NATIONAL INSURANCE COMMISSION

ANNUAL REPORT &
AUDITED ACCOUNTS
31ST DECEMBER, 2012

The Insurance Industry

I.3.1 Significant Developments

A number of initiatives were taken by NAICOM during the year under review to improve the enabling environment. These were expected to positively impact on the progress of the insurance industry. Among these initiatives were the guidelines developed by NAICOM for the implementation of Takaful (Islamic) Insurance and Micro Insurance. These guidelines were designed to increase insurance penetration, propel growth in the insurance sector and achieve financial inclusiveness in the country. Also, in order to ensure financial soundness, all insurance and reinsurance companies were directed by NAICOM to: transit to the International Financial Reporting Standard (IFRS); change their financial year-end from July to March; compel the general public to accept and patronise the compulsory insurance products; key into the Federal Road Safety Corps database scheme by aligning their own database with that of the FRSC; establish a Risk Management Department/Unit as part of their risk management strategy by 1st July, 2012 and; institute anti-money laundering processes in their systems.

Of significance also is the Nigerian Insurance Industry Database (NIID) which was launched during the year under review. It was designed to serve as a vehicle for easy identification of genuine insurance documents, monitor documents relating to insurance transactions with a view to reducing incidences of fraudulent insurance transactions. The NIID would serve as an effective vehicle to protect the Government, Corporate bodies and individuals from the activities of fraudsters racketeering fake insurance certificates.

1.3.2 Market Performance

1.3.2.1Gross Premium Income

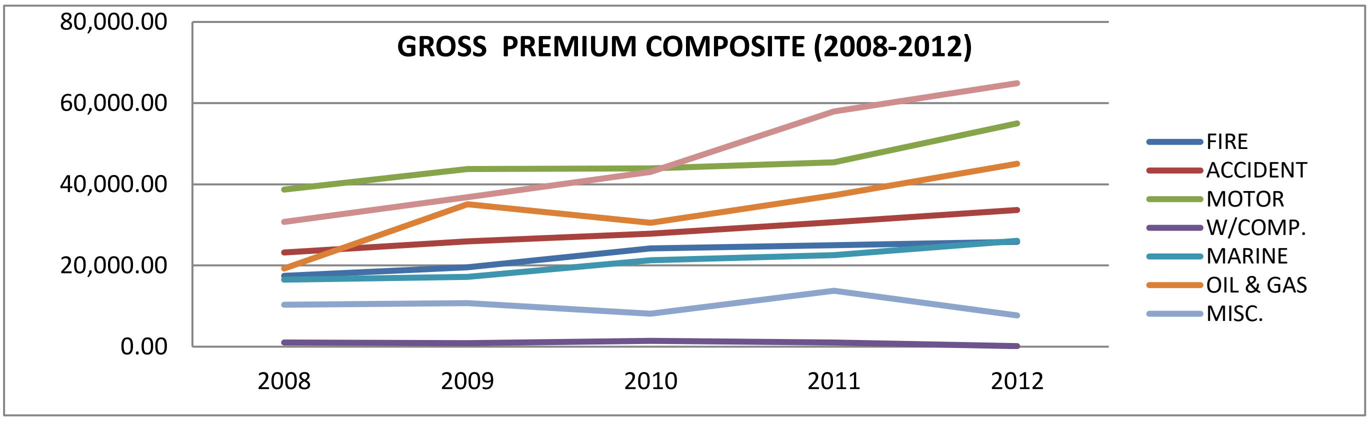
The gross premium income recorded in 2012, as indicated in Table 1 was N258,402 million or 10.5% above the corresponding figure of N233,752million in 2011.

Table 1: GROSS PREMIUM INCOME: GENERAL BUSINESS & LIFE BUSINESS FROM 2008 – 2012 (₦ Million)

YEAR	FIRE	GENERAL ACCIDENT	MOTOR	W/COMP.	MARINE &AVIATION	OIL & GAS	MISC.	LIFE	TOTAL
2008	17,454.90	23,208.40	38,701.20	1,005.20	16,510.25	19,249.00	10,341.35	30,735.72	157,206.02
2009	19,534.95	25,918.89	43,784.17	895.59	17,191.14	35,064.76	10,737.62	36,833.33	189,960.45
2010	24,249.95	27,816.16	43,925.65	1,437.45	21,264.62	30,509.32	8,133.66	43,039.17	200,375.98
2011	24,990.02	30,706.67	45,421.77	1,008.87	22,558.84	37,289.39	13,781.19	57,996.13	233,752.89
2012	25,831.11	33,671.84	55,008.41	136.57	26,077.15	45,068.64	7,699.53	64,909.06	258,402.30

Growth was greatly affected by the slowdown in fire business which expanded by just 3.4% in 2012. The performances of the other classes were however quite commendable. Motor, Oil & Gas, Marine and Aviation and the Life branches recorded growth rates of 26.7%, 20.8%, 15.6% and 11.9 % respectively. Chart 1 indicates the growth paths of the various classes of business.

