NATIONAL INSURANCE COMMISSION

ANNUAL REPORT &
<u>AUDITED ACCOUNTS</u>
31^{ST} DECEMBER, 2013

The Insurance Market Performance

1.3.2.1Gross Premium Income

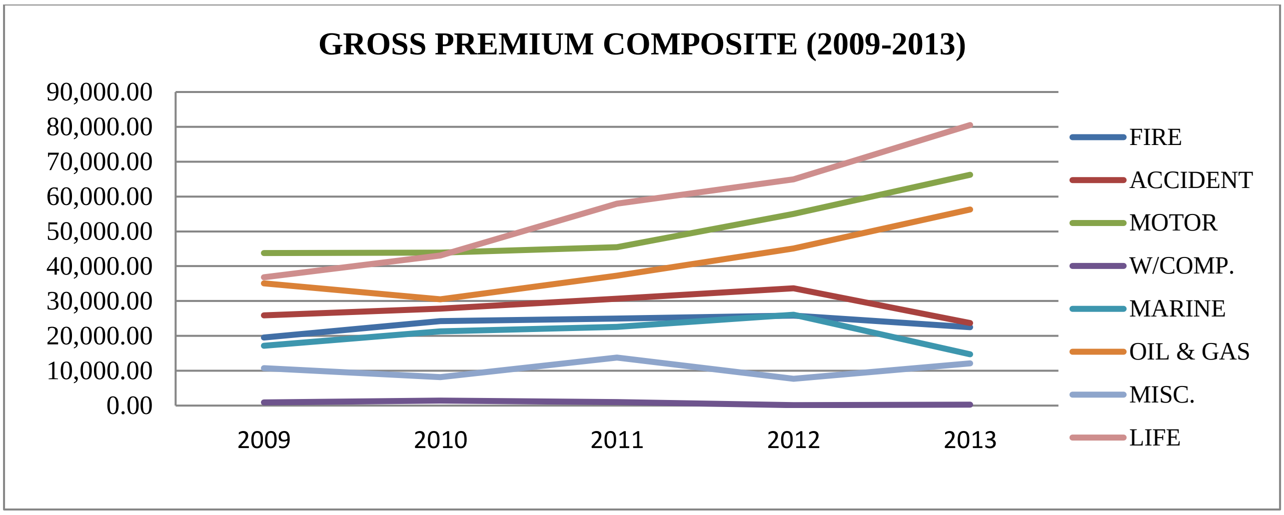
The gross premium income recorded in 2013, as indicated in Table 1 was N276, 384 million that was about 7% growth above the previous year of 2012 that was about N258, 402 million.

Table 1: GROSS PREMIUM INCOME: GENERAL & LIFE BUSINESSES FOR THE PERIOD 2009 – 2013 (₦ Million)

YEAR	FIRE	GENERAL ACCIDENT	MOTOR	W/COMP.	MARINE &AVIATION	OIL & GAS	MISC.	LIFE	TOTAL
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
2013	22,544.79	23,691.75	66,691.75	294.94	14,726.61	56,284.25	12,075.83	80,520.24	276,384.77

Growth was essentially affected by the hold back in Marine, General Accident and Fire businesses, which grew rather in negatives of -43.5%, -29.6% and -12.7% respectively in 2013. The performances of the other classes were however commendable. Miscellaneous, Motor, W. Compensation, Oil & Gas, and the Life Insurance recorded growth rates of 56.8%, 20.4%, 115.9%, 24.9 % and 24.1% respectively. Chart 1 indicates the growth paths of the various classes of business.

