**ABSTRACT**

Insurance, a concept dating back to the 13th century in Italy[[1]](#footnote-0), is essentially a contract. In this contract, a person (called the Insurer) undertakes, in consideration of money (called the premium) paid to him by another (called the Insured), to indemnify the latter against the risk of loss arising from the occurrence of some specified contingency[[2]](#footnote-1). Essentially, insurance involves shifting risk from the Insured to the Insurer.

In Nigeria, the roots of insurance reach back to the 20th century when the nation's economy heavily relied on agriculture.There was a need for merchants to transport their cash crops to Europe and also reduce the risk of such transportation. The Insurance industry, thus, holds an established position within the Nigerian Jurisdiction. The legal framework for insurance in Nigeria is governed by the Insurance Act of 2003, which plays a pivotal role in regulating insurance contracts and the industry itself.

The Nigerian Insurance Industry is a vital segment of the country's financial services sector. However, it faces the influence of both emerging trends and persistent challenges. This analysis delves into these dynamics, examining the forces molding the industry and its changing landscape. Moreover, it offers forward-looking strategies to enhance the growth and sustainability of insurance in Nigeria, along with practical solutions to drive the sector forward.

**INTRODUCTION**

The insurance sector in Nigeria is navigating a landscape defined by emerging trends and deep-seated challenges. Consequently, the industry calls for innovative strategies to leverage trends for growth and mitigate these challenges. To ensure its continued growth and relevance, it is imperative to grasp these dynamics comprehensively and respond with strategic measures.

In this work, we dissect and analyze the unfolding narrative of insurance in Nigeria, examining both the promising shifts and the hurdles that require decisive action. This analytical work, thus, unearths the emerging trends and challenges in Nigeria's insurance sector and propounds a holistic set of strategies for its future development and sustainability.

**EMERGING TRENDS IN THE NIGERIAN INSURANCE INDUSTRY:** [[3]](#footnote-2)

The Nigerian Insurance industry in the last decade has grown to be the second largest in the Financial Services sector after the Banking Industry with a Gross Premium Income (GPI) of ₦389.2 billion in 2017 from ₦75 billion in 2005. The Industry’s assets are estimated at ₦1.1 trillion and its investment portfolio at ₦848.6 billion as at December 2017.[[4]](#footnote-3)

Furthermore, in the first quarter of 2022, the Nigeria's financial and insurance sector registered a 23.24 percent growth and in the second quarter of the same year, this sector grew by 18.48 percent in real terms compared to the same period of the previous year. [[5]](#footnote-4)

Despite this growth, Nigeria’s insurance penetration ratio, at 0.5% is amongst the lowest in Africa, when compared with countries like South Africa at 17%, Kenya 2.8%, Mozambique 1.62%, as well as other smaller West African countries like Togo (2%), Senegal 1.5% and Ghana 1.1%. In addition, the sector’s insurance density (a measure of industry GPI per capita) is still one of the lowest when compared to peers: South Africa, $762.5; Egypt, $22.8; Kenya, $40.5; Angola, $30.5; while Nigeria stands at $6.2.

Despite these poor indices, however, Nigeria’s penetration rate and GPI per capita have continued to move in an upward trend in the last four years.

The Nigerian macroeconomic environment has witnessed some instabilities over the last decade and has experienced healthy growth in the first five years, with a record GDP of $568.5 billion in 2014. This, however, nose-dived in 2015, following a sharp decline in global crude oil prices from a region of $100 per barrel to as low as $30 in Q1 2016, coupled with a devaluation of the naira. The inflation rate also skyrocketed from single digit (8.05% in 2014) to as high as 16.5% in 2017. All these plunged Nigeria into its worst recession in almost 30 years. However, various government efforts through the implementation of the Economic Recovery and Growth Plan (ERGP) led to Nigeria’s recovery in 2017. The economic environment has since attained some stability since then with increase in crude oil production, foreign exchange reserves crossing the $40 billion mark and peaked at circa $48 billion in May 2018 and an improvement in the ease of doing business (as seen in fig 3 below).

