Overview of the Microinsurance Ecosystem in Nigeria

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Contents

1.0 Introduction

Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved[1]. It typically refers to insurance services offered primarily to clients with low income and limited access to mainstream insurance services and other means of effectively coping with risk.

Microinsurance in Nigeria is at a very early but growing phase. The EFInA Access to Financial Services (A2F) in Nigeria 2016 survey highlighted that - of 96.4 million adults, only 0.3 million use Microinsurance products. A further review of the survey findings suggested that while uptake is currently low, 32.1 million adults will be interested in using Microinsurance. This presents a significant opportunity for Microinsurance operators to develop products that meet the needs of adult Nigerians.

The Insurance industry regulator, the National Insurance Commission (NAICOM) has released the guidelines for Microinsurance operation in Nigeria, which establishes a uniform set of rules, regulations and standards for the conduct of Microinsurance business in Nigeria with effect from January 1st 2018. These are signs that the Nigerian Microinsurance sector is awakening and considering low-income insurance distribution. The guidelines defined Microinsurance as insurance developed for low income populations, with low valued policies provided by licensed institutions, run in accordance with generally accepted insurance principles and funded by premiums. It explained that Microinsurance products are insurance products that are designed to be appropriate for the low income market in relation to cost, terms, coverage, and delivery mechanism. It also clarifies the scope of Microinsurance for the operators, stating that the sum insured under a Microinsurance policy(ies) shall not be more than N2,000,000 per person per insurer.

EFInA has commissioned this study to highlight the different Microinsurance players in Nigeria with an aim to understanding the current Microinsurance network in Nigeria and opportunities to deepen the uptake and usage of Microinsurance. The study also analyses the different distribution models for Microinsurance in Nigeria and other landscapes, with a focus on the opportunities available in leveraging the agent networks for the distribution of Microinsurance.

2.0 The Microinsurance Ecosystem – Focus on Nigeria

The key drivers of Microinsurance to reduce the vulnerability of low-income earners include appropriate cover, simple and easily understood products, manageable premiums, suitable delivery channels and convenient premium collection methods.

Microinsurance is very broad and it is pertinent that the Nigerian Microinsurance industry players have full understanding of all the elements available in the sector to explore the different opportunities available for Nigeria. These can be clarified in terms of[2]:

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[1] Churchill, C., ed. 2006. Protecting the Poor: A Microinsurance Compendium. Geneva: International Labour Office.
[2] Key Concepts of Microinsurance

- **Microinsurance Stakeholders**: In different countries around the world, Microinsurance products are generally developed and offered by commercial insurers, mutual funds, microfinance institutions, NGOs, governments or semi-public bodies. Microinsurance ventures are often joint efforts among several of these stakeholders, who can play roles ranging from market research and product design to selling, delivering, and servicing claims.
- **Microinsurance Products**: Microinsurance products can cover any insurable risk, including death, illness, accident, property damage, unemployment, crop failure, or loss of livestock. The Microinsurance Guidelines for Nigeria further clarifies that the products/services risk, procedures and coverage must be unambiguous and easily understood. Microinsurance products must be affordable and accessible to the target market in terms of purchase, premium payments and claims. The products or services shall be designed to meet the needs of clients, be beneficial, fair in price and coverage.
- **Microinsurance Portfolio size**: Microinsurance can operate at any scale (from small to large), as a microinsurer may cover dozens of policyholders or millions.

2.1 Microinsurance Stakeholders

Nigeria currently has 17 organisations with Microinsurance windows; however, they are required to apply for a commercial licence to operate fully as Microinsurance providers in Nigeria. The scope of this document is limited to Microinsurance stakeholders and their different roles which are highlighted in the table below[3]:

Stakeholder(s)	**Role(s)**
Donor and promoter	• Includes private (domestic or multinational) donors and governments. • These stakeholders support microinsurance markets through financial support, strategic guidance, technical support, and capacity building.
Regulator	• Includes insurance regulators and supervisors, as well as other relevant government bodies, such as financial sector regulators. • These stakeholders stipulate requirements for products, the roles of insurers, delivery channels and others in providing those products.
Insurer	• May be formal (licensed) or informal; formal insurers can often take one of several institutional forms, including public or private companies, cooperatives and mutuals. • Help their policyholders manage risk efficiently through providing Microinsurance products and paying the claims covered by their insurance policies.
Reinsurer	• Provides insurance to the insurer, taking on a portion of the risk it bears.

