation will require industry players to co-operate and collaborate to move the entire industry forward...



- ❑ It will entail the development and deployment of industry-wide infrastructure that will serve as a common operating platform for industry players
  - Similar to Industry collaboration initiatives in the Nigerian banking industry such as InterSwitch, ATMC, Credit Reference Company
  
- ❑ But the collaboration will not compromise the ability of the insurance companies to compete effectively and aggressively. Basis for competition will be re-defined:
  - Innovation
  - Service quality
  - Value
  
- ❑ Areas of possible collaboration include:
  - Skills/ Capacity Building
  - Claims Operations and Processing
  - Policy management
  - Channel development
  
- ❑ This should result in:
  - Better competitive landscape
  - Improved operational efficiency and productivity gains
  - Standardisation and improved industry credibility
  
- ❑ And could trigger value-driven mergers and acquisitions
  - With meaningful cost and revenue synergies

# Insurance industry should consider ...



- Which of these options is:***
  - ***Most desirable?***
  - ***Most likely?***
  
- What should be the industry's response to each of the options?***

