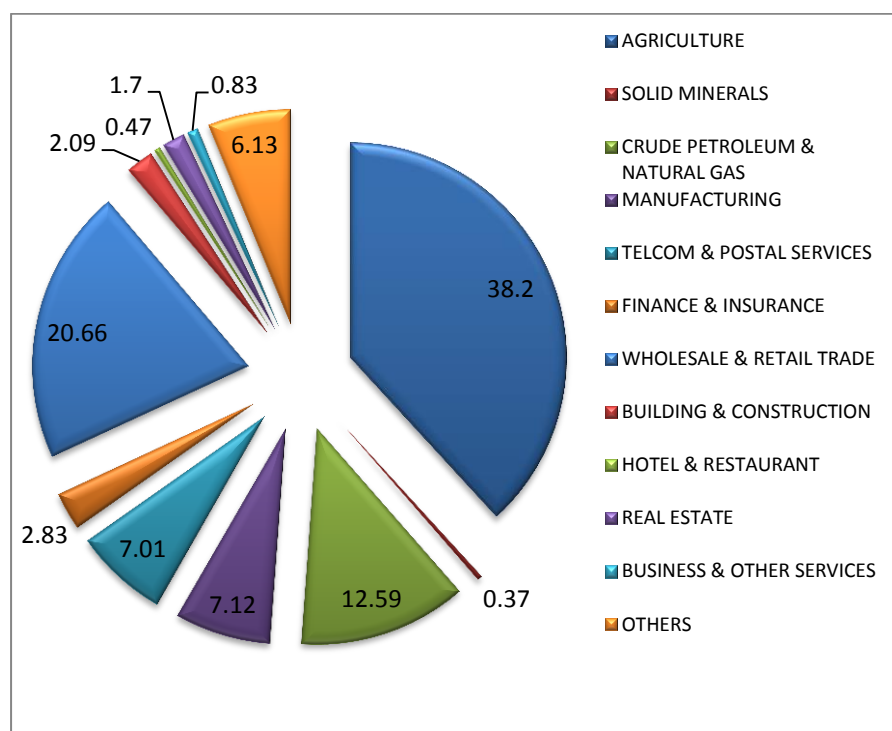


INSURANCE INDUSTRY: A REVIEW

The insurance sector plays important roles in the development of any nation by transferring risks from businesses and individuals. In many countries, insurance industry is actively playing an increasing role in the stability and efficient diversification of risks and thus contributing immensely to economic development. However, in the case of Nigeria, the insurance sector is playing a passive role in the economic development of the country lagging behind major policy reforms given the huge economic potential that remains largely untapped in the industry. For instance, with the high population, Gross Domestic product (GDP) growth rate averaging 7.4 percent over the last decade, the penetration ratio has continued to lag those of other formal financial services and thus underachieving in an expanding economy with a performance of 0.7% penetration rate and less than 1 percent contribution to GDP.

SECTORAL CONTRIBUTION AND GROWTH RATE



Source: NBS, PanAfrican Capital Research

In Nigeria, the insurance sector is confronted with numerous challenges. First, the coverage level for insurance services is very low in the country with approximately 1.5 million insurance policy holders out of the over 150 million population patronizing insurance services and products. This low penetration rate demonstrates that there is low level of acceptance for insurance policy among the people and institutional clients. It is also needful to acknowledge that the perception of the people about insurance policy is shaped by people's believe and lack of awareness among the people. Though, over the years the insurance business in the country has focused mainly on the underwriting of risks for companies, but the ratio is still low because it is

skewed towards some sectors such as trade, transports etc. and neglecting the retail end-markets.

Non-Remittances of Premium

Also, among the chief factors militating against the performance of the insurance industry is the non-remittance of insurance premium by insurance intermediaries such as insurance agents and brokers, nonpayment of premium as and when due especially by government and government agencies. It is imperative to note that the Nigerian insurance market is a broker market because brokers control about 90 percent of the premium income, while the remaining 10 percent is left for insurance agents and direct marketing by Insurers. The implications of these actions are that Insurers will tend to struggle to cover policy payment in case of any claim arising and also limited funds to invest in the economy and consequently reducing their level of profitability and contributions to the economy as well as aggravating the waning public perception. This reputational damage is so huge that it has dire consequences for the low penetration rate in the country especially with retail consumers' patronage. Other reasons for the unsettlement of claims among others are the unwillingness on the part of the Insurers, fake insurance intermediaries, unscrupulous claims by the Insured and undercapitalization by Insurers.