[3] Stakeholders in Microinsurance

Microinsurance intermediary	• Includes local and multinational agents, brokers and other institutions that play a role in linking insurers to delivery channels. • These stakeholders are often present in markets where delivery channels may not directly have the capacity or interest in actively participating in the operational aspects of insurance, but do wish to offer these to their clients. Similarly, they operate where insurers may not be interested or capable of working directly with delivery channels that reach low-income markets, but can provide the risk taking capacity.
Delivery channel	• Includes agents, brokers, or unlicensed entities or individuals. • These stakeholders often play a broad range of roles in microinsurance, from contributing to product development, to marketing and client education to enrolment, claims processing, and resolution of disputes.
Service provider	• Provider of the insured service, for example a health care provider or a funeral home.
Consumer	• Includes the policyholder (client), other people covered by the microinsurance policy, and beneficiaries.

3.0 Opportunities and Barriers to deepening Microinsurance in Nigeria

There are lots of opportunities available in Nigeria to deepen the availability and use of Microinsurance in Nigeria. Some of these opportunities, with accompanying barriers are highlighted below:

3.1 Opportunities

- **Large Adult Population of 96.4m**: According to the EFInA Access to Financial Services in Nigeria 2016 Survey, 32.1 million Nigerian adults said that they are interested in using Microinsurance products. This portrays a significant opportunity to deepen the uptake and usage of Microinsurance in Nigeria.
- **Expanding Distribution Channels**: The distribution channels for Microinsurance in Nigeria continue to evolve with emerging types of distribution channels who are now integral part of the value chain. The success of any Microinsurance development process lies in its effectiveness in stimulating private sector engagement and investments. Microinsurance providers can leverage on the growing agent networks in Nigeria to distribute their products and services.
- **Favourable Regulatory Environment**: Strong commitment and support from the Microinsurance regulator towards the development of the Guidelines for Microinsurance Operations in Nigeria as well as the industry as a whole.
- **Mature Financial Services Sector**: Nigeria has continued to see a geometric rise in the number of financial products and services created by financial services providers and this trend will obviously continue to take reinvigorated dimensions as the market continues to get more sophisticated. Experts say various innovations in the financial services space are made possible by the

disruptions caused by the revolution in information technology and the market opportunities offered by these never-ending digital innovations.

3.2 Barriers

- **Sustainability of Microinsurance Schemes**: Microinsurance is a low-price, high-volume business and its success and market sustainability is dependent on keeping the transaction costs down. A number of constraints make Microinsurance look unattractive, including a lack of political will, scarcity of public funds and absence of a viable business model. The costs of marketing and processing appear to be too high and in view of the extremely low purchasing power of the consumer base; it cannot be easily apportioned to the target group. Such constraints make Microinsurance unattractive at the cursory level. A lot of Microinsurance schemes are therefore struggling to reach profitability and sustainability because of the high fixed and marginal costs usually invested in the schemes, which only attracts low premiums. It is advisable that these providers target large groups and develop products targeted towards the mass market at the bottom of the pyramid.
- **Low Awareness of Microinsurance in Nigeria**: The awareness level of Microinsurance is still very low. There is a need to increase mass awareness creation, which should be accompanied by a greater focus on client experience, timely payments of claims, customer education, marketing and customer care. This will increase the knowledge and buy-in of Microinsurance among the low-income groups. Education programmes targeted at specific market segments are likely to yield better results than mass awareness through media[4].
- **Weak Customer Value Proposition and Products Bundling**: To trigger increased uptake of Microinsurance products, consumer education needs to be accompanied with an availability of appropriate products and ideally with testimonial marketing. In addition, the insurer can provide a combination of products that are designed to respond to the real needs of the Nigerian low income population.
- **Insufficient profiling and understanding of the Nigerian Microinsurance market**: There is a need for Microinsurance operators to invest in in-depth market research to fully understand what the target customers need and how to meet these needs. It is usually beneficial for Microinsurance operators to engage in some targeted programmes; this affords them a valuable opportunity to understand the needs of their targeted consumers, which helps inform appropriate product design.
- **Inadequate/inefficient Distribution Channels**: Microinsurance providers still have a lot of work to do in establishing and maintaining effective distribution partnerships to expand the touch points and usage of Microinsurance products.