CHART1: GROSS PREMIUM INCOME BY CLASS- GENERAL & LIFE BUSINESSES FOR THE PERIOD 2009 - 2013

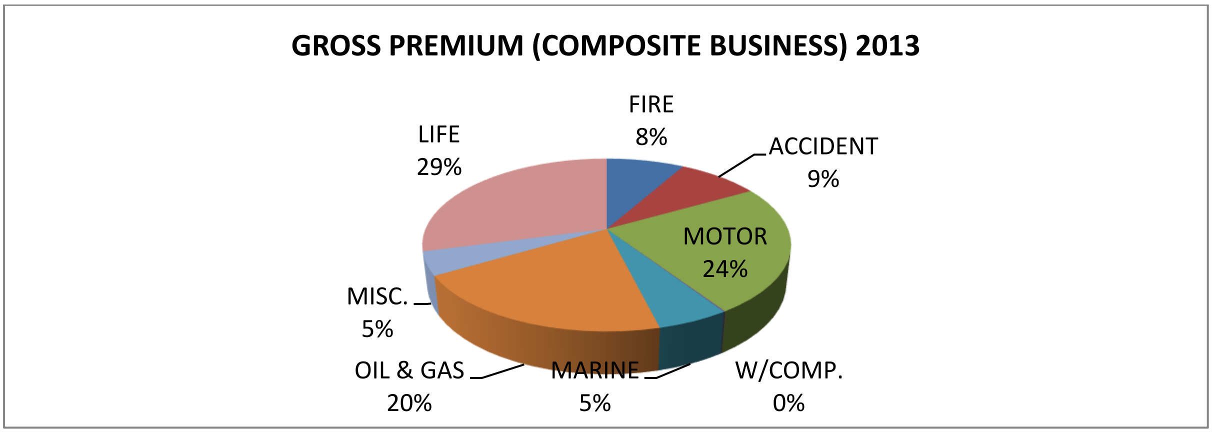


The modest increases in gross premiums in 2013 is attributable to the upsurge of activities in some sectors of the economy as well as the initiatives of the Commission including its regulatory policy of “No Premium, No Cover” that was active during the year.

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.

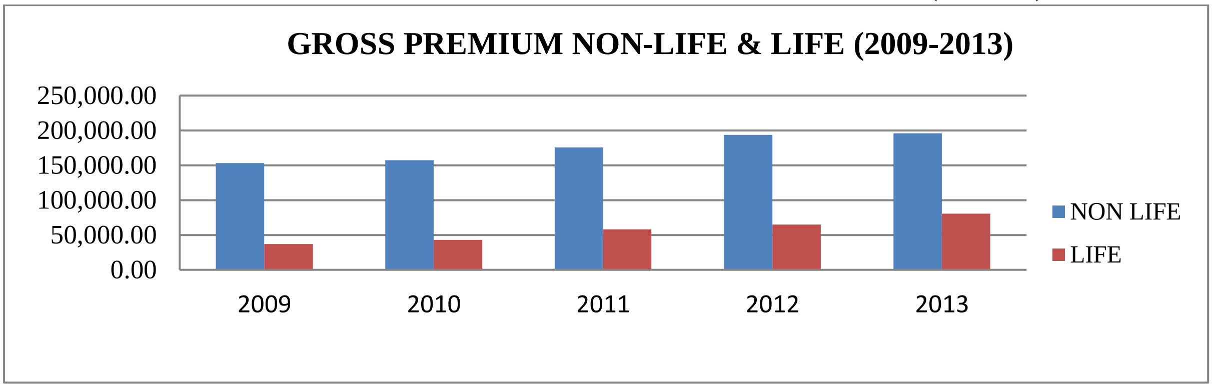
CHART 2: DISTRIBUTION OF GROSS PREMIUM INCOME BY CLASS OF BUSINESS – 2013



As can be seen in the chart, the non-life sector accounted for about 71 % of the total Premium Income generated in 2013 while the Life sector contributed about 29% of Gross Premium Income. Indeed, the share of life premiums is expected to grow in the near future given the increased attention of the Commission in Life Insurance business especially concerning the e-insurance and micro-insurance products.

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

CHART 3: GROSS PREMIUM INCOME: LIFE & GENERAL BUSINESS 2009 – 2013: (₦ Million)



The anticipated expansion of the insurance sector through the Micro-insurance and Takaful Insurance, regulatory policies such as the "No Premium, No Cover" as well as the increased government attention in the industry would continue to influence growth. 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 over the five-year period of 2009 to 2013, from around 39 billion to over 80 billion naira, a significant growth of over 24%.

Nevertheless, the fact remains that the life business is still underdeveloped and is a vast untapped market that could, in the end, possibly push up its premium income closer to the premium income generated in the non-life sector.

