



Article from

## **International News**

January 2016  
Issue 67

# Nigeria Calling

By Laura Llewellyn-Jones

*Editor's Note: This article was originally published in the July 2015 international issue of The Actuary magazine. It is reprinted here with permission from the Institute and Faculty of Actuaries.*

**N**igeria is the largest economy in Africa, since taking over from South Africa in 2014. It also has the largest population in the continent, of around 170 million inhabitants. Oil and gas are currently the major foreign exchange earners but the country has massive potential, not just for actuarial work, insurance and investment, but for a wide variety of different sectors.

There are about 60 insurance companies in Nigeria, regulated by the National Insurance Commission (NAICOM). The insurance sector is relatively underpenetrated. Regulation is improving, and growing foreign influence is providing more product innovation. However, there appears to be a fairly low market perception of insurance, due to legacy issues such as non-payment of claims and fake insurance firms.

The law around insurance provision is not well understood. For example, it is compulsory to have at least third-party motor insurance in Nigeria before using or keeping a vehicle on public roads. However, many drivers see the insurance documentation as proof of ownership or paperwork to show law enforcement agents, rather than for the cover it provides them in case of accident or loss.

## RAISING AWARENESS

Following an accident, drivers may well pay for the repairs themselves as they simply do not appreciate the insurance cover they already have in place. This highlights that more education is required about insurance so individuals can understand its value. It also underscores the importance of insurance companies building confidence with their client base that they will pay out if legitimate claims are made.

There are a small number of consulting firms based in Lagos who complete the actuarial reporting for the bulk of the insurance companies. There is significant growth potential in the consulting sector, for product development and innovation as well as within the regulatory framework.

The pension sector is regulated by the Pension Commission (PENCOM). The Pensions Act 2004 obliged firms with a certain number of employees to provide workers with a pension, and introduced individual retirement savings accounts. This has increased pension take-up, although in practice, individuals in the informal sector who make up the majority of the population (those who are not taxed or monitored by any form of government) do not have pension provision.

Take 'Grace' for example. She is 24 years old, and works as a housekeeper in Abuja. From her salary, she puts money each month into her mother's bank account in order for her to buy food. She has never considered paying for a private pension. If she does not have children herself who could support her in retirement, she intends to keep working in order to survive.

She would, however, like to have a pension, so that her savings are secure and they grow with interest. A growing and tailored pension industry could reach people like her, providing not just a safety net but also greater access to finance for businesses within Nigeria.

In the formal sector, individuals are empowered to select their own Pension Fund Administrator (PFA) who will then manage their individual defined contribution retirement savings account. The choice of administrator may depend on the investment choice it offers, its network of branches and the service and communication it provides. For example, as an employee changes job, they may keep their retirement savings account with the same PFA. Employers may therefore need to pay into a number of PFAs depending on where employees have their accounts, and have to pay at least a minimum percentage of salary as contribution.

Over recent years, there has been a deliberate move away from defined benefit provision, a push for greater coverage of the population, as well as a clampdown on fraud and mismanagement. There is still a long way to go, but the perception of the pension sector has improved. This has been helped by better communication. Recent political developments may also provide opportunities.

Entering into a new market requires fully understanding the politics and monitoring them carefully to try and anticipate any potential changes that could impact business. For example, if an economy is particularly reliant on one sector, should there be instability within that area this will have a greater impact on the whole country than if the economy is reliant on a larger number of sectors. In the case of Nigeria, oil and gas form the significant part of the economy and provide well over 70% of federal tax receipts.

The drop in oil price has therefore had a significant impact.



Fuel shortages, bad roads and crazy driving are some things people complain about and these are not going away in a hurry. But they are also not good reasons to quit and there is always a way around whatever shortage you are faced with. Nigerians are among the most entrepreneurial people in the world, and most impressive are those who sidestep, swerve and overcome obstacles with good grace and resilience. They show us how it can be done.

Finally, don't be put off by the concerns about insecurity. It is true Boko Haram in the north-east of Nigeria is still a cause for serious concern. Also that crime and kidnapping are a problem. But by being sensible, taking precautions

Nigeria held the most expensive election ever in the African continent on 28 March 2015. The opposition candidate, Muhammadu Buhari won by more than 2.5 million votes and the incumbent president Goodluck Jonathan conceded defeat. This is the first time an incumbent president has lost re-election in Nigeria. These events show a growing maturity and sense of expectation from the voting public: they wanted a peaceful election and change of government, and they got it.

President Muhammadu Buhari was sworn into office on 29 May 2015. The atmosphere in Abuja is still full of optimism and excitement. He has vowed to tackle corruption, insecurity and create jobs and is keen to bring in more international businesses – particularly when it comes to diversifying the Nigerian economy and bringing in new capital to invest in infrastructure.

## CONNECTING

So how should those who are interested begin thinking about Nigeria?

First, engage with its culture. Diverse and vast, the country can be overwhelming for some, however keen they are to do business. But there are some common traits that matter when engaging with Nigerians, wherever they are from. They are often more direct compared to people in the UK, less willing to talk around the point and more clear about what they want and need. That can be off-putting but it can also be quite refreshing. It makes conversations about business or anything more vibrant, fun and engaging.

and following good advice you can still come to Nigeria and do business safely. At any one time, there are between 10,000 and 20,000 British nationals living and working in Nigeria. The vast majority do so without security problems, and come to enjoy the cut and thrust of the business and social environment Nigeria offers.

Doing business in Nigeria is not easy, corruption is a challenge and there are many other issues that can make people stop and want to look for an easier market to enter. But there are significant opportunities for actuaries, risk consultants and others in the financial services industry looking for frontier markets to enter.

Now is the time to take advantage of political changes, demographics, economic growth and the keenness of the new government to bring in foreign businesses. It might not be easy but Nigeria will be rewarding, exciting and certainly never dull. ■



Laura Llewellyn-Jones is an independent actuarial consultant in Africa. She can be reached via her LinkedIn profile <https://www.linkedin.com/in/laura-llewellyn-jones-999a3a17>.