[4] Microinsurance Landscape in Zambia

4.0 Microinsurance Distribution Models

According to the Impact Insurance Facility of the International Labour Organisation (ILO), distribution is a particularly important focus for those looking to deliver insurance to low-income people. With low margins, microinsurers need to find low-cost channels that can reach clients in large numbers. The channels also need to be capable of selling to those with no experience of insurance.

Every Microinsurance distribution channel has its own advantages/disadvantages, and understanding these can be a starting point for selecting and working with a channel. It is important to note that successful distribution strategies will design the products and distribution channels according to the maturity of the target market. In order to understand and make use of the product, clients will often require more interaction. The following are some models which are currently working in Nigeria or may be explored[5]:

- **Use of roving agents or outsourced sales staff**: Microinsurance organisations can, in addition to their core staff, make use of direct sales agents, who will engage in personal interactions with clients and are often specialised in insurance sales. This is currently the most common form of microinsurance distribution in Nigeria.
- **Partnerships with Financial Institutions**: In markets with low Microinsurance awareness like Nigeria, microinsurers need to look for distribution channels which already have large client base and can facilitate enrolment, such as financial institutions and Super Agents. Deposit Money Banks, Microfinance Banks, credit unions, cooperatives etc. may be partnered on Microinsurance.
- **Partnerships with Community-based Organisations**: Community-based organisations include cooperatives, trade unions and faith-based organisations. Some of these organisations have a tradition of providing insurance to their members and their ability to group large numbers of people, sometimes with similar characteristics or needs, make them attractive distribution channels. Community-based organisations can often operate in environments with little insurance culture like Nigeria as members are often used to looking to them for support during shocks.
- **Partnerships with Retail Chains**: Retail chains such as supermarkets, appliances stores, clothing retailers, agricultural input retailers, credit retail chains among others can be leveraged to provide first level information on Microinsurance to their customers. Microinsurance operators should however note that retail chains are usually a pull channel, expecting clients to pick a product off the shelf, rather than actively selling it. This sales approach limits their effectiveness, and increases the risk of mis-selling.
- **Partnerships with Mobile Network Operators (MNOs)**: The MNOs can rely on their large subscriber base of low-income clients to function as distribution channels for Microinsurance by allowing them to register via mobile phones or by actively providing clients with insurance coverage as part of loyalty schemes. This form of partnership is currently not allowed in Nigeria due to regulatory restrictions.
- **Use of other Distribution Channels** such as Super Agents, healthcare providers, post offices, utility companies among others.

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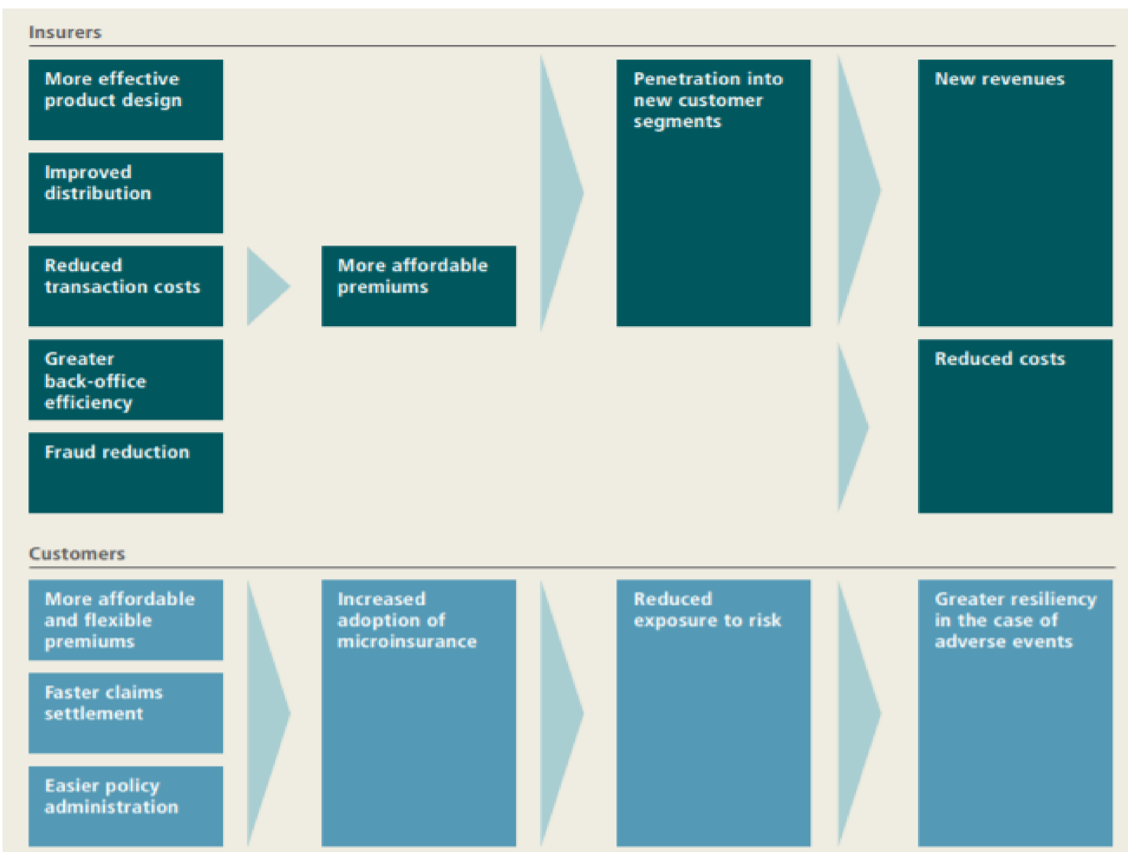
[5] Microinsurance Distribution Channels: Insights for Insurers