1.3.3 Retained Premium Income

Table 2: Retained Premiums of the Insurance Industry

TABLE 2: EVOLUTION OF NET PREMIUM INCOME: GENERAL& LIFE BUSINESSES 2009-2013: (₦ MILLION)

YEAR	FIRE	GENERAL ACCIDENT	MOTOR	W/COMP.	MARINE & AVIATION	OIL & GAS	MISC. ACCIDENT	LIFE	TOTAL
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**
2013	13,235.77	19,058.50	58,712.51	288.59	11,118.78	24,981.65	8,730.79	55,427.43	**191,554.02**

As would be observed, the total premium income retained rose from ₦188,755 million in 2012 to ₦191,554 representing about 1.5% increase in 2013.

The Annual Growth Rates are provided for the various classes in Table 3.

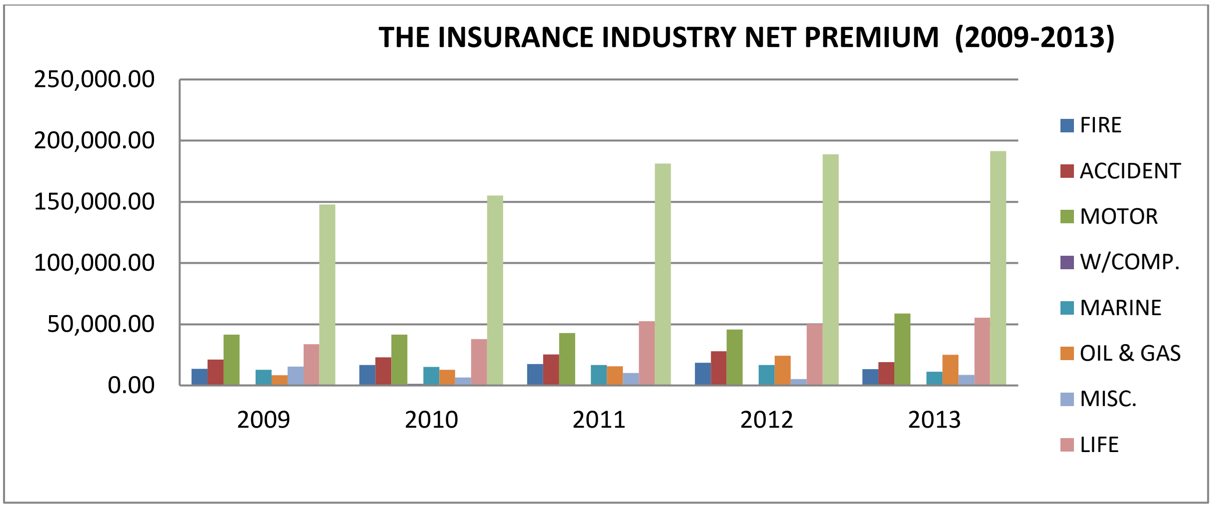
TABLE 3: ANNUAL GROWTH RATES OF NET ACCOUNT

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)
2013	(28.9)	(13.8)	28.7	(33.2)	3.1	64.9	10.3

The table indicates that Fire, General Accident, Marine & Aviation grew in negative direction thereby affecting the overall growth in the industry retention capacity. The overall industry retention growth was just about 1.5% from the previous period.

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

CHART 5: NET PREMIUM INCOME FOR GENERAL INSURANCE BUSINESS: 2009-2013



The graphs clearly indicate the margins within which the net premiums grew from 2009 to 2013. Motor business remained virtually under the N60 billion marks throughout the period under review and, for life business, the net premiums grew steadily to reach a peak in 2013 with a net premium of well above N55 billion. For all the other classes, the net premiums were below N27 billion throughout the five-year period. 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 alongside the ever-growing management expenses. 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 (%)
2009	74.%	81.4
2010	74.4	78.0
2011	73.3	65.0
2012	71.6	77.0
2013	69.5	68.8

As would be observed, the retention ratios have continued to exceed the minimum 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.