All these macroeconomic indicators over the years have had significant effects on the Insurance Industry, requiring insurance operators to consistently review and update their strategies. Insurance operators are now having to execute more strategic partnerships, execute Merger & Acquisitions (M&As), increase capital base, etc. in a bid to adjust to these macroeconomic impacts on their businesses.

The trail of adjustments over the years have birthed varying trends in the industry, some of which may be seen below:

1. **Change in Market Focus:**

The broker (wholesale) market has always been and remains the largest distribution channel in the insurance industry, with the largest chunk of industry GPI coming from that market. According to Nigerian Council of Registered Insurance Brokers’ (NCRIB) President, brokers control 85% of businesses in the sector as at 2017. This has contributed to relatively low insurance awareness levels amongst the general populace, as majority of the operators gave little attention to the retail market. However, in an attempt at revenue diversification and to reduce concentration risks in the wholesale market, which reacts more to macroeconomic variables and as such are less profitable, insurance companies are beginning to drive penetration through direct/retail channels; focusing on bottom-of-the-pyramid and middle-class population, through introduction of retail/micro-insurance products that are sold at affordable rates. Considering the growing population and the rising rate of rural-urban migration, the opportunities in the retail segment of the market, especially in urban areas, appear to be compelling for insurance companies looking to grow. Insurance operators now seek to deepen their footprints in the retail market through Agency models, strategic partnerships, market blasts, religious organizations, etc.[[6]](#footnote-5) This is changing how insurance products are being distributed as underwriters now seek to directly sell and distribute their products to consumers; creating a rebalancing of the sector’s distribution mix.

1. **Driving Insurance Penetration through Digital Channels:**

Recent trends in the digital space are impacting traditional insurance business, especially with regards to the wholesale market. A recent report from Terragon Group revealed that 52% of Nigerians are internet users while 12% are active social media users. This digital shift enhances accessibility and customer experience. This high internet usage justifies the need to drive insurance penetration through digital and other alternate channels for the sale and marketing of insurance products.[[7]](#footnote-6)

Insurance operators are leveraging the social media space for top of the mind awareness, education and lead generation. This has now improved the ease of access to insurance products, thereby increasing revenue in the industry.

1. **The Influx of Foreign Players:**

The room for opportunities in the insurance industry attracted the interests of some global players who made in-roads through the acquisition of a stake in local operators. Some of the foreign players who came in include NSIA Participations S.A holdings; Mutual & Federal Insurance Company, South Africa; Metropolitan International Holdings (Proprietary); AXA of France; Sunu Group from France; and the most recent Allianz of Germany, etc.The immediate past Commissioner for Insurance and Chief Executive Officer, National Insurance Commission (NAICOM), Alh. Mohammed Kar also recently revealed that more foreign investors are expected in the coming years. This renewed interest from foreign investors is expected to drive a boost in insurance penetration, technical capacity, and service quality.

1. **Industry Recapitalization:**

The 2007 recapitalization exercise was aimed at strengthening the industry and enhancing its capacity to underwrite bigger risks in support of the economy, requiring the different categories of insurance companies to increase their capital base in the following order: Life insurance companies from ₦150 million to ₦2 billion; non-life from ₦200 million to ₦3 billion; and composite firms from an initial base ₦350 million to ₦5 billion. This recapitalization process resulted in M&As between Industry operators, reducing the number of operators by 55% from 107 to 59 (as at 2017). However, this did not adequately solve the problem of capacity; as the economy soon outgrew the new capital base. In 2018, NAICOM introduced a Tier-based Minimum Solvency Capital Model (TBMSC) designed to categorize players in the industry into tiers, to enable operators to play in the space that their capital base/risk appetite can allow. However, the policy was canceled following protests and a court order obtained by industry shareholders and has now been re-introduced as a new recapitalization regime, this time without the tier-based model. The debate, however, is still ongoing amongst industry watchers as to if capital alone is sufficient to stimulate the required growth or improvement needed in the industry.[[8]](#footnote-7)