Bearing in mind that Microinsurance distribution is often the most important link in the chain and the hardest to get right; a distribution partnership has to deliver value to the insurer, the distribution channel and to its clients.

Achieving scale through cost-effective distribution is one of the biggest challenges facing insurers in low-premium environments where customers are typically unfamiliar with insurance products and often skeptical of providers. In an effort to effectively reach as large a client base as possible, the emphasis is increasingly falling on innovative new distribution models as alternatives to traditional Microinsurance distribution approaches, which typically rely on distribution through other financial services providers[6].

Distribution does not only entail sales. Distribution is a much wider concept than simply getting the insurance product to the client. It refers to all interactions that have to take place between the underwriter of the risk and the ultimate client. This includes policy origination, premium collection and policy administration, as well as all marketing, sales, after-sales services and claims payment activities[7]. Distribution is thus a much wider concept than just insurance sales.

4.1 The Promise of Mobile Insurance



Source: GSMA[8]

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[6] Beyond Sales: New Frontiers in Microinsurance Distribution
[7] Bester, Chamberlain & Hougaard (2007)
[8] Emerging Practices in Mobile Microinsurance

5.0 Key Lessons from other Developing Markets – Focus on India

According to the ILO Impact Insurance Facility, lessons from other developing markets show that most Microinsurance schemes that achieved scale did so quickly by seeking out and maintaining access to large target groups, either through mandatory sales, partnerships or direct agents. Market analysis suggests that progress can be made particularly when public and private sector work together in generating demand-based and innovative products[9].

On the regulatory aspect, many landscapes have come to the realisation that a separate licensing category is essential to drive Microinsurance. For example, deep uptake across many markets in Africa, Asia and Latin America is to a significant extent, driven by organisations that are now specialising in Microinsurance product development and distribution.

Many experts have described India as a global leader in Microinsurance. Innovation is blooming and new products and delivery models are being explored. More than 300 million low-income risks are insured, with more than 60% of Microinsurance policyholders are to be found in India[10].

An overwhelming proportion of Microinsurance in India is provided as compulsory credit-life insurance through aggregators such as rural banks and cooperative banks. A significant amount of health cover is provided through MFIs and cooperative health insurers also but much of this cover occurs by default – by virtue of an individual being a member of, borrower from or other service user of the aggregator[11].

