



Africa Insurance Outlook 2022

Adopting digital technologies to unlock the Nigerian insurance market



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In Nigeria, Africa's most populous economy, insurance penetration remains considerably below 1%. This is one of the lowest penetration rates in West Africa and below the African and global averages of 2.6% and 7.4% respectively.

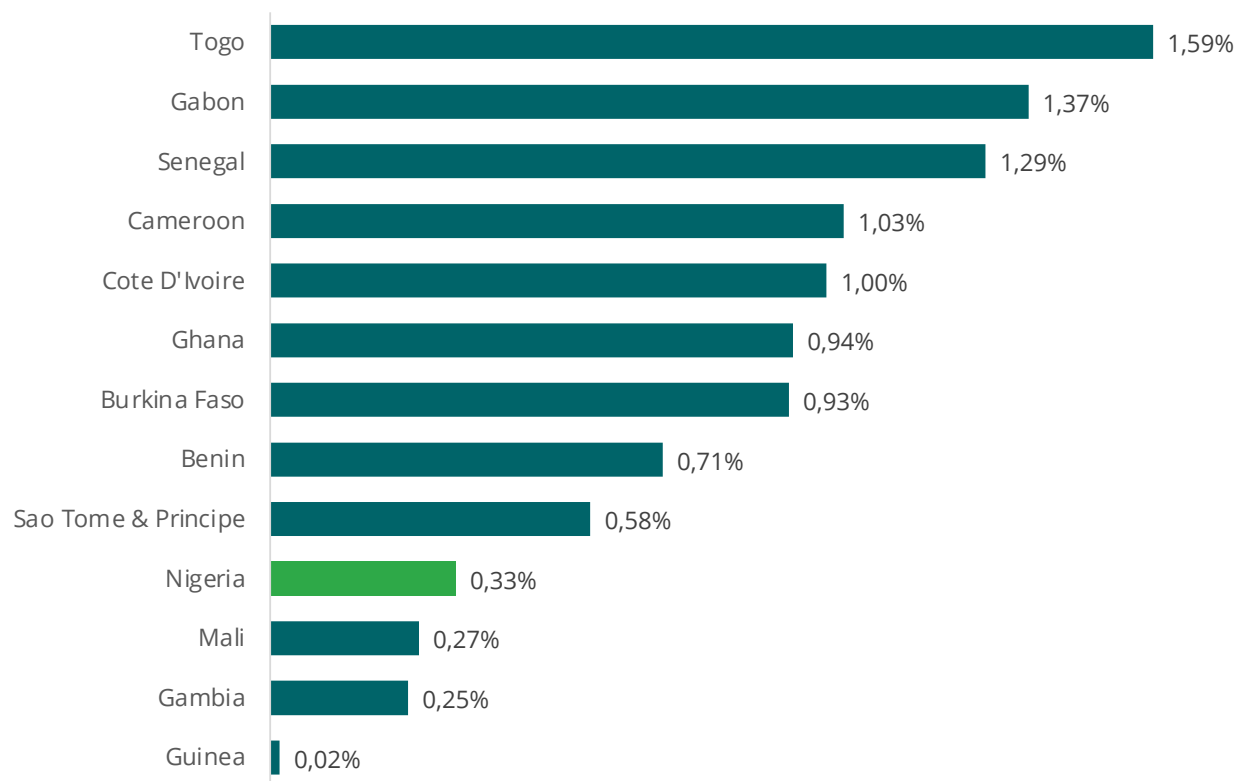
Poorly tailored products, cumbersome claims processes and unsuitable premium collection methods, coupled with limited awareness, negative public perception about insurance and low purchasing power are some of the factors constraining the growth of the insurance industry in Nigeria.

While Nigeria is the world's seventh most populous country and the 28th largest economy, it was only the 72nd largest insurance market with total industry premiums of US\$1.2bn in 2020. This gap between its economy's size and the industry's size, reflects a sizeable opportunity for growth.

Given this untapped potentially huge insurance market, a number of InsureTech start-ups and investors have turned their attention to Nigeria. In addition, local entrepreneurs, including at least 15 local InsureTech start-ups, increasingly focus on creating solutions for currently unserved and underserved markets.

Most of these InsureTech companies deploy a range of digital tools such as advanced Customer Relationship Management (CRM) systems, Artificial Intelligence (AI) powered virtual assistants, data analytics and geo-tagging to reach customers that were regarded as unviable by traditional insurance companies in the past. To compete with these new market entrants, key traditional insurance companies have started to turn to digital tools to develop products for underserved market segments.