1. **Bancassurance:**

While the concept of Bancassurance is not new to the Industry, CBN and NAICOM released guidelines in 2017 to guide the implementation of the Bancassurance model. The Bancassurance framework was introduced to leverage Banks’ network in deepening insurance penetration through the creation of mutually beneficial alliances amongst insurance operators and banks. It involves the sale of insurance products to bank customers and the consummation of insurance deals from the banking halls. According to Vetiva Research, the adoption of this regulation has been fair, with about five insurance companies acquiring approval for bancassurance partnerships. NAICOM is set to broaden the scope of this model, as the commission is expected to release a guideline to govern bancassurance relationships with microfinance banks. It is expected that the microfinance banks’ stronger presence in the informal economy could strengthen insurance penetration in that space.

1. **Health and Wellness Programs**

There has been a rising demand for Health coverage and preventive care especially among workers and civil servants, which has led workers to have Health Insurance coverage under the National Health Insurance Scheme ( NHIS). Insurers such as NHIS are, thus, exploring partnerships with healthcare providers to offer wellness-oriented policies. These address the rising demand for health coverage and preventive care in the growing populace.

**THE CHALLENGES OF THE NIGERIAN INSURANCE INDUSTRY [[9]](#footnote-8)**

The global world is characterized by technological and societal changes which could pose a threat and also a benefit to the insurance companies. Despite the National Insurance Commission's constant effort to cure and mitigate the challenges causing the sub-optimal performance of the insurance industry, there are still a couple of challenges militating against the growth of the insurance industry. Some of the challenges facing insurance companies in Nigeria includes:

1. **Low Penetration/Lack Of Public Awareness and Trust**:[[10]](#footnote-9)

As earlier noted, Insurance penetration remains significantly low in Nigeria, indicating a lack of awareness and trust among potential customers. In general, there is limited public awareness of insurance in Nigeria, and distrust by those who are aware of it, particularly in urban areas. There is plenty of room for improving business practices towards consumers and innovating to serve the retail and microinsurance segments. The very low penetration of insurance coupled with a large and growing population and economy, represent an attractively large potential market.

The low claims ratio of 24% shows the industry offers very little value to insurance clients. According to NAICOM Insurance Statistics Report 2010, the average claims ratio (gross claims over gross premium income) for all companies (including reinsurance) stood at 24.2%. The minimum ratio recorded by individual companies was 1.96% and the maximum 57.97%. Most companies have ratios between 1030%.[[11]](#footnote-10)

There is lack of transparency in commissions paid and low reliability of financial data. In addition, the financial statements are not very transparent. Underlying reasons are not entirely clear (e.g. low quality of audit, reporting standards not being followed, etc.), but these characteristics might be impacting competition and perpetuating inaction in the market.

The industry recognizes its current reputation and the lack of public trust and awareness of insurance. Several insurance companies attribute mistrust to too many co-insurance arrangements, poor record of paying claims or too many obstructions in the claims procedures, frauds (e.g., fake insurance and fake insurance agents). They believe the industry needs to improve its image, meeting the client expectation that claims is a certain and easy process. This would require consumer education and awareness building.

1. **Limited Product Diversification:**

The insurance sector primarily emphasizes mandatory and corporate insurance. It's mainly driven by mandatory insurance, substantial government contracts, and insurance for the oil and gas industry. Nigeria has at least six insurance products mandated by law, with potential for expanding voluntary agricultural insurance. The life insurance segment is relatively small, with limited information available. Most life insurance is linked to compulsory coverage through employers. Group life business, largely broker-driven, lacks differentiation and additional coverage options. Retail and individual life insurance business is underrepresented, presenting an opportunity for insurers to tap into this untapped market. There's a need for improved service standards, smoother claim settlements, and enhanced sales force capabilities. Rather than focusing solely on more compulsory insurance, the sector should diversify by creating voluntary products and targeting new customer segments.

