UNDP Insurance and Risk Finance Facility

Inclusive insurance and risk financing in Nigeria

Snapshot and way forward 2023

Why this report?

This report summarizes the key findings of an inclusive insurance and disaster risk finance country diagnostic carried out by the UNDP's Insurance and Risk Finance Facility (IRFF) and UNDP Nigeria. The objective of this summary report is to present a high-level overview of the following information for Nigeria:

1. **Key risks,** especially climate risks
2. The current state of **inclusive insurance**
3. The current state of **disaster risk finance**
4. **Recommendations to advance** inclusive insurance, disaster risk finance and overall development

This summary is intended to serve as a starting point for discussion and collaborative action planning on inclusive insurance and disaster risk finance between UNDP and key stakeholders including insurance sector, government agencies and other development sector actors.

IRFF goals

Impacts: Reduced vulnerability, enhanced resilience of countries and communities and strengthened prospects for sustainable development.

Outcomes: Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services all the way leading to market transformation.

Contact IRFF for questions:
If you wish to discuss the findings and recommendations of this report, reach out to:

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Key messages

1 **Risks:** Nigeria is ranked 62nd globally for hazard risk, with a relatively high WorldRiskIndex score of 9.12. Main risks are related to rain, either too much or not enough, and the resulting floods, landslides and droughts. In addition, temperatures are rising due to the impacts of climate change, increasing the risk of fires.

2 **Inclusive insurance:** The National Insurance Commission (NAICOM) has issued three rounds of microinsurance regulation, as well as other supporting initiatives such as an insurtech lab and a regulatory sandbox to support the growth of insurance for vulnerable populations. However, development of and innovation in microinsurance has been slow. Eight microinsurance companies and five microinsurance window operators were approved as of end 2022, with fewer than 1.4 million policyholders.

3 **Disaster risk finance:** The Government has funded recoveries from previous catastrophic events from local budgets funded from central sources. The legal environment is underdeveloped, as is the capacity of responsible institutions, and no formal risk finance tools or programmes have been established.

4 **Key recommendations include:** A high priority should be providing assistance to the continued development of the regulatory framework for insurance, in order to support more effective development of the inclusive insurance environment. Also needed is support for consumer awareness initiatives, insurtech development and distribution expansion. Capacity-building and education for government officials on disaster risk finance should be a key activity, including supporting them to develop a stronger legal framework, a refined disaster risk financing strategy and a variety of appropriate DRF instruments.

Nigeria's development and risk profile

Key macroeconomic and development indicators

213 million people lived in Nigeria in 2021, making it the most populous country in Africa, with 47% of people living in rural areas.[1]

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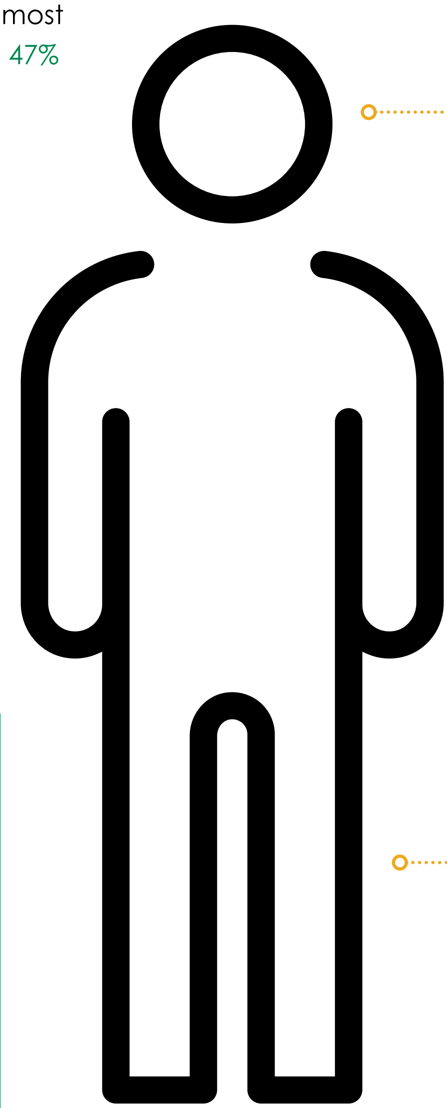
40%
of the country's GDP is accounted for by agriculture, which employs approximately 60% of the active labour force, with women representing about 65%.[3]