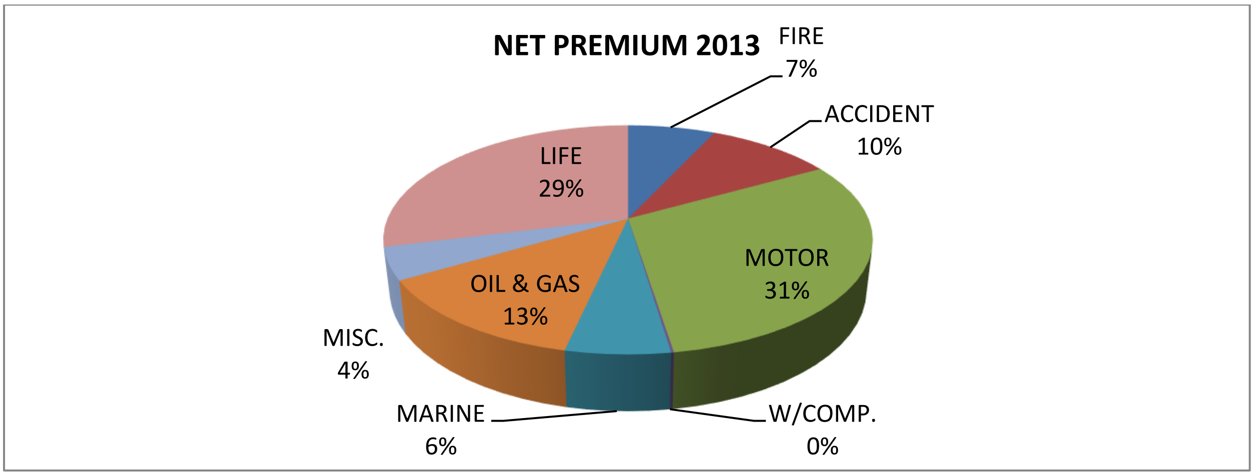
One needs to add, however, that the retention ratios indicated in table 4 have concealed the rather low retention level in the Oil and Gas and Marine businesses in 2013. This was partly responsible for the slide in the overall retention levels from about 74% in 2009 to less than 70% in 2013.

The low level of retention in oil and gas and Marine businesses 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 local content legislation would soon have a major impact in ensuring that substantial portions of such businesses are retained by the industry locally.

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 – 2013



As would be observed from chart 4, Motor business contributed the highest volume which is good for the industry, given that funds from this class of business are usually retained locally by the industry, closely followed by the Life business which is equally healthy for both the industry and the Nigerian economy since such life funds 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 to give investors value for their investments and, help in stabilising the financial system.

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 N55,717 in 2012 to N71,602 in 2013, as indicated in Table 5, representing an increase of about 28.5%.

TABLE 5: GROSS CLAIMS PAID - GENERAL INSURANCE IN (₦M): 2009-2013

YEAR	FIRE	GENERAL ACCIDENT	MOTOR	WORKMEN COMP.	MARINE AND AVIATION	OIL & GAS	MISC.	LIFE	TOTAL
2009	15,124.74	6,567.45	13,040.29	337.39	4,556.60	7,372.95	2,499.51	12,470.22	**61,969.15**
2010	7,794.06	6,444.45	13,219.03	281.03	2,965.17	3,713.64	3,172.18	16,225.79	**53,815.35**
2011	4,029.03	5,643.91	11,721.66	160.70	1,534.44	1,456.38	2,246.01	20,815.60	**47,607.74**
2012	13,398.70	10,387.18	16,080.83	0.00	8,042.04	5,370.26	2,438.14	23,405.43	**79,122.58**
2013	11,815.14	9,024.90	25,935.58	615.11	6,288.55	13,525.05	4,398.45	35,701.76	**107,304.54**

Virtually most of the business classes registered significant increases in claims costs in 2013 with motor claims constituting the highest claims expenditure on the side of non-life business 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 even in the previous year when compared to other classes of business, which means the trend continued in 2013. The gross claims on life business also grew by about 53% from its position in the previous year.

Generally, the increase in the volume of claims paid in the various classes is attributable to the increased awareness of policyholders as regards their rights to demand for the settlement of genuine claims, in compliance with Insurance Act 2003.

1.4.4.2Net Claims Paid: General Insurance Business

The Net Claims Paid in respect of Non-Life Business rose from N36.77 billion in 2009 to N55.66 billion in 2013, representing an increase of 51% over the period. Table 6 provides the relevant data.