1. **Antagonistic and hostile economy**

A stable economy promotes the savings necessary to finance investments which is a prerequisite for achieving a viable insurance industry which can help sustain economic growth. Insurance companies are sensitive to economic fundamentals and sometimes have to factor a lot of economic variables so as to make the right investment decisions. These variables include foreign exchange reserves, government debt, government deficits, inflation, interest rates and exchange rates which have all suffered in recent years as a result of Nigeria’s financial indiscipline and misappropriation.[[12]](#footnote-11)

What this means is that for the insurance industry to thrive and attain its potentials, the government must be sincere in promoting a favorable environment that will allow the financial service industries to thrive. This will help increase the operational efficiency of the insurance industry. Presently, insurance companies are unwilling to invest the premiums in long-term instruments because of the fear of inflation built up over several years due to fiscal indiscipline and high inflation. It is a very simple principle of economics and investment that short-term investment will yield lower returns. If this trend continues to occur, insurance companies will not be able to solve their liquidity problems which might deter insurers from paying claims.

1. **The Nigerian market is doubtful of Insurance Companies**

Anybody who has spoken to the average Nigerian about insurance can give a firsthand experience of how Nigerians generally have a negative attitude toward insurance. This accounts for the low patronage of insurance companies in Nigeria. The negative attitude of Nigerians might not be unconnected to the poor attitude of the insurers as regards non-payment of claims. Some insurance companies are very notorious for defaulting in payment of claims which has adversely affected the publicity for the industry and consequently the confidence the industry buys the prospective assured. More so, there are clauses in policy documents which escalates the distrust in Nigerians.

1. **Inadequate access to information Technology**

Despite being in a world where information technology seems to be ruling everything, many companies in the insurance industry still do not have a fully automated and/or integrated computer software systemIt is an unfortunate truth that manual services are still prevalent in the industry which leads to delay in settlement of claims, fraudulent practices, mistakes and errors in the entire business operations. There is also no regulatory guideline on best IT infrastructure for insurers and reinsurers to adopt for both operational and reporting purposes.

1. **Weak Regulatory Framework:**

The current insurance regulations in Nigeria are notably deficient. The National Insurance Commission is tasked with overseeing and regulating the insurance sector in the country, but historical policies aimed at reducing foreign dominance have become outdated. It is imperative to revise these regulations, especially the antiquated Marine Insurance Act of 1961, which mirrors an older UK law that has since been updated. Furthermore, there's a pressing need for policies mandating certain insurance products and mechanisms to guarantee their full enforcement. Legislators and the National Insurance Commission should also consider more rigorous policies to increase local involvement in high-risk sectors like aviation and oil & gas.

Another major problem is the National Insurance Commission inability to ensure that there are standard premium rates on certain insurance products. Insurance companies must adhere to the policy such that there is a benchmark for rates when negotiating premiums.[[13]](#footnote-12)

1. **Lack of skilled personnel**

As funny as it may seem, there is a huge shortfall of skilled professionals (underwriters, brokers, actuaries, etc.) in the entire insurance industry. Insurance companies inadequately train their staff. Majority of the insurance companies attract low-skilled personnel due to inadequate remuneration packages, thus, there is always the inability to retain competent employees.

Many top executives in the insurance industry are marketers who have risen through the ranks not because of their strong technical background of the industry but because of their distinctive salesmanship and the ability to bring in more clients than the others. The author thinks bringing in client should be a major requirement of promotion, however, the combination of a good technical background and business skills should be the pre- requisite. Many marketers out there would give any rate to the prospective assured, not looking at important factors such as claims history and other major factors.

1. **Poor knowledge of Insurance Services by the prospective assured**

The insurance culture in Nigeria is very low. This may not be unconnected to the lack of knowledge about life insurance products. Many educated Nigerians still do not see a reason for insurance. Scholars have stated that there is an urgent need for insurance companies to renew their marketing communication strategy that should be based on creating awareness and informing the consumers of the benefits inherent to insurance.

Summarily, Nigeria is a nation plagued with a low level of development, vast income inequalities, and cultural diversity in terms of language, religion, ethnicity and resource control crises. The low standard of living is a major reason for the poor attitude of Nigerians towards insurance services. The per capita income in Nigeria is very low and, thus, insurance penetration into the economy is bound to be low.

