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MICRO-INSURANCE PENETRATION IN NIGERIA: THE JOURNEY SO FAR

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ABSTRACT

Regulators and supervisors in emerging market jurisdictions have little experience or empirical data to support their role in creating an “inclusive” insurance market that works effectively for the upper as well as the lower segments, with the latter being the focus of “micro-insurance”. Increasingly, however, supervisors and other micro-insurance promoters (such as insurers, governments, donors,) in many of these jurisdictions realise that a more conducive and enabling regulatory environment is required for the development of micro-insurance. These initiatives are aimed at adapting laws and regulations which support the evolution of more inclusive insurance system by encouraging existing insurers to serve low-income segments or by allowing micro-insurers to evolve and integrate with the formal insurance sector. Mostly, it is the informal micro-insurers who cater for the need of the low-income segments in a limited manner and are largely unregulated.

Keywords: Micro-insurance, Penetration, emerging markets, jurisdictions.

1.0 INTRODUCTION

Micro-insurance is not a new phenomenon in the Nigerian insurance industry. In most markets, including emerging markets, one finds a variety of micro-insurance schemes. For example, mutual health care schemes or funeral associations which started many years ago, but may have remained informal. Micro-insurance is not confined to any specific product or product line or a specific provider type.

Micro-insurance is fast emerging as an important strategy for the low-income people engaged in a wide variety of income generation activities and who remained exposed to a variety of risks (Mathur, 2010). Millions more of low-income households now have access to the cover(Churchill, and Reinhard,2012).

Finally, the insurance regulator, the national insurance commission (NAICOM, 2003) in the guidelines for micro-insurance operation (2013), has provided the guidelines for regulating the activities of micro-insurance contracts in Nigeria. The laid down basis for entry into the market is the SAUVE test which ensures that micro-insurance products are Simple, Accessible, Valuable and efficient and it is aimed at deepening the penetration of insurance in Nigeria as well as to increase the industry’s contribution to the Nigeria Gross Domestic Product.

2.0 OBJECTIVES OF THE RESEARCH STUDY

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The main objectives are:

a) To develop a micro-insurance policy, promote awareness and its implementation among the target population.
b) To examine whether the NAICOM SUAVE strategy/ entry test constitutes a challenge to micro-insurance penetration;
c) To examine the causes of low penetration level of micro-insurance and proffer possible solution to that effect; and
d) To Developed clear policies to enhance access to financial services which can be used as a basis for discussion with legislators, and also between government departments and supervisors.

3.0 REVIEW OF RELATED LITERATURE

The definition of micro-insurance has been analysed by various scholars but with general characteristics. USAID (2006), defines micro-insurance as a subset of insurance that provides financial protection to the poor for certain risks in a way that reflects their cash constraint, and coverage requirement. It is a risk management system involving low-income groups.

Patel, S. (2004) defined micro-insurance as an effective mechanism for reducing the vulnerability of the poor from the impact of the disease, theft, disability as well as safeguarding the productive use of saving and credit facilities. Cohen, McCord and Sebstad, (2003) adds that micro-insurance offers a valuable vehicle to reduce the vulnerability that confronts the poor.

According to Churchill, C. (2006), micro-insurance is the financial arrangement to protect the low-income people against specific perils in exchange for a regular premium proportionate to the likelihood and cost of the risk involved which is much higher. (Aliero and Shuaib, 2011).

4.0 MICRO-INSURANCE PRODUCTS

Micro-insurance products, like regular insurance, may be offered for a wide variety of risks. These include both health risks (illness, injury, or death) and property risks (damage or loss). A wide variety of micro-insurance products exist to address these risks, including crop insurance, livestock/cattle insurance, insurance for theft and fire, health insurance, term life insurance, death insurance, disability insurance, insurance for natural disasters, etc.

5.0 IMPORTANCE OF MICRO-INSURANCE

The most common types of the micro-insurance product include: credit life, Term life/personal accident insurance, savings life insurance, property insurance, Endowment life insurance, Health insurance, Agricultural insurance, and these offer some specific importance:

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Financial inclusion: Micro-insurance offers one of the several risk management tools to protect the most vulnerable population and help them retain the assets they work so hard to build.

Social protection: Complement or substitute for government protection mechanisms such as health insurance and pension for Low-income workers.

Commercial: New market for the commercial sector which has relatively low penetration worldwide and needs expansion to grow.

Macro-economic: insurance is a valid precondition for economic development, as it provides a reliable mechanism for individuals, institutions and governments to assume risks.

