

Takaful: The great potential in Nigeria



A growing economy, the issuance of guidelines and a sizable Muslim population mean that takaful has the potential to become a strong segment of Nigeria's insurance sector, says **Mr Ezamshah Ismail** of **RGA Global Reinsurance Co.**

As one of the most developed countries in Africa, Nigeria has clear and strong economic potential. Independent from Britain for more than half a century, its 177.2 million citizens make it the eighth most populous country in the world, with about one-sixth of the continent's total population.

Economically divided

Nigeria's economy, underpinned by oil (the country is the world's 10th largest oil producer), is currently the largest on the continent – larger than South Africa's. Over the past five years, trends have been positive: overall economic growth for the country has been rapid – 6% to 8% annually – higher than that of the continent as a whole, the fast (4% a year) urbanisation trend, and with it middle-class growth, have been gaining momentum with more than 50% of its population now urban dwellers; and life expectancy, although still low at age 52, is rising.

The country is also among world's most economically divided. Oil has developed a growing cadre of super-rich – in 2014, approximately 16,000 citizens achieved millionaire status – but poverty continues to be a grinding and growing problem, especially in Nigeria's northern, majority Muslim region.

The country's population is currently ranked by the World Bank as the world's third poorest, with approximately 70% of its citizens living below the National Poverty Line – that is, on less than US\$1.25 a day. In addition, in 2014, about 23.9% of working-age Nigerians were unemployed, and about 12.8% had no income at all – up from 10.9% in 2010.

Small insurance market

As income is considered to be one of the main determinants of insurance penetration, it is not surprising that Nigeria's life insurance market is thus far small, and growth has been slow. Although the country currently has approximately 118 registered insurers, five reinsurers and 23 banks (including the Islamic Jaiz Bank), overall insurance penetration is currently one of the lowest in the world.

And a need definitely exists: the National Insurance Commission (NAICOM), the country's insurance regulatory body, found in 2014 that only about 1% of Nigeria's total adult population had protection cover, and gross life premiums written comprised just 0.1% of the country's GDP. The fourth annual Access to Financial Services in Nigeria survey, conducted in 2014, found that only 12.3% of adults in the country currently have relationships with insurers, microfinance, pension schemes or shares. Additionally, Nigeria also has no social security system which, given its rising urbanisation, risks leaving its oldest citizens even more vulnerable.



Still, a McKinsey & Co report on Nigeria's retail economy in December 2013 stated that approximately 11% to 18% of urban households had purchasing power and annual incomes of over \$10,000, placing them in Nigeria's "moderate affluent" class. The report also predicted considerable growth among the country's emerging middle class (those with incomes of more than \$5,000 a year). This segment is predicted to increase to 27% of the population by 2020.

Given these metrics, takaful could potentially have a role in the future development of Nigeria's life insurance market.

Development of takaful in Nigeria

African Alliance Insurance, the country's oldest specialist life assurance company, first introduced takaful to Nigeria in 2005. It offered family takaful, a product similar to whole life insurance in that it contains both a protection and a savings component. Niger Insurance came into the takaful market soon thereafter, developing and introducing Niger Mutual Halal Plus, a product containing a Shariah-compliant saving and investment plan.

Cornerstone Insurance, a traditional insurer, then came into the market, establishing Halal Takaful Nigeria, its takaful window. By 2013, Cornerstone was the first licensed composite operator in Nigeria, offering traditional as well as family and general takaful products, deriving 3% of its total gross premium income from takaful, and experiencing an increase in contributions of increased 83% from the previous year.

2013 was also the year NAICOM issued "Operational Guidelines 2013 Takaful – Insurance Operation", the first national guidelines for Nigeria's takaful market. These established a Shariah-compliant business framework to facilitate the life industry's transition from traditional to standalone takaful companies with good prudential

standards and strong Shariah and corporate governance.

The guidelines outline and clarify takaful operator duties and responsibilities and set minimum operation and disclosure standards and requirements. Three models are permitted: *mudarabah* (profit-sharing), *wakalah* (agency) and *wakalah-mudarabah* (hybrid).

The guidelines also require every operation to have a Shariah Council (Advisory Council of Experts, or ACE), which is responsible and accountable for all Shariah decisions, opinions and views. As Shariah expertise is not common in Nigeria, for insurers in the initial stages of offering takaful, the guidelines permit NAICOM's Takaful Advisory Council to provide Shariah decisions.

Currently, five insurers have applied for approval to establish takaful operations in the country, and NAICOM is investigating how best to allow foreign participation in takaful providers in order to accelerate the industry's growth.

Lack of trust inhibiting growth

The life segment overall continues to face certain challenges. Currently, there is little of the trust necessary among both sellers and potential buyers for a life insurance industry to flourish. The lack of readily available information on a person's background makes it difficult to assess creditworthiness, and insurance companies are currently faced with limited access to expertise and skills. There is also resistance among Africans to conducting transactions without being face-to-face due to the potential for fraud, scams and trickery, which affects the possibility for the development of the online sales channel in Nigeria. In addition, penetrating the north, where the majority of Nigeria's Muslims live, has been a particular challenge for conventional insurers, which have thus far had little success in the region.

Still, the growing strength of Nigeria's economy, the emplacement of operational guidelines and laws for takaful and the country's sizable Muslim population (approximately 48% of the total, the largest in Sub-Saharan Africa), mean that takaful has the potential to become a strong segment of

Nigeria's life insurance sector. Takaful can be a platform for financial inclusion, however, not just for Muslims, but also for certain segments of the country's Christian population.

Takaful could also have a positive impact on insurance penetration overall. For this to happen, however, NAICOM believes more trust would have to be built in takaful, especially among Nigeria's Muslim population. Thus far, cultivating positive awareness of takaful has been a challenge, as many Muslims have long believed life insurance is not compliant with Islamic principles.

The Nigerian government, its Islamic communities and Shariah scholars would do well to play an active role in communicating what takaful is, and its benefits. Brokers and agents especially must be properly trained and committed, as they are frequently the takaful operators' first point of contact with customers as well as a customer's first and primary source of information about the product.

Increasing financial inclusion

The inclusion of microtakaful could also raise financial access and inclusion among lower-income Nigerians in the country's impoverished north, where the majority of its Muslim citizens live. The 2014 Financial Services Access Survey indicated rising interest in microinsurance for life, accident and disability cover. Like microinsurance, microtakaful is designed for low-income individuals and features products with low face amounts and premiums. To be effective for this market, however, microtakaful would have to be affordable, appropriate, and accessible, and providers would need to be able to offer the product cost-effectively.

Growth in the insurance industry in general can be escalated if awareness of insurance rises, if individuals' disposable income and a country's labour force increases and if a country's inflation rate decreases. Several of these trends are already occurring in Nigeria, but there will clearly continue to be many challenges ahead.■

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