**PROPOSED STRATEGIES FOR THE FUTURE DEVELOPMENT AND SUSTAINABILITY OF INSURANCE IN NIGERIA:[[14]](#footnote-13)**

Despite the recorded growth in the Nigerian Insurance Industry over the years, huge opportunities still exist for more growth and investments. Industry stakeholders must continue to develop innovative strategies to deepen the market and enhance the industry’s ability to serve as the backbone of the economy in the face of other macroeconomic uncertainties.

While the challenges remain prevalent, the following strategies could help insurance companies thrive in these situations namely;.

1. **Inclusive Insurance: [[15]](#footnote-14)**

An Inclusive Insurance is one that improves public confidence, trust and awareness, and increases Insurance penetration into the public space. Insurance companies must find ways to sensitize the populace about the use of insurance and launch extensive public awareness campaigns to educate Nigerians about the value of insurance.

Insurers need to develop insurance products tailored to specific demographics and emerging needs, fostering inclusivity. Insurers also need to create simple and affordable products and business models that, when achieving higher scale, can create a viable and sustainable operation, improving trust and penetration.[[16]](#footnote-15)

1. **Examination and Review of the Extant Legislations on Insurance in Nigeria:**

The Federal Government must also examine the extant legislations on insurance in Nigeria, particularly the Insurance Act 2003 and the National Insurance Commission Act 1997. The government has a role to play by making sure that the relevant Insurance laws are being enforced to make certain insurance policies compulsory and harsh sanctions for non-compliance of the same. The Insurance Act must be well implemented by NAICOM or any other government institution saddled with such implementation responsibility.

We cannot overemphasize the need for adequate legislation and policy to create an operational environment.

1. **Formulation of Insurance-Friendly Economic Policies;**

The formulation of economic policies which will give room for investment will also help the insurance industry. As earlier stated, where there are investment friendly policies, insurance companies would also be able to make long term investments for better returns on such investments. Also, it is noteworthy to state that if the economy is in a better shape, the prospective insured will have the liquidity to procure insurance.

1. **Improving Customer services in the Industry**:

Customer service in the Insurance Industry is below par. Many of these companies are having problems satisfying their customers in terms of product offerings, quality of services and sophistication of products offered. Customer service is clearly important for winning new customers and retaining existing ones. The first step of changing the face of the industry is ensuring an exceptional customer experience. Insurance companies must find a way to provide customers with an internet based self-service insurance platform where customers can view policy coverage, pay bills, make changes to policies, submit claims and check the status of claim progress. Brokers should be able to obtain online quotes, proposal and plans, design for their customers.

1. **Merger & Acquisition**:

Increased economies of Scale, increased customer base, increased synergistic capabilities are some of the benefits of merger and acquisition. In the Nigerian insurance industry, we might soon experience some mergers or acquisitions as a result of the new minimum paid-up share capital instructed by NAICOM.[[17]](#footnote-16)

1. **Technology**:

Technology enables companies to manage cost while remaining competitive by focusing on target marketing and market segmentation. Insurance companies use advanced IT systems and processes to remain competitive and contain cost. Generally, around the world, there is a paradigm shift from paper oriented processes which are manual to automated processes. Insurance companies in Nigeria must follow this growing trend. Insurance companies must employ the expertise of first tier technology firms to develop software to increase operational efficiency and embrace cutting-edge insurtech solutions to streamline operations, enhance customer experience, and facilitate data-driven decision-making.[[18]](#footnote-17)

1. **Employing Adequate Skilled Personnel:**

Employing more adequate staff with related professional backgrounds is also key. It is also important that the Chartered institute of Insurance must regularly review and expand their curriculum to meet with the present market need and build the capacity of student members. Insurance companies must also allocate a percentage of its budget to Continuous Professional Development to keep staff abreast of professional standards and practices.

These strategies collectively form a roadmap for the future development and sustainability of the Nigerian insurance industry, fostering growth, innovation, and resilience.