Chart 1: GROSS PREMIUM INCOME BY CLASS- GENERAL BUSINESS & LIFE BUSINESS 2008 - 2012



The modest increases in gross premiums in 2012 may be attributed to the demand for insurance which was created by the upsurge of activities in some sectors of the economy as well as the initiatives highlighted below which contributed in no small way to sustain the trend:

- The action taken by the NAICOM to enforce compliance of the insurance industry with the provisions in the insurance Act 2003 on the insurance of buildings under construction, compulsory insurance for public buildings and the Nigerian Oil and Gas Industry content Development Act 2010.

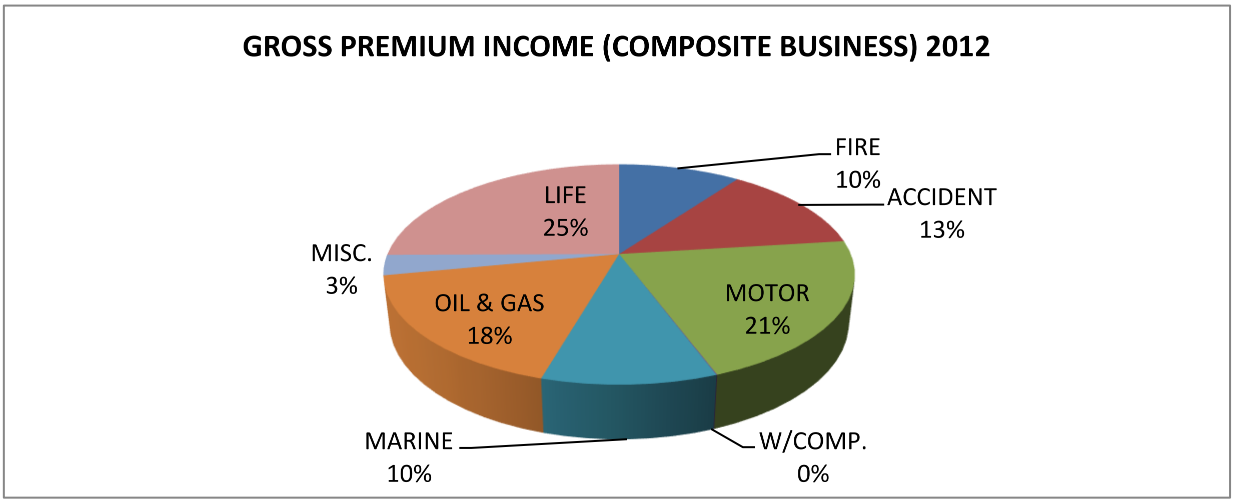
- The recapitalization of insurance and reinsurance companies, effective 2007, which enhanced the capacity of companies to accept and retain significant portions of risks. In fact, prior to the recapitalization exercise, in 2006, the market gross premium income stood at N95,693.94 million which increased by about 11% to a level of N106,220.27 million in 2007. However, following the recapitalization, the market gross premium income jumped to N157,206.02 million in 2008, which translates to a 48% increase.

- Strong Marketing Drive: Having obtained the necessary funds from investors to meet the minimum capital requirements, insurance companies were faced with the challenge of producing higher returns on their investments so as to justify the expanded capital base. In order to achieve the desired objective, they had to step up and diversify their marketing activities with a view to increasing their market shares. To a very large extent, a great number of them were able to meet the expectations of their investors. In 2012 for instance, the average return on the investments of insurance companies was about 4.2% which, although not particularly attractive, still compared well with the interest rate on fixed deposits and 90-day Treasury Bills in that year. The average return on equity was also just above the minimum of 5.0% required by rating Agencies.

1.3.2.2Distribution of gross premium income

The contributions of the various classes to the total gross premium income are indicated in chart 2.