90%
of the workforce is estimated to be in the informal sector in cities and rural areas.[2]

40%
of Nigerians lived below the national poverty line of 137,430 Nigerian naira (NGN) (US$382) per person per year in 2018/2019.[4]

Over one-third
of the population has no access to any kind of formal financial services, and 55% of the population is unbanked.[7]

Both the WorldRiskIndex and the Global Climate Risk Index place Nigeria as a high-risk country, but not among the highest globally. The WorldRiskIndex ranked Nigeria 62nd out of 193 countries in 2022 based on vulnerability and exposure to extreme natural events,[5] while the Global Climate Risk Index ranked Nigeria 114th based on deaths and losses due to extreme weather events between 2000 and 2019.[6]

Key risks and hazards

Flood

- Floods are a recurring natural hazard in Nigeria and have become more frequent throughout the country in the last couple of decades. Agriculture, health, infrastructure, the economy and trade are all negatively impacted.[8]
- Flooding is endemic in the coastal zone, in the flood plains of many rivers and in many urban areas. The primary causes of flooding are ocean surges, tropical rains and blocked drains in urban areas.
- Nigeria's coastal population was approximately 51 million people, representing 30% of the national population, in 2011. The coastline stretches about 853 km and coastal regions cover a total area of 923,768 km2. These areas experience hazards driven by natural phenomena and anthropogenic activities, including storm surges and floods.[9]
- A flood in 2012 resulted in an estimated 363 deaths, 3.9 million people displaced, and about $16.9 billion, or 1.4% of GDP, in damages and losses.[10]
- According to the National Emergency Management Agency's (NEMA) incidence dashboard, flooding in 2022 affected 4.5 million people, resulted in 665 deaths, displaced 2.4 million people, fully or partially damaged 945,000 hectares of farmland, and damaged or destroyed 356,000 homes.[11]

Drought

- About 83.6% of Nigeria's area is considered drought-prone.[12] The most severe drought impact is usually experienced in areas within the Sudan/Sahel belt. The agriculture and aquaculture sectors are among the most sensitive to drought conditions and the most highly exposed to drought impacts.
- The frequent occurrence of droughts has impacted negatively on the environment and human comfort. Nigeria experiences about $5 billion in economic losses yearly and about 5 million livestock are threatened by desertification, according to an estimate from the Ministry of Environment.[13]

Wildfires

- Wildfires occur almost everywhere in Nigeria where combustible materials are available, particularly in the dry season. Nigeria suffers enormous losses through uncontrolled wildfires.
- Nigeria lost 2,860 hectares of tree cover from fires and 1.24 million hectares from all other drivers of loss from 2001 to 2022. During this period, 2017 was the worst year for tree cover loss due to fire: fire was responsible for the loss of 633 hectares, or 0.37% of all tree cover losses for the year.[14]

Landslides

- Landslides occur in areas where relatively steep topographic slopes are underlain by unstable materials. Slides occur frequently and in all parts of the country; they are often the result of high concentrations of soil moisture that lubricate the surface materials.
- Landslides cause severe damage to structures and systems (buildings are buried or villages swept away). Rivers may be blocked, causing flooding, and crops can be affected. Sometimes, areas of crop-producing land may be lost altogether. To date, limited data has been collected on losses attributed to landslides.