**CONCLUSION**

Recognizing that no modern economy can operate efficiently without a well-organized insurance sector, it becomes imperative for insurance companies to embrace innovation. Their success hinges on their ability to devise novel approaches to insurance within the Nigerian context. Additionally

In conclusion, the Nigerian insurance landscape is poised for transformation, driven by emerging trends and confronted by persistent challenges. To ensure the future development and sustainability of the industry, it is crucial for the government, insurance firms, industry professionals, and relevant agencies to collaborate in steering the insurance industry above its current challenges, towards the lofty heights it has been touted to achieve but is yet to reach.

Although the challenges mentioned persist in the insurance industry, the above proposed strategies can provide a pathway for insurance businesses to continue thriving for future development and sustainability, economic growth and stability.

1. https://www.linkedin.com/pulse/nigerian-insurance-industry-challenges-strategies-victor-udofia [↑](#footnote-ref-0)
2. Black’s Law Dictionary (8th Ed.) [↑](#footnote-ref-1)
3. Emerging Trends in the Nigerian Insurance Industry Amid Macroeconomic Uncertainties - https://www.linkedin.com/pulse/emerging-trends-nigerian-insurance-industry-amid-akintujoye [↑](#footnote-ref-2)
4. (Agusto & Co, 2017) [↑](#footnote-ref-3)
5. Nigeria: real GDP growth of financial and Insurance Sector 2022 - https://www.statista.com/statistics/1365454/real-gdp-growth-of-financial-and-insurance-sector-in-nigeria/#statisticContainer [↑](#footnote-ref-4)
6. The industry is witnessing a surge in microinsurance products tailored to low-income earners. This trend aligns with financial inclusion objectives, expanding the customer base. [↑](#footnote-ref-5)
7. The adoption of insurtech solutions, including mobile apps and online platforms, is simplifying policy purchases and claims processes. This digital shift enhances accessibility and customer experience. [↑](#footnote-ref-6)
8. The regulatory landscape is evolving to ensure transparency and customer protection. More stringent requirements are shaping the industry's ethical and operational standards. NAICOM, established by the Insurance And (2003), plays a key role in the regulatory landscape of the Nigerian Insurance Industry. [↑](#footnote-ref-7)
9. Challenges Facing The Insurance Industry In Nigeria https://www.linkedin.com/pulse/challenges-nigerian-insurance-industry-damilola-b-l-aciarb-uk- [↑](#footnote-ref-8)
10. TOWARDS INCLUSIVE INSURANCE IN NIGERIA <https://a2ii.org/sites/default/files/reports/towards_inclusive_insurance_in_nigeria._an_analysis_of_the_market_and_regulations.pdf> [↑](#footnote-ref-9)
11. The industry contends with fraudulent claims and activities, affecting profitability and trust. [↑](#footnote-ref-10)
12. Economic instability and currency fluctuations can impact insurers' investments and long-term sustainability. [↑](#footnote-ref-11)
13. While regulation is evolving positively, navigating the regulatory framework can be challenging for both insurers and consumers. [↑](#footnote-ref-12)
14. THE NIGERIAN INSURANCE INDUSTRY: Challenges and strategies for overcoming the challenges-https://www.linkedin.com/pulse/nigerian-insurance-industry-challenges-strategies-victor-udofia [↑](#footnote-ref-13)
15. Towards Inclusive Insurance In Nigeria- <https://a2ii.org/sites/default/files/reports/towards_inclusive_insurance_in_nigeria._an_analysis_of_the_market_and_regulations.pdf> [↑](#footnote-ref-14)
16. This will depend on strong investment in capacity building, innovative and cost-effective delivery channels, and alliances with partners who are closer to the potential clients. [↑](#footnote-ref-15)
17. Forming strategic alliances with healthcare providers, banks, and other relevant entities to create holistic insurance and financial packages will help improve the Insurance Industry in Nigeria. [↑](#footnote-ref-16)
18. Investing in advanced fraud detection systems will minimize losses and enhance operational efficiency. [↑](#footnote-ref-17)