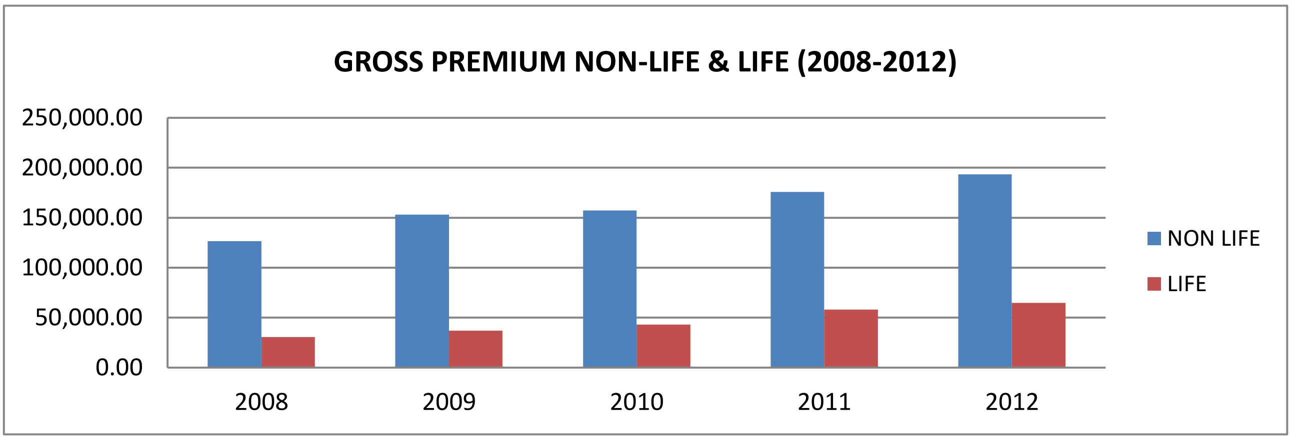
Chart 2: DISTRIBUTION OF GROSS PREMIUM INCOME BY CLASS - 2012



As would be observed, the non-life sector accounted for about 75 % of the total premium income in 2012 and the balance came from life business. Indeed, the share of life premiums would have been much higher but for the fact that a significant volume of Pension business is managed outside the insurance industry by the National Pension Commission. The dominance of the motor account, as the largest portfolio, is gradually being contested by the Oil and gas business.

The prospects for further growth of premium income from the life and non-life accounts are bright. The chart below which indicates a steady growth, albeit modest, of the life and non-life classes supports this optimism.

Chart 3: GROSS PREMIUM INCOME: LIFE & GENERAL BUSINESS 2008 – 2012: (₦ Million)



The anticipated expansion of the economy would continue to influence growth. In particular, the surge in activities in the Oil and Gas sector would greatly push up premiums emanating from this branch in the years ahead. In fact, it is expected that the envisaged passage of the Petroleum Industry Bill (PIB) would have an impact of significant ramifications on the Oil and Gas business.

Life business looks ever so promising, given its contribution to the total market premium income which grew steadily after the recapitalization exercise, from 19.5% in 2008 to 25. 0% in 2012.

The impressive performance of the life branch may be attributed to vigorous marketing drive by life companies which resulted in the expansion of the product base of the sector thus making it possible for them to offer a wide range of products that met the needs of the growing middle class as well as those in the low income bracket. Be that as it may, the fact still remains that the life business is underdeveloped and has a huge untapped market that could, in the long run, possibly push up its premium income closer to the premium income generated in the non-life sector.

It is expected that, as the necessary enabling environment continues to improve on account of the collective efforts of NAICOM and other stakeholders in the market, insurance companies would be able to penetrate deeper into the unexplored markets to boost the premium base of their companies. In a country of about 160 million people and a GDP of over ₦71 trillion in 2012, the market's insurance penetration of about 1.0 % is just too low and easily indicates the huge potential waiting to be explored.

1.3.3Retained Premium Income

Table 2 provides the retained premiums for all the branches.