Epidemic

- Epidemics are one of the most frequent disasters in Nigeria, with 65 events recorded between 1980 and 2020.[15] A Nigeria Risk Analysis platform provides sub-national mapping of risk of cholera, measles, meningitis, yellow fever and lassa fever.[16]

Inclusive insurance[17]: Status

Enabling environment[18]

Highlights from the enabling environment for inclusive insurance in Nigeria

Regulations

Insurance Act 2003

The insurance sector is governed by the **Insurance Act 2003**. Section XII (72.4) of the Act stipulates that only under exceptional circumstances (approved by NAICOM) may any reinsurance or insurance be placed outside of Nigeria with international insurers or reinsurers. This has limited the advancement of agriculture and disaster insurance, which rely on international reinsurance.

Inclusive insurance regulations

- The **2018 Guidelines for Microinsurance Operations** were issued by NAICOM to create a better balance in the market and improve client value from inclusive insurance. The Guidelines, among other things, define microinsurance and provide a three-tier licensing model for the establishment of microinsurance-specific insurance underwriters (with lower minimum capital requirements than conventional insurers). The Guidelines also identify eligible distribution channels for microinsurance and provide criteria for developing customer-centric products.
- A new circular on microinsurance window operations was released by NAICOM in November 2020 to incentivize insurance companies to set up inclusive insurance departments.
- NAICOM has been working to implement an insurance sandbox, with the goal of enabling innovation among insurers, insurtechs and others.[19]
- NAICOM rolled out revised guidelines on bancassurance at the end of 2022, which allow insurers to partner with multiple banks.[20] Previously, opportunities for bancassurance were underexploited due to the bancassurance referral operational guidelines issued in 2017, which allowed insurers to partner with a maximum of two banks.[21]

Policies / Plans

National Financial Inclusion Strategy (NFIS) 2021–2024

The CBN launched the third National Financial Inclusion Strategy in November 2022. Insurance has been incorporated well throughout all three NFIS iterations, beginning in 2012. Among the strategic objectives in the third NFIS are to "allow and promote new players, models and partnerships in microinsurance to grow footprint and innovation" and to "improve cost and relevance of credit and insurance products for MSMEs and small holder farmers." Among the targets is for the percentage of the adult population covered by a regulated insurance policy to increase from 2% (as of 2020) to 8% by 2024.[23]

Mobile insurance

Mobile insurance reached over 1 million people prior to its discontinuance by the telecommunications regulator in 2017.[22] The lack of clarity on the current state of permissible products allowable as digital insurance or through mobile distribution platforms has been cited as inhibiting innovation in microinsurance.

BimaLab insurtech accelerator

In February 2022, NAICOM partnered with Financial Sector Deepening (FSD) Africa to launch the BimaLab insurtech programme in Nigeria to provide opportunities to actualize innovative ideas to improve insurance in the country. As of March 2023, 10 insurtech cohorts have been mentored and are providing various services within the industry, including web aggregation, claims reporting and distribution.

Stakeholders

National Insurance Commission (NAICOM)

- The regulator for the insurance industry is NAICOM, which was established in 1997 to "ensure the effective administration, supervision, regulation and control of insurance business in Nigeria". NAICOM has supported the development of microinsurance for over a decade, issuing its first microinsurance guidelines in 2013 and others since. It has a dedicated microinsurance unit.
- From 2016, NAICOM recognized that the microinsurance market was not developing as intended under the first phase of its microinsurance guidelines. Since then, NAICOM has worked on improving the following areas: capacity gaps in the industry, telco market domination and high commissions, weak performance by existing providers of microinsurance products, slow licensing/approval processes, inter-agency challenges, limited appropriate distribution channels and the very low claims ratio of mobile insurance.

Central Bank of Nigeria (CBN)

The CBN hosts the Financial Inclusion Secretariat, which coordinates the activities of stakeholders towards implementation of the National Financial Inclusion Strategy.[24] The CBN also wholly owns the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL), a financial institution created to stimulate the flow of affordable finance and investments into the agriculture sector. One of NIRSAL's five pillars is to develop innovative insurance products.[25]

Nigerian Actuarial Society (NAS)

As of 2022, 27 qualified actuaries (19 fellows and 8 associates) were practising in Nigeria and registered with NAS. Currently, due to the lack of qualified actuaries in the market, most insurers outsource actuarial functions to consulting firms either within or outside of Nigeria. In light of NAICOM's impending requirement for insurance companies to have in-house actuarial functions, as well as the general need for actuaries, insurers are keen to form their own actuarial departments.