6.0 REGULATORY FRAMEWORK FOR MICRO INSURANCE IN NIGERIA

In pursuit of the development of Micro-insurance in the country, the insurance regulator issued guidelines on Micro-insurance to help operators develop their businesses along this line.

The guidelines are expected to strengthen collaboration between insurance and micro-insurance banks, helping traders and artisans and other low-income earners to access loan underwritten by participating insurers.

One of the major highlights in the guidelines is the exclusion of cover for Motor vehicle business with the exception of tricycles and motorcycles.

Micro-insurance products are to pass the "SUAVE" test. The NAICOM guidelines stipulate the pegging of minimum capitalisation for micro-insurance at #150 million for those underwriting life insurance and #200 million for general business, while 10 per cent of such capital would be deposited with the central bank of Nigeria (CBN) as the statutory deposit. Risks valued at #1 million and above are excluded from the cover.

7.0 CHARATERISTICS OF MICRO-INSURANCE

1. Work in the informal economy
2. Have irregular cash flows
3. Manage risks through a variety of informal means, including social network
4. Have limited familiarity with formal insurance
5. May not trust insurance companies
6. Are highly exposed to risks

8.0 BENEFICIARY OF MICRO-INSURANCE SCHEME

The concept of a "beneficiary" also frequently surfaces in contracts other than insurance policies. A third-party beneficiary of a contract is a person whom the parties intend to benefit from its provisions but who is not a party to the contract.

9.0 METHODOLOGY

9.1 SOURCES OF DATA

The information contained in this research study is obtained from the secondary sources. The researcher also obtained most of the information from the field survey of twenty insurance companies operating in the market, as well as twenty insurance Brokers registered by Nigeria Council of Registered Insurance Brokers (NCRIB) in the Nigeria insurance market.

However, some data are also sourced from the Act.

One of the greatest challenges for micro-insurance is the actual delivery to clients. Each of these models has its own advantages and disadvantages.

1. Partner agent model: commercial or public insurers, together with microfinance institutions or non-governmental and other organisations collaboratively develop the product, the insurer absorbs the risks and the agent markets the product through its established distribution networks; this lowers the cost of distribution and thus promote affordability.

2. Full-Service Model: commercial or public insurers or Micro-insurance schemes provide the full range of insurance services. They are in charge of everything, from the initial development of the product, the design, absorbing risk and delivery of product to clients.

3. Provider-driven Model: The healthcare provider is the micro-insurance scheme, and similar to the full-service model, is responsible for all operations, delivery, and services. There is an advantage once more in the amount of control retained, yet disadvantage in the limitations on products and services.

4. Community-based/mutual Model: The policyholders or clients are in charge, managing and owning the operations, and working with external healthcare providers to offer services. This model is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by its small size and scope of operations.

10.0 MICRO-INSURANCE MECHANISM (how micro-insurance works)

Micro-insurance follows the mechanism of conventional insurance. It is meant to protect against unexpected losses by pooling the resources of many together, this will be of benefits to the insurers, as they will generate enough fund and the ability to pay out claims to the few insureds who incurred. The more uncertain the event the more insurance becomes the most economical form of protection. The policy holder is paid the loss suffered from the common pool.

Risks can be handled by, assumption, retention, control, transfer or other loss prevention mechanisms. Micro-insurance schemes utilize the combination method by influencing a large number of individuals to pool their risks into a large group to minimize overall risks.

11.0 ANALYSIS OF MICRO-INSURANCE

Micro-insurance is recognized as a useful tool in economic development. As many low-income people do not have access to adequate risk-management tools, they are vulnerable and will fall back to poverty in times of hardship, for example when the breadwinner of the family dies, or when high hospital bills force families to take out loans with high interest rates. Furthermore, micro-insurance makes it possible for people to take more risks.

When farmers are insured against a bad harvest (resulting from drought), they are in a better position to grow crops which give high yields in good years and bad yield in a year of drought. Without the insurance, however, they will be inclined to do the opposite; since they have to safeguard a minimal level of income for themselves and their families, a crop will be grown which are more drought resistant, but which have a much lower yield in good weather conditions.

12.0 MICRO-INSURANCE MARKET DEVELOPMENT IN NIGERIA

Nigeria is a West African nation with a population of about 180million people. According to the National Bureau of Statistics (NBS), 125million people which represent 75 per cent of the population live in the semi-urban and rural areas. About 112million which represent 67 per cent of the population live below the poverty line. Further statistic shows that within the 75 per cent semi-urban and rural populace, the mark for regular commercial insurance is for just about 13million which represents 10 per cent.