Table 2: DEVELOPMENT OF NET PREMIUM INCOME: GB & LIFE BUSINESSES 2008-2012: (₦ Million)

YEAR	FIRE	GENERAL ACCIDENT	MOTOR	W/COMP.	MARINE & AVIATION	OIL & GAS	MISC. ACCIDENT	LIFE	TOTAL
2008	12,965.83	19,432.60	36,869.92	828.33	12,592.38	4,567.44	8,219.92	29,979.35	**125,455.77**
2009	13,681.77	21,183.87	41,635.38	761.73	12,896.92	8,392.92	15,522.32	33,760.21	**147,835.13**
2010	16,796.18	23,028.98	41,599.28	1,238.56	15,071.67	12,852.21	6,541.95	37,976.85	**155,105.68**
2011	17,366.19	25,281.78	42,735.82	875.73	16,680.44	15,643.54	10,303.06	52,508.18	**181,394.74**
2012	18,607.72	27,957.38	45,618.60	135.53	16,636.39	24,240.47	5,295.17	50,264.48	**188,755.73**

As would be observed, the total premium income retained rose from ₦181,394 million in 2011 to ₦188,755 in 2012, representing an increase of 4.1%.

The annual growth rates are provided for the various classes in Table 3.

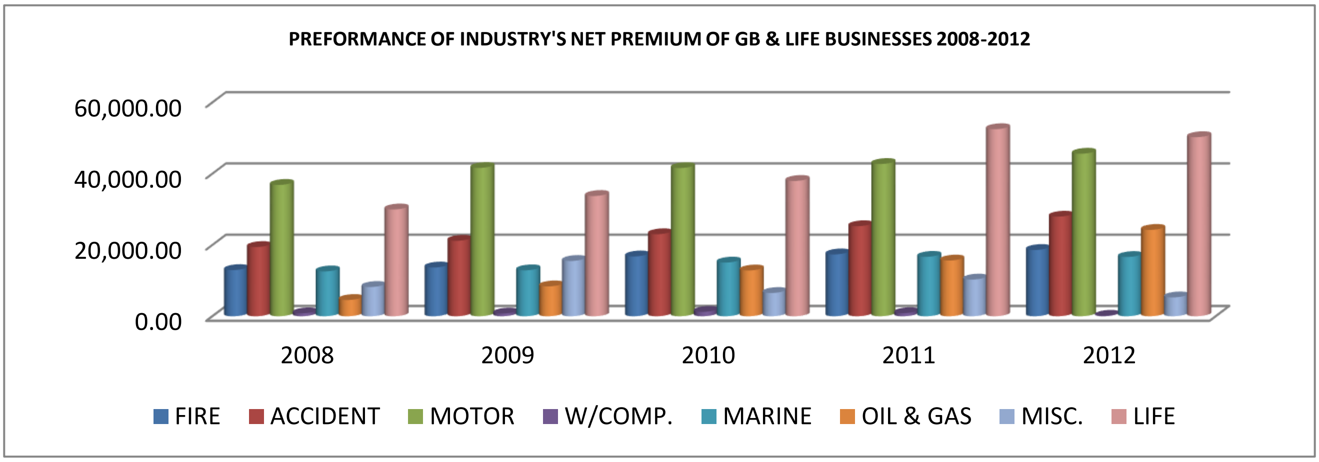
Table 3: **ANNUAL GROWTH RATES OF NET ACCOUNT**

YEAR	FIRE	GENERAL ACCIDENT	MOTOR	MARINE& AVIATION	OIL & GAS	MISC. ACCIDENT	LIFE
2009	5.5	9.0	12.9	2.4	83.75	88.9	12.6
2010	22.8	8.7	10.0	16.9	53.1	(0.58)	12.4
2011	3.3	9.8	2.7	10.7	21.7	57.5	38.3
2012	7.1	10.6	6.7	(2.6)	55.0	(48.6)	(4.3)

The table indicates that Fire, General Accident, Motor, Marine & Aviation and Life classes grew within the range (2.6 %) to 38.3%. For a market that is still developing, an annual growth rate of retained premium income of 30% or slightly more would still be in order, provided that the capital base is strong enough to carry such high net premium income. The Oil and Gas account however grew within very wide margin. It is expected that as this account stabilizes, its net premium income would fluctuate within acceptable margins, as is the case with the other classes of business.

Chart 5 provides further insights into growth patterns of net premium income.

CHART 5: NET PREMIUM INCOME



The graphs clearly indicate the margins within which the net premiums grew from 2008 to 2012. Motor business remained virtually under the N40 billion marks throughout the period under review and, for life business, the net premiums grew steadily to reach a peak in 2011 only to slow down in 2012. For all the other classes, the net premiums were below N20 billion. Indeed, the need to revisit the capitalization of insurance companies may become necessary in years to come, if they are to maintain acceptable levels of retention, as risks get more complex and assume peak values. The levels of retained premiums indicated in the next section reflect the impact of the current levels of capitalization.