Nigerian Insurers Association (NIA)

The NIA is an active association of insurance and reinsurance companies in Nigeria, with 56 members. One of its 10 technical committees is dedicated to microinsurance. In 2022, the NIA technical committee worked with NAICOM on a review of the microinsurance guidelines; the reviewed guidelines will be considered in mid-2023.

National Health Insurance Authority (NHIA)

NHIA, formerly known as the National Health Insurance Scheme (NHIS), was established under NHIA Act 2022 to improve access to quality and affordable health care for all Nigerians. Among other things, the new law mandates NHIA to promote, regulate and integrate health insurance schemes in the country. The ultimate objective is to ensure achieving universal health coverage for all Nigerians.

Nigerian Agriculture Insurance Corporation (NAIC)

NAIC is a government-owned insurance company set up in 1987 to provide insurance cover for agricultural risks to Nigerian farmers, amid a concern that commercial insurance companies were unwilling to underwrite agriculture risks. The insurance programme is well managed and covers its risks from the premiums collected, but government assistance and support are required to enable it to fund all costs. Premium subsidies of up to 50% are provided on many covers.[26]

Supply-side snapshot

Overall insurance coverage (traditional and inclusive): Fast facts

Just 0.4% insurance penetration (total written premiums as a proportion of gross domestic product) was achieved in 2021 and insurance density was only $7 in 2021 – the lowest among nine African countries for which Swiss Re estimates data.[27]

2% of the population, or 2.1 million adults, held at least one regulated insurance product of any kind as of 2020 (the most recent data available).[28]

13 composite insurers, 28 general insurers, 15 life insurers, 3 reinsurance companies, 4 Takaful companies and 8 specialized micro-insurance companies were operating in Nigeria as of end 2022.[29] The largest five companies account for over 50% of the market.[30]

$1.6 billion was the estimated total of gross written premiums in 2021, with just over half ($0.9 billion) from life insurance and $0.7 billion from non-life.[31]

Inclusive insurance: Fast facts

- According to NAICOM, as of end 2022, in addition to the specialized microinsurance companies, five microinsurance window operators had been licensed and 43 microinsurance products approved.
- At the end of 2022, there were 1,363,072 microinsurance policyholders, 35 approved channels of distribution and 1,261 claims paid in the year.
- Growth of microinsurance has been slow since 2018. Feedback from stakeholders suggests that the requirements for microinsurance window operations are still too onerous and lack sufficient incentives for most insurers to formally offer microinsurance products. Stakeholders are also confused about the geographic boundaries of the unit licences issued and insurers are slow to set up new structures to sell inclusive insurance.
- Stakeholders suggest that many microinsurance products are only cheaper or stripped-down versions of standard insurance products. Targeted products customized to suit the specific needs of the vulnerable and low-income segments have not been developed by the insurance industry. New entrants to the market have limited insurance expertise.
- Outreach is concentrated in urban areas and rural areas have been largely unaddressed.

Inclusive insurance products:

Credit life is the most abundant type of microinsurance policy, as it often comes bundled with loan products offered by commercial and microfinance banks.

Agriculture insurance is available to smallholder farmers in the form of weather-based or area-yield index insurance products. According to NAICOM, in addition to NAIC[32], multiple insurers have been approved to offer agriculture insurance as of March 2023: 16 for area-yield index and indemnity-based, 12 for weather index and 2 for hybrid index-based.[33]

In **health insurance**, NHIA has programmes for both informal and vulnerable groups, focused on providing inclusive health insurance in Nigeria. For example, the community-based social health insurance programme forms groups of households/individuals or occupation-based affinity groups. The operational modalities for the schemes are subject to the participants, and premiums are a flat fee per member. Charitable contributions, donations and grants to boost the pool of funds of this scheme are also permissible. As of January 2022, NHIA reported 4 million subscribers across all schemes, with an average of four dependents each, for a total of around 20 million people covered, or less than 10% of the population. Meanwhile, commercial health microinsurance is limited. Casava Microinsurance Limited is one example, developing health microinsurance policies starting at a monthly premium of NGN 600 ($1.50).[34]