Lack of Innovation

Another challenge confronting the industry is lack of innovative products and services or customised products that could meet the various needs of the people. It is apparent that the insurance industry in Nigeria is far behind in information and communication technology given the rapid growth in internet and social media which serves a portent and veritable medium to drive growth and hence improve their product distribution network and awareness campaign. Thus, the industry players need to embrace new technologies to drive new products and services, new distribution networks and improved customers' service delivery in order to increase penetration and growth, expand customers' access and gain competitive prices for their service offerings.

Poor Financial Reporting and lack of Transparency

Furthermore, the delay in compliance among insurance firms in submitting or publishing their 2012 financial report for approval has also contributed to the current poor market perception about the industry. With the regulatory fine of N5, 000 per day after the June 30, 2013 deadline for insurance firms to submit their 2012 report, the majority of the firms have not. However, this development has been attributed to challenges from converting from GAAP to IFRS compliance which is not enough. Findings from NAICOM showed that as at August 27, 2013, out of the total of 29 listed insurance firms on

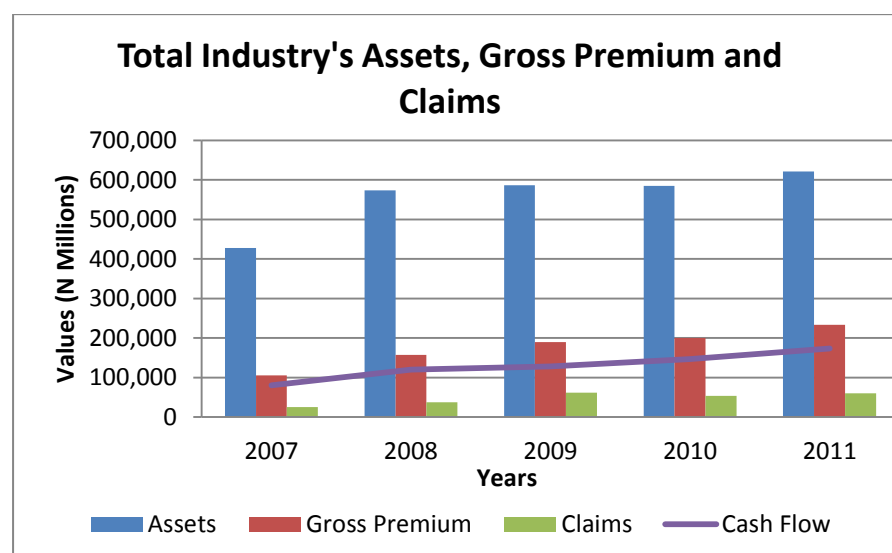
the NSE, only six (6) of the insurers had their results approved by NAICOM, fourteen (14) firms have not submitted their results at all, one (1) insurance firm's response is under review, four (4) results are being reviewed and four (4) companies' results are being queried and awaiting responses. In the same vein, the poor financial reporting and lack of transparency in the industry is one of the reasons for the poor market valuation for the insurance stocks, with 20 out of the 29 insurance stocks, trading at their nominal value of 50 Kobo.

Goldmines Lie In the Insurance Industry

Although the penetration ratio is low, dearth of innovative insurance products and services among others, the insurance sector still signifies a huge market potential and growth opportunities. The various reform processes in the industry (the Market Development and Restructuring Initiatives (MDRI), No-premium No-cover), the waves of mergers and acquisitions exercise, government supports and legislations (the local content initiatives in the oil and gas sector, the cabotage law in the maritime industry, the compulsory life insurance etc.) have once again strengthened the financial capacity of the industry to underwriter big insurance risks. Another factor that underlines the huge potential in the industry is that the industry is highly undervalued and present potential for growth.

Furthermore, the industry boasts of a huge cash flow generating capacity which has not been adequately harnessed. The available industry data shows that the total industry gross premium stood at N233.75 billion and N200.38 billion respectively for the year 2011 and 2010 respectively compared to N60.20 billion and N53.82 billion in total claims for the industry for the same period. This depicts an annual growth rate of 16.66% and 5.48% in 2011 and 2010 for total gross premium compared to 11.87% and -13.16% for industry's total claims. However, this total gross premium is far less than the total deposit mobilised by any single bank in Nigeria and thus presents opportunity for improvement.