Insurance penetration in West Africa (premiums as % of GDP), 2021



Source: Fitch Solutions (2022)



Key digital technologies reshape the insurance sector in Nigeria

AI and data analytics will assist with risk mitigation and fraud detection. The introduction of innovative Customer Relationship Management systems will improve customer experience and potentially attract new customers. Improved access to customer data due to the introduction of the Bank Verification Number (BVN) and the National Identification Number (NIN) has made the use of these CRM systems much more effective and powerful.

Further, leading insurance providers have started to improve customer experience by getting closer to their customer by using email, instant messaging platforms, mobile applications, and

Unstructured Supplementary Service Data (USSD). To use these technologies, customers do not need advanced smartphones or other mobile devices but can access them through feature phones and entry-level smartphones.

To overcome issues related to the claims and premium collection process, insurance companies have started to utilise mobile payment services or mobile airtime-based payment methods, which do not require traditional bank accounts. By doing so, insurance companies can service parts of the unbanked population, which used to be inaccessible for insurance companies that relied on bank accounts for claims and premium payments.

The power of partnerships

In recent years, traditional insurance companies have formed partnerships with InsureTech start-ups or mobile operators to expand their reach to previously underserved or unserved market segments. Partnerships with mobile operators allow insurance companies to deploy, for instance, airtime or mobile money as payment methods. While this technology has already been deployed in other African markets, the introduction of such solutions has been delayed in Nigeria due to certain regulatory restrictions. However, at least one leading insurance company is already collaborating with a mobile operator to enable mobile payments for health insurance. Discussions are currently underway between Nigerian payments service providers and telecommunications companies to extend access to health insurance via mobile phones.

A major insurance provider has partnered with a mobile operator and developed a product that combines life and hospital Insurance. The product leverages USSD technology and data analytics to provide the firm with access to millions of mobile subscribers. At the time of launch, this was the first free for customer life and hospital cash insurance policy offered via mobile phone technology in Nigeria. Within the first 12 months of the launch of the product, the product's customer base grew by over 160%. Data analytics enables the insurance company to track and follow up with subscribers that failed to complete the registration process through the USSD menu.

In addition to partnerships between insurance companies and mobile operators, discussions are currently underway between Nigerian payment providers and mobile operators to extend access to health insurance via mobile phones. The aim is to allow Nigerians in rural areas to access services in local health centres by making insurance payments by phone, using a digital wallet and without a bank account.

Digitisation front and back-end operations

The Nigerian insurance industry is evolving from an analogue to a digitally driven industry. Office processes are automated, manual registers and record keeping are being phased out, policy and clients' information are spooled electronically, policy documents are generated and transmitted electronically, and the client onboarding process has been streamlined. However, despite the progress made so far, the industry still struggles with challenges, including inadequate access to public data which limits automation of insurance, substandard product knowledge, delayed adoption of technology, absence of innovative products tailored to meet clients' needs, data related issues around premium payment, poorly implemented CRM to personalise and address customer needs.

C-suite focus areas and impact of digital transformation

The future of insurance is being driven by rapid changes in retail insurance, which have led to mindset shifts among insurance executives. There is now a stronger emphasis on having unified multi-channel platforms for selling all retail insurance products, on agile and flexible product delivery, on personalised services, digitised processes, and digital tools, as well as on cross-industry partnerships. This has helped and will continue to help insurance providers to be cost efficient and able to provide affordable products.

As Insuretech companies have started to offer health and income protection products at the fraction of the cost of that of incumbents and within a couple of minutes, incumbent players

must appreciate the need for a different approach and need to consider delivering innovative solutions at more competitive prices.

While several insurance companies have started to embrace digital technologies and are creating products that are more suitable to the low-income mass market, the regulatory environment will also require an alignment to these recent developments. Fortunately, the National Insurance Commission (NAICOM) seems to have taken a step in this direction and released its Statement of Regulatory Priorities in 2017 which aims at the development of a framework for the balanced adoption of technology driven innovation in the industry. As of March 2022, the Commission stated that it will implement various initiatives focused on using technology to boost access to insurance. These include the unveiling of their sandbox, which will give room for innovative expansion of insurance reach and the web aggregators' guidelines, which are expected to open access to insurance.

What's next?

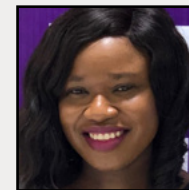
Being digital requires focusing on the customer and to understand the particular nuances of the local market. Forging partnerships and alliances, investing in skills and talent, and embracing a digital mindset will be critical to leveraging innovative technologies that can unlock the currently underserved and unserved insurance market in Nigeria.

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