Distribution

- Insurance brokers and agents continue to dominate insurance distribution channels. Brokers accounted for 52% of gross premiums in 2019.
- In 2020, an estimated 61% of adults used a mobile phone[35], and an estimated 54% of mobile connections were smartphones.[36] However, insurers' adoption of technology remains low, even though significant potential exists for growth in activities on electronic channels, even without using mobile telecoms platforms. According to NAICOM, three insurtechs (web aggregators) have been approved as distributors, and at least one approved microinsurance company – Casava – is fully digital as well.
- Bancassurance appears to have potential for the industry, but it remains underexploited.

Demand assessment[37]

- For respondents with insurance experience, the main insurance policies reported included: life, particularly through group policies; health; commercial buildings insurance; and motor.
- For people who did not have insurance products, the primary reasons were: expensive premiums; little knowledge/awareness of insurance; lack of trust in insurance companies; difficulty getting claims processed; and, in some cases, religious beliefs. After insurance was explained to respondents, they showed some neutral and positive attitudes toward insurance, but many remained cautious and expressed distrust of the ways in which insurance companies operate.
- High levels of terrorism and violence and the internal displacement of persons automatically discourages, if not disenfranchises, some segments of the population from buying standard life insurance. Challenges with property insurance stem from the target market's experience of forced migration and uncertainty in terms of places of residence.
- Existing coping mechanisms for financial shocks include informal and community-based schemes, savings, borrowing from family and friends, loans from various sources and selling assets.

In general, many people, regardless of their level of education, see no reason to obtain insurance and lack knowledge of insurance, and there are currently limited opportunities for insurance education.

Disaster risk financing:[38] Status

Disaster risk assessments[39]

Nigeria initiated a national risk assessment in 2012 that highlighted key risks including floods, droughts and the impact of climate change in areas already prone to risk. The 2010 National Disaster Management Framework calls for disaster risk assessment to "be undertaken at all levels of governance for specific hazards or disasters", but risk assessment capacity varies from state to state. The execution of state-based comprehensive risk assessments needs improvement, and some state governments and state emergency agencies have not conducted structured assessments of hazards, vulnerability or capacity.

Existing data, risk assessments and systems for obtaining data include:

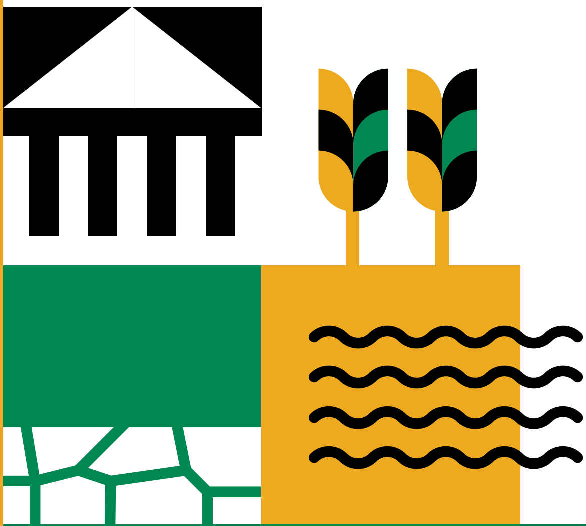
- The Nigeria Hydrological Services Agency (NIHSA) publishes an annual flood outlook.
- NEMA's incidence dashboard publishes impacts of flooding.

- With support from UNICEF, the Federal Ministry of Humanitarian Affairs, Disaster Management and Social Development (FMHADMSD) and NEMA developed a Nigeria Risk Analysis tool and a Nigeria Sub-National Risk Analysis Tool leveraging the ArcGIS cloud platform. Covering all six geopolitical zones of Nigeria, the sub-national risk analysis covers 12 different risks at the level of Local Government Areas (LGAs), including floods, epidemics, conflict and violence. The results of this analysis are required to be used by local governments to formulate their community risk management plans.