TABLE 6: NET CLAIMS PAID: GENERAL BUSINESS 2009-2013

YEAR	FIRE	ACCIDENT	MOTOR	W/COMP.	MARINE	OIL & GAS	MISC.	LIFE
2009	**6,696.89**	**4,945.07**	**10,777.66**	**262.99**	**3,951.33**	**8,161.73**	**1,976.68**	**11,029.26**
2010	**4,176.38**	**4,841.85**	**11,889.22**	**864.81**	**2,217.64**	**-872.75**	**1,847.69**	**14,758.13**
2011	**4,029.03**	**5,643.91**	**11,721.66**	**160.70**	**1,534.44**	**1,456.38**	**2,246.01**	**19,416.20**
2012	**10,168.35**	**8,906.28**	**14,853.84**	**0.00**	**5,204.59**	**11,899.45**	**2,502.94**	**21,457.85**
2013	8231.68	7,290.17	22,342.93	584.84	4,046.65	10,634.25	2,529.67	26,281.93

Table 7 which provides the amounts of net claims paid in life business also indicates that payments increased significantly during the period under review, rising from N11,029 million in 2009 to N26,282million in 2013, which represents a growth rate of about 138.3% .

TABLE 7: GROSS CLAIMS PAID: LIFE BUSINESS

Year	2009	2010	2011	2012	2013
Amount (Naira million)	11,029.26	14,758.13	19,416.20	21,457.85	26,281.93

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 is influential 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	2009	2010	2011	2012	2013
Gross Claims(Naira M)	61,969.15	53,815.35	47,607.74	79,122.58	107,304.54
gross premium(Naira M)	189,960.45	200,375.98	233,752.89	258,402.30	276,384.77
Claims ratio (%)	32.6	26.9	20.4	30.6	38.8

Based on the gross ratios, the market appears to have not had a bad loss experience. 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: 2013

Table 9 provides figures in respect of premiums, claims and the expenses recorded in 2013 while Table 10 contains the relevant claims and expense ratios.

TABLE 9: PREMIUMS, CLAIMS AND EXPENSES: 2013

Description	Gross premium	Net premium	Net earned premium	Gross claims	Net claims	Net claims incurred	Total Mgt exp
General Ins. Business	195,864.53	136,126.59	123,080.58	71,602.78	55,660.19	45,325.69	54,463.63
Life	80,520.24	55,427.43	55,427.43	35,701.76	26,801.93	26,281.93	20,278.26

TABLE 10: CLAIMS AND EXPENSE RATIOS: 2013

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	36.56	40.89	33.29	36.83	27.81	40.01	44.25
Life	44.46	48.35	47.42	47.42	25.18	36.59	36.59

The Tables provide the following indications:

- **Claims Experience-2013**

The non-life class had a claims ratio of over 40% in 2013, 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. Because of this development, the life business recorded quite a high claims ratio of a figure above 48% in 2013.

- **Expense Ratio-2013**

The expense ratios of over 40% for non-life business and about 37% for the life portfolio are still considered very high. Companies would have to rationalize their expenses in the various areas of their operations with a view to cutting them down to a level that justify the flow of their 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-2013**

The average combined ratios for the market were about 84% and 70% 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 N710, 627.24 million that was made up of N497, 799.43 million for non- life business and N212, 827.81 million for life business. The corresponding total asset in 2011 was N621, 095.14 million, with N407, 432.22 million emanating from Non-Life Business and N213, 662.92 attributable to Life business as indicated in Table 9.

TABLE9: TOTAL ASSETS IN MILLIONS OF NAIRA 2009-2013

YEAR	**2009**	**2010**	**2011**	**2012**	**2013**
Non-Life	388,350.69	391.741.60	407,432.22	497,799.43	526,277.81
Life	198,108.85	193,274.19	213,662.92	212,827.81	267,601.93
TOTAL	586,459.54	585,015.79	621,095.14	710,627.24	793,879.74

The increase in assets in 2013 came mainly from the additional investments during the year. Significant amounts of assets were in fact deployed for investment in 2013. The non-life assets grew by about 6% with a corresponding 26% growth in life assets, nonetheless the overall industry assets of both non-life and life business grew by about 12% in correspondence to the assets volume in the previous year.

The fact is that there is usually no delay in the payment of life premiums which is the investment funds thus helps to accumulate funds faster for investment pursuits than in the general business sector. 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.

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.