1.3.3.1Retention Ratios

The proportions of premiums retained are indicated in table 4.

Table 4: RETENTION RATIOS

YEAR	GENERAL INSURANCE(%)	LIFE INSURANCE(%)
2008	75.5	97.5
2009	74.%	81.4
2010	74.4	78.0
2011	73.3	65.0
2012	71.6	77.0

As would be observed, the retention ratios exceeded the threshold of 50% throughout the period under review. This is obviously attributable to the increase in the capital base of insurance companies which provided them the necessary capacity to keep appreciable volumes of their acceptances. Regular review of reinsurance programme by companies to ensure that they buy just enough covers to protect their net account would go a long way in reducing expenditure on reinsurance and thereby keep retentions at the desired levels.

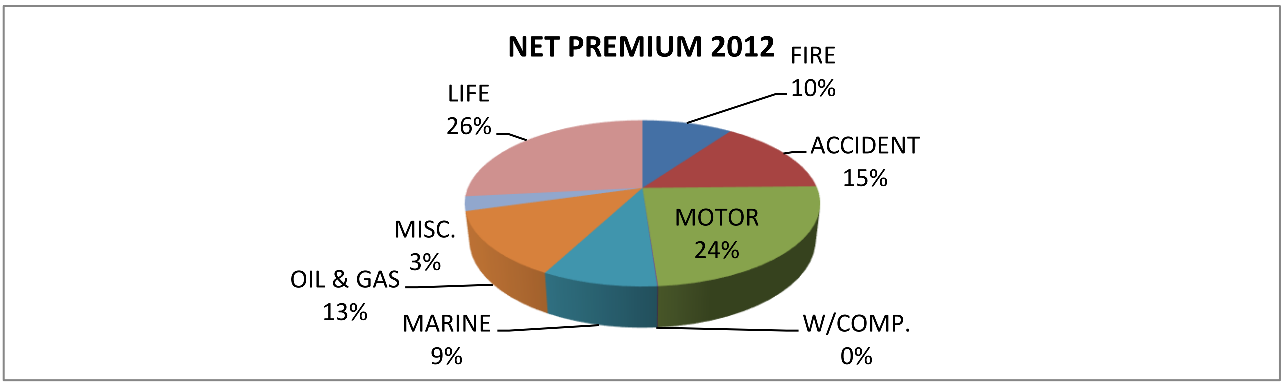
One needs to add, however, that the retention ratios indicated in table 4 have concealed the rather low retention level in the Oil and Gas business which was just about 33% in 2012. This was partly responsible for the slide in the overall retention levels from 75.5% in 2008 to 71.6% in 2012.

The low level of retention in oil and gas business comes as no surprise, given that risks in this class of business are quite high and often in excess of USD1.0 billion. It is expected that the Nigerian Oil and Gas Content Development ACT (NOGICD)2010 which aims at boosting the level of participation of Nigerians and Nigeria Companies in the Oil and Gas industry would go a long way in ensuring that substantial portions of Oil and Gas businesses are retained by insurance and reinsurance companies.

1.3.3.2Breakdown of net premium income

Chart 4 indicates the percentages of retained premium income recorded by the various classes.

Chart 4: DISTRIBUTION OF NET PREMIUM INCOME – 2012



As would be observed from chart 4, Life business contributed the highest volume which is good for the industry, given that funds from this class of business are usually channelled into long term investments for socio-economic development.

The need to grow the retained account cannot be overemphasized given the fact that it is an important determinant of the level of investible funds. NAICOM would continue to monitor this area of underwriting with a view to ensuring that companies retain as much as is financially and technically feasible so as to give investors value for their investments.

1.4.4 Claims Experience

1.4.4.1 Gross Claims Paid

The total gross claims paid in respect of the non-life business rose from N26,792 in 2011 to N62,246.34 in 2012, as indicated in Table 5, representing an increase of about 132.3%.