The Federal Ministry of Environment, supported by federal agencies including NEMA, NIHSA and the Nigerian Meteorological Service (NIMET), has improved early warning signalling systems. The warnings are distributed in real time to all local agencies.

Existing legal, institutional and policy frameworks

- FMHADMSD was created in 2019 to be the overarching ministry for coordinating all humanitarian issues, interventions and activities across all sectors and levels of government.
- Disaster management coordination in Nigeria is the responsibility of NEMA, established through Act 12 as amended by Act 50 of 1999 as the primary agency to manage disasters in Nigeria. Its mission is to coordinate resources towards efficient and effective disaster prevention, preparation, mitigation and response.[40] Among its duties is to "receive financial and technical aid from international organizations and non-governmental agencies, for the purpose of disaster management in Nigeria". NEMA requests a budget annually from the central budget to cover all local situations.
- NEMA prepared the National Disaster Management Framework (NDMF) in 2010, which defines measurable, flexible and adaptable coordinating structures and aligns critical roles and responsibilities of disaster management stakeholders across the nation, including state and local emergency management authorities and relevant ministries, departments and agencies.[41] The NDMF does not include mentions of financing.



Existing disaster risk finance mechanisms and instruments

Disaster risk financing for lower-income and vulnerable groups is funded through budget reallocations from federal and state governments and their governmental agencies, with assistance from not-for-profit entities and charitable contributions. In accordance with the National Disaster Response Plan, federal agencies are to "use their own funds to provide assistance to ameliorate damage, loss, hardship and suffering".[42] The funds are provided by the Federal Government. The Government reviews budget requirements from local governments annually, but the levels of funding to local areas has proven to be inadequate to finance recoveries.

In addition to government budgets, DRF instruments under development include:

- **Sovereign level insurance:** Nigeria has signed the African Risk Capacity (ARC) treaty, which allows the country to benefit from the capacity-building programme on topics such as risk modelling, contingency planning and risk transfer mechanisms. However, as of early 2023, Nigeria had not availed of ARC's risk pools.
- **Sub-sovereign risk transfer scheme:** In November 2022, the Lagos State Government, together with the Insurance Development Forum, UNDP and the German Government, launched a €1.6 million project to develop a risk transfer scheme to cover flood risks for Lagos State.[43]
- **Insurance for public assets:** NAICOM is reportedly working with the Federal Ministry of Finance, Budget and National Planning to release a guideline mandating that federal government ministries, departments and agencies insure their assets, which until now have been uninsured.[44]
- No sovereign-level **contingent credit lines** or **cat bonds** were identified as being in place.

Way forward for inclusive insurance and disaster risk financing

The following recommendations are provided for supporting the development of inclusive insurance sovereign disaster risk finance in Nigeria.

1 Recommendations for the development of inclusive insurance

1.1 Lack of consumer awareness and trust are reported by target customers as top reasons for not having insurance.

Support sector-wide consumer education efforts.

- Insurers should be supported to offer client-centric products and their capacity to implement client-centric marketing and information strategies should be increased.
- Insurance players and development partners should collaborate to implement insurance awareness strategies and programmes, particularly with marginalized populations, that build consumers' ability to identify valuable insurance solutions.
- A strategy should be developed to embed insurance and risk management literacy in the national education curriculum, while also strengthening non-formal programmes (i.e., specific training/certification facilities) to improve literacy in areas that formal education cannot reach.

1.2 Digital insurance shows potential for expansion, but insurers' adoption of technology remains low.

Identify strategies to leverage technology for insurance.

- Research-backed strategies should be created to leverage technology for insurance literacy and inclusion.
- Building on the BimaLab results and lessons, a feasibility report should be completed on how fintech and insurtech could help to increase insurance reach.
- A strategy should be developed on how to continue to support the development of insurtech after the BimaLab project has ended.