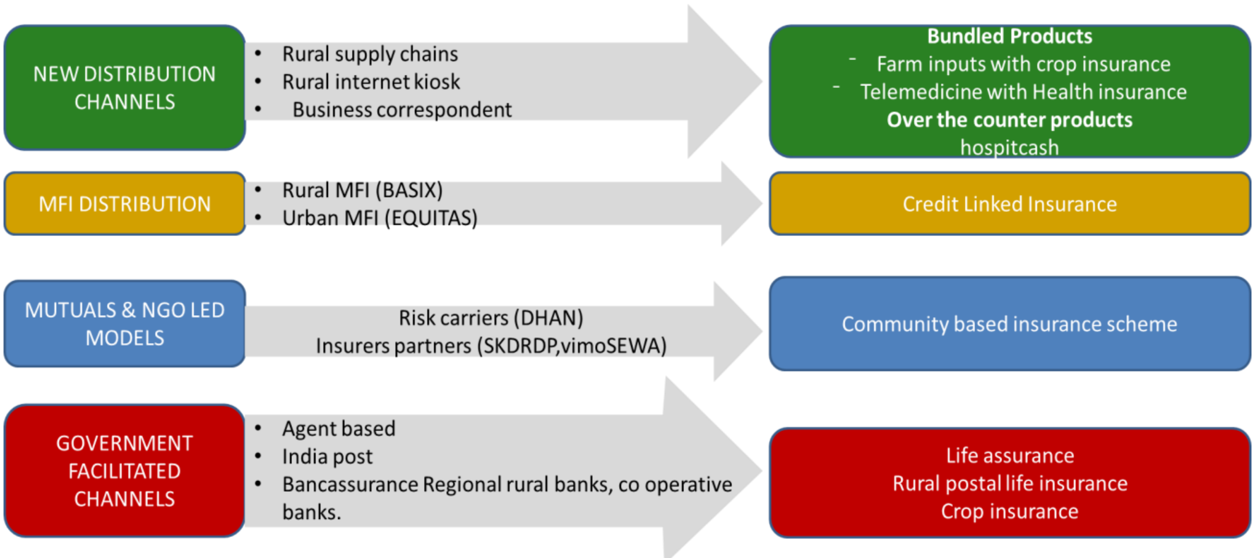
Some of India's key success drivers for Microinsurance include:

- New distribution channels such as Banking correspondents, Internet kiosks (especially in the case of mobile insurance), and other rural supply chains such as dairies, fertilizer, seed companies etc.
- Specialised market players: According to the Microinsurance Innovation Facility, there are over 30 international insurers and reinsurers who focus on Microinsurance offerings in India.
- Government commitment: Government involvement has made the health insurance feasible, in terms of promoting mass health insurance powered by public-private partnerships and many other government sponsored agriculture insurance projects. There are government designated "quota" of Microinsurance to rural customers, which the providers ensure their participation in order to be legally compliant. India also has a significant number of subsidized Microinsurance products from state insurers.
- Conducive regulation: The Insurance Regulatory and Development Authority of India (IRDAI) released the Microinsurance Regulation in 2005, which was revised in 2015. This also shows that the regulator has come a long way in the regulation of Microinsurance products in the country, which also helped in the development of the sector.
- Diversified products: India's Microinsurance offerings have improved over time, which shows a clear correlation between client value and the maturity of the market. The providers offer a varied

[9] Microinsurance Demand and Market Prospects - India
[10] Insights from Microinsurance Success by the Microinsurance Innovation Facility
[11] Microinsurance Regulation in the Indian Financial Landscape

range of products from credit life and other automated life covers to health, agriculture, property or saving-linked products.

The Microinsurance Distribution Channels in India



Source: Microinsurance Innovation Facility

6.0 Conclusions and Recommendations

Following the analyses of the different Microinsurance stakeholders in Nigeria, there is a need to maintain the interest of all parties through active collaboration to develop the industry by applying the following principles[12]:

1. Build Collaboration and Consensus among stakeholders: It is important to have the right institutional platform that encourages collaboration between the Microinsurance regulators and providers. This will promote engaging discussions and exchange of ideas on how to promote the uptake and usage of microinsurance in Nigeria
2. Continuous Regulatory Support: Support from NAICOM is critical to facilitate a healthy environment and to maintain a flexible approach that will encourage the development and roll-out of innovative Microinsurance products
3. Explore New Thinking and Innovative Products: As Microinsurance is different to conventional insurance in many ways, traditional insurer approaches and company business models are unsuitable. Having the vision, ability and the willingness to try certain innovations is essential where Microinsurance is involved
4. Assess business model, product variants and distribution channels: Getting to a viable business model and a suitable Microinsurance product is a reiterative process and several business/distribution models and product prototypes should be considered

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[12] Road to launching Bundled Microinsurance

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