Table 5: GROSS CLAIMS PAID-- GENERAL INSURANCE in (₦m): 2008-2012

YEAR	FIRE	GEN ACCIDENT	MOTOR	W/COMP.	MARINE	OIL & GAS	MISC.	TOTAL
2008	6,076.60	4,467.50	9,935.52	319.24	3,185.99	235.00	1,646.07	**25,865.92**
2009	15124.74	6567.45	13040.29	337.39	4556.6	8161.73	2499.51	**50287.71**
2010	7,794.06	6,444.45	13,219.03	281.03	2,965.17	3,713.64	3,172.18	**37,589.56**
2011	4,029.03	5,643.91	11,721.66	160.70	1,534.44	1,456.38	2,246.01	**26,792.14**
2012*	13,398.70	10,387.18	16,080.83	0.00	8,042.04	11,899.45	2,438.14	**62,246.34**

Virtually all the classes registered significant increases in claims costs in 2012 with motor claims constituting the highest claims expenditure in that year. This is not surprising given the fact that, apart from being the biggest non-life portfolio, the motor class experienced an above-average loss in 2012 when compared to other classes of business.

In general, the increases recorded in the quantum of claims paid in the various classes may not only be attributed to increased volume of business but also to increased awareness of policy holders as regards their rights to demand for the settlement of genuine claims, compliance with Insurance Act 2003 (that genuine claims should be settled within 90days) and the impact of inflation.

The year 2012 would not be easily forgotten for the fact that nearly all the major classes suffered huge losses. Some of the losses (100% market estimates) were Dangote Sugar Refinery loss (USD 55.5m), Dana Air loss (USD41.8m), Sterling Oil claim (USD19.0m),Total E&P/ NNPC Oil claim USD58.2m, Funiwa/NNPC loss (USD100.0m),S. Roda and sons LTD fire loss (USD0.54m) and Olujinmi Lawal/SPDC life claim (USD 0.864m). (A & P, NAICOM)

1.4.4.2Net Claims Paid: General Insurance Business

The net claims paid in respect of non-life business rose from N18.49 billion in 2008 to N47.01 billion in 2012, representing an increase of 154.2% over the period. Table 6 provides the relevant data.

Table 6: NET CLAIMS PAID: GENERAL BUSINESS 2008-2012

YEAR	FIRE	ACCIDENT	MOTOR	W/COMP.	MARINE	OIL & GAS	MISC.	TOTAL
2008	2,092.65	3,285.66	9,012.37	193.00	2,364.77	200.51	1,337.03	**18,485.99**
2009	6,696.89	4,945.07	10,777.66	262.99	3,951.33	7,372.95	1,976.68	**35,983.57**
2010	4,176.38	4,841.85	11,889.22	864.81	2,217.64	872.75	1,847.69	**24,964.84**
2011	4,029.03	5,643.91	11,721.66	160.70	1,534.44	1,456.38	2,246.01	**26,792.14**
2012	10,168.35	8,906.28	14,853.84	0.00	5,204.59	5,370.26	2,502.94	**47,006.26**

The table reveals that as much as N47,006.26 million had to be paid by the market, after recoveries from reinsurers and retrocessionaires. The improved liquidity of companies greatly facilitated the settlement of the claims.

Table 7 which provides the amounts of gross claims paid in life business also indicates that payments increased significantly during the period under review, rising from N11, 547million in 2008 to N23,405million in 2012, which represents a growth rate of about 102.7% .

Table 7: Gross Claims Paid: life business

Year	2008	2009	2010	2011	2012
Amount (Naira million)	11,547.68	12,470.22	16,225.79	20,815.60	23,405.43

The reasons for the increase are as noted earlier for the rise in non-life claims. However, it is imperative to add that the increase in the average sum insured was also a contributory factor in shaping the life claims curve.

1.4.4.3 Claims Ratios

1.4.4.3.1 Claims ratios – Composite

Table 8 provides the composite claims ratios for the market.

Table8: Gross claims/Gross premium income

YEAR	2008	2009	2010	2011	2012
Gross Claims(Naira M)	37,413.60	61,969.15	53,815.32	60,204.77	79,122.58
gross premium(Naira M)	157,206.02	189,960.45	200,375.98	233,752.89	258,402.30
Claims ratio (%)	23.80	32.62	26.86	25.76	30.62

On the basis of the gross ratios, the market appears to have had a favourable loss experience during the period under review. The ratios are market averages and, as would be expected, there were a few companies that had higher ratios while others returned lower figures than the mean values. Apart from this observation, one needs to add that there are significant differences between the qualities of the non-life and life portfolios which are not indicated in the table. The next section provides the necessary insights.