1.3 NAICOM has continued to develop the microinsurance regulatory environment, but offerings from the industry have yet to significantly expand.

Review and update the microinsurance framework.

- The 2018 microinsurance guidelines should be reviewed to ensure they are principle-based rather than rule-based.
- An impact assessment report should be conducted on the 2020 window guidelines and key adjustments should be identified and recommended.
- As part of both reviews, dialogue with industry should be facilitated.

1.4

Insurance outreach is low in rural areas.

Provide inputs needed for expanding distribution.

The Federal Government, the insurance industry and distribution channels should be supported through initial research, market intelligence and training needed to expand the insurance industry's reach to rural and remote areas.

1.5

The insurance regulator has limited capacity in some areas, reducing its ability to support innovations in the market.

Build capacity of NAICOM.

- A capacity development plan should be created.
- External assistance should be provided to increase staff expertise on inclusive insurance.
- Staff should be supported to participate in regional and international platforms for learning and knowledge-sharing on microinsurance regulation.

1.6

Government-owned health and agriculture insurance schemes are in place, but outreach is relatively limited, while products are often poorly understood and do not meet customer requirements.

Build capacity of public sector insurance schemes for health and agriculture.

- Staff of health and agriculture organizations should be trained on product development.
- Assistance should be provided to engage actuaries to complete actuarial reviews of the schemes and provide an actuarial liability report for each scheme.
- Each product should be reviewed for effectiveness and profitability.
- Support should be offered to design a customer survey to better understand customer needs.

1.7

The benefits of microinsurance products and coverage offered by the private sector are not adequate to attract customers.

Support the establishment of a public-private partnership for the development of more effective microinsurance products.

- A feasibility report should be developed on product options for enabling low-income people to insure their assets against disaster.
- Working with the Federal Government and private sector, a government-backed insurance scheme targeting low-income groups should be piloted.

1.8

Qualified actuaries are in very limited supply, and insurers are keen to form their own actuarial departments.

Enhance the actuarial profession.

- Universities should be supported to actively improve the quality of actuarial education through incorporating practical components within students' education, as well as to finalize accreditation with an international actuarial body.
- Improved permanent in-house actuarial capacity should be encouraged within insurers and within NAICOM and data availability should be promoted at an industry level.
- The insurance industry should be supported to employ actuarial staff and to build a supportive work environment with best practices for actuarial employees.
- Legislative changes to promote the actuarial profession should be facilitated at a national level.

2

2.1 Recommendations for the development of sovereign disaster risk finance

Capacity of Nigeria's regional disaster management agencies is low.

Strengthen capacity to utilize insurance and create high-quality DRR and DRF programmes through training.

2.2 No national or local government funds or risk pooling are permanently in place and available immediately following a catastrophic event.

Support the development of specific funding arrangements or risk pools to cover damage from catastrophic events.

- A feasibility report should be created on options to develop specific funding or risk pools to cover damage from catastrophic events.
- Training should be provided to government officials on risk pools and specialized funds.

2.3 The policies and legal framework for implementing DRM and DRF are limited.

Support the development of an improved legal framework to develop a more effective DRF environment.

- A detailed review and analysis should be conducted of the current status of the legal framework for DRM and DRF and recommendations on the future framework should be provided.
- Stakeholders should be trained on the implications of changes to legislation.

2.4 A national DRF strategy needs to be developed and refined to include finance tools for different levels of risk and their impacts.

Support the development and implementation of the DRF strategy.

- The Federal Ministry of Finance should be supported to refine the implementation of the DRF strategy based on experience to date.
- Local governments should be sensitized to the strategy.

2.5 Limited insurance coverage is available for government assets and vulnerable communities.

Improve the level of insurance protecting government assets and vulnerable communities.

A feasibility report should be conducted on how insurance can be used effectively to protect government assets (in line with the guidelines currently being developed) and vulnerable communities.

Endnotes

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