There are over 48 underwriting companies operating in the Nigeria insurance market. Regrettably, conventional insurers have not shown any interest to operate micro-insurance in a full scale. Micro-insurance still remains the panacea for poverty eradication. Unfortunately, the growth of micro-insurance in Nigeria has been stunted because big insurance players have refused to embrace it.

13.0 CHALLENGES FACING MICRO-INSURANCE IN NIGERIA

- Insurance coverage: The distribution frontier does not usually extend to the millions of economically active persons working in the formal and even less in the formal economy.
- Information asymmetry: One reason for this “rationing” of insurance is related to information asymmetry. When insurers lack underwriting experience in a particular risk, they tend to avoid the risks and the market.
- Transaction cost: In an insurance contract, insurers incur significant transaction costs, in terms of (a) intermediating cost (b)assessing and paying out small claims; these tend to be relatively higher [c] The increased cost of procuring business included in the premiums, all these will have effect of increasing the cost of insurance.
- Distribution systems: The system of brokers, agents and direct sales used by insurers is generally appropriate for corporate customers and high-value individual customers, but have not, generally worked for the low-income markets.

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- Customer education and awareness: The greatest challenges facing microinsurance is the target market's lack of insurance information, understanding, and poor image of insurance which further deteriorate the reputation of insurance.
- Consumer protection: The low-income market is particularly vulnerable to at least two forms of abuse. First, agents or insurance salespersons may provide misinformation or mislead low-income clients, while displaying aggressive sales practices. Second, low-income persons are often forced to purchase insurance when borrowing, or they are not informed that they have other options.
- Consumer recourse and complaints: Efficient and effective procedures and processes should be in place for lodging complaints and resolving disputes between insurers/insurance intermediaries and their customers. However, low-income households will likely require alternative channels for communicating complaints other than mainstream insurance customers due to lack of trust.
- Products: The products generally available from insurers are rarely designed to meet the specific characteristics of the low-income market, particularly the irregular cash flows of households with breadwinners in the informal economy. Other key product design issues include setting appropriate insured amounts, avoiding complex exclusions and ambiguous legal policy language.
- Support infrastructure: Insurance providers fail to expand their rural networks mainly due to poor physical infrastructure; improving roads, electricity, telecommunications, and security, which is associated with reducing the transport cost. The existing support institutions in most jurisdictions are often not responsive to micro-insurance.
- Composite services: In some jurisdictions, licensing requirements do not allow the formation of composite insurance companies, but required establishing separate companies for life and non-life products. This might not apply to micro-insurance for a number of reasons such as cost-benefit considerations and the potential for product innovations.
- Reinsurance: However, as many micro-insurance schemes are not regulated under insurance law, they generally cannot access reinsurance. If they were licensed, micro-insurance would have the possibility to access reinsurance (and reinsurers' technical support) and could manage their capital more efficiently.

14.0 CONCLUSION

In absolute terms, many micro-insurance initiatives launched by government, insurers and other organisations to protect the lives, health and assets of the low-income persons have made a tremendous impact, but their reach has been very limited compared to the size of the unserved population.

Evidence has shown that low-income people need a range of financial services, which is affordable and yet easily accessible, and should typically include credit, saving, remittances and insurance.

The International Association of insurance supervisors (IAIS) insurance core principle cover the essential aspects of insurance regulation and prudential supervision. However, when applying these principles to insurance services for low-income segments, it is necessary to recognise the specifics of micro-insurance and the risks posed.

It is a major challenge for regulators and supervisors to create an enabling environment for outreach and sustainability of micro-insurance: providing consumer protection for this market segment.

RECOMMENDATIONS

The issues identified for further consideration at the ICP level and its criteria in this paper can be grouped under five major themes:

- Supervisory review process including licensing issues
- Financial and prudential issues including risk-based supervision
- Corporate Governance issues
- Operational issues
- Market conduct issues

FURTHER WORK IS SUGGESTED ON

- Understanding operational aspects of different types of micro-insurance, particularly mutual and cooperative micro-insurance.
- Market analysis to understand the un-served and under-served segment of the population.
- Adaptation of the delivery channel and modes of premium payments.
- The use of new technology.
- The role of outsourcing.
- Health insurance.

Many emerging markets have transformed their economies through creativity, hard work, and commitment to market reform and Nigeria can do the same and succeed.

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