1.4.4.3.2 Claims and Expenses: 2012

Table 9 provides figures in respect of premiums, claims and the expenses recorded in 2012 while Table 10 contains the relevant claims and expense ratios.

Table 9: Premiums, Claims and Expenses: 2012

Description	Gross premium	Net premium	Net earned premium	Gross claims	Net claims	Net claims incurred	Total* Mgt exp
General Ins. Business	193,493.24	148,918.66	126,987.44	55,494.87	53,285.53	45,263.47	40,929.17
Life	66,909.06	50,264.48	46,348.69	23,405.43	22,274.97	23,053.69	17,667.57

Table 10: Claims and Expense ratios: 2012

Description	Gross claims/gross premium%	Net claims/net premium%	Claims incurred/ earned premium %	Net Claims incurred/net earned premium%	Total Mgt exp/gross premium %	Total mgt expense/ net premium %	Total mgt expense/net earned premium %
Non-life	28.70	35.78	35.37	35.64	21.15	35.54	41.68
Life	36.06	44.32	38.37	48.06	27.25	35.15	27.22

The Tables provide the following indications:

- Claims experience-2012

The non-life class had a claims ratio of 35.64% in 2012 which reflects the stiff competition in the market. Although competition might have led to a few cases of rate cutting, it is apparent that underwriting standards were not compromised. The intense competition however, had a pronounced impact on life business, leaving in its rate cuts in group life business premium rates. As a result of this development, the life business recorded quite a high claims ratio of 36.06% in 2012.

- **Expense Ratio-2012**

The expense ratios of 41.64% for non-life business and …% for the life portfolio are quite high. Companies would have to rationalize their expenses in the various areas of their operations with a view to cutting them down to levels that justify the flow of income from premiums and investments. It is expected that the gradual computerization of their operations would gain momentum, as automation would help to keep expenditure work force at reasonable levels.

- **Combined Ratio-2012**

The average combined ratios for the market were 86.32% and 63.9% for non-life and life businesses respectively. These indicators, which are the sums of net incurred loss ratio and net incurred expense ratios, truly reflect the dynamics of the net accounts. As high as the ratios appear, they still leave enough room for reasonable profit margins. In fact, a combined ratio of 95% is still considered satisfactory. The ratio must however not be higher than 110% as otherwise it would put undue strain on investment income and might adversely affect profit margins.

1.4.5 Assets of life and non-life companies

In 2012, the industry had total assets of N670, 629million which was made up of N457, 802 million for non- life companies and N 212, 827 million for life companies. The corresponding total asset in 2011 was N621, 095 million, with N407, 432 million emanating from the non-life branch and N213, 662 attributable to Life companies, as indicated in Table 9.

Table9: Total assets in millions of naira 2008-2012

YEAR	2008	2009	2010	2011	2012
Non-Life	386,016.40	388,350.69	391.741.60	407,432.22	457,802.00
Life	187,138.06	198,108.85	193,274.19	213,662.92	212,827.00
TOTAL	573,154.46	586,459.54	585,015.79	621,095.14	670.629.00

The increase in assets in 2012 came mainly from the additional investments during the year. Significant amounts of assets were in fact deployed for investment in 2012. Investments by the non-life companies amounted to N148, 128million or 69.6% of the total non-life assets in that year. In the life sector, investments amounted to N186, 436million or 87.6 % of the total life assets. The significant difference in the proportions of assets channelled to investments in the two branches comes as no surprise.

The fact is that there is usually no delay in the payment of life premiums which thus helps to accumulate funds for investment at a much faster pace than in the general business. Indeed, until the introduction of the ‘no premium, no cover’ policy, the balance sheets of the general business were distorted by huge amounts of outstanding premiums which contributed in no small way to artificially blowing up the net assets.

As a result of the strict application of the policy on premium payment, the current assets in respect of general business showed a significant reduction in outstanding premiums. The percentage of outstanding premiums to total assets was 4.20% for general business and 1.84% for life business. This development is important as it would enhance the liquidity positions of companies and thus enable them to meet their obligations.

NAICOM would continue to provide the necessary enabling environment to foster the development of the market with a view to offer the policyholders the necessary comfort and protection. Furthermore, to enhance the contribution of the industry to economic growth, the Commission will continue to attract investments from within and outside Nigeria.