Total Industry Assets, Gross Premium and Claims 2007-2011 (Nm)



Sources: NAICOM, PanAfrican Capital Plc.

An overview of the analysis of the listed insurance companies indicated that most of them have started returning to profitability level given the impressive performance in their bottom line as measured by the industry PAT averages of N407 million and N224 million respectively for the mean and median industry player excluding International Energy Insurance and Investment & Allied Insurance. This development attests to the gradual recoupling effects of the various reforms and government supports in the industry.

Similarly, using the Price to Book value (PBV) valuation metric (i.e. Price/Book Value per Share) implied that most of the insurance companies are trading below their book value. In case of the insurance industry in Nigeria, the low PBV is typical of the industry given the cyclical nature of their businesses. The low multiple depicts that the stocks are unfairly undervalued and the inherent fundamentals in the sector would impact on their price level given time. Combining the PBV with the Return on Equity (ROE) thus provides a better insight for growth as we expect that as the ROE is growing, we expect that it would trickled-down also to higher PBV ratio. In relative term, some of the Insurers have started posting impressive financial performance growing both their top-line and bottom-line over the last two years given the challenges that had befallen the industry. Hence, the market valuation for the industry therefore showed that the market has not priced-in their real value, thus represents undervalued industry with low PBV of 0.76 with an ROE of 5.21% for an industry mean player, as well as a 0.71 PBV with an ROE of 3.95% for a median industry player.

In Summary, though the insurance industry in the country in terms of contribution to economic growth and development has underperformed in all metrics, the happenings in the industry are pointers to a reinvigorated and competitive industry. The recent growth in the broader economic environment driven by domestic demand, the support from government through various legislations (the Oil and Gas sector, the Maritime sector, the compulsory life covers, No premium No Cover etc.) as well as the repositioning among industry players to harness the huge market potentials through Mergers and Acquisitions would be the driving forces for stellar performance in the industry in the medium term and longer term. We are of the opinion that though the insurance sector is going through a process of change and recovery, however there are lots of opportunities.

List of Insurance Firms Listed on the Nigerian Stock Exchange

Names of Insurance Firms	ANNUAL REPORT INFORMATION					MARKET VALUATION (August 27, 2013)						
	2012 Result Status	Recent Financial Report	Gross Premium (Nm)	PAT (Nm)	Net Asset (Nm)	Share Outstanding (Nm)	Market Price	Market Capitalization (Nm)	P/E	BVPS	P/BV	ROE (%)
AFRICAN ALLIANCE INSURANCE	NA	Q3, 2012	2,395	71	7,597	20,586.00	0.50	10,293.00	0.00	0.37	1.35	0.93
AIICO INSURANCE PLC	Approved	FY, 2012	21,273	1,321	11,512	8,800.20	0.97	8,536.19	5.11	1.31	0.74	11.47
CONSOLIDATED HALLMARK INS.	Approved	FY, 2012	4,142	395	4,187	6,000.00	0.50	3,000.00	10.00	0.70	0.72	9.43
CONTINENTAL REINSURANCE PLC	Approved	FY, 2012	11,946	1,626	13,235	10,372.74	1.20	12,447.29	8.00	1.28	0.94	12.29
CORNERSTONE INSURANCE	NA	FY, 2011	4,270	166.50	6,167	8,820.01	0.50	4,410.01	25.00	0.70	0.72	2.70
CUSTODIAN AND ALLIED	RUR	Q3, 2012	9,495	1,145	12,872	5,881.86	1.50	8,822.79	6.25	2.19	0.69	8.90
EQUITY ASSURANCE PLC	RIP	FY, 2011	2,324	-91.39	5,033	8,847.30	0.50	4,423.65	50.00	0.57	0.88	-1.82
GOLDLINK INSURANCE PLC	NA	FY, 2009	3,472	87.16	6,339	4,549.95	0.53	2,411.47	0.00	1.39	0.38	1.37
GREAT NIGERIA INSURANCE PLC	NA	FY, 2011	1,375	120	4,262	3,827.49	0.50	1,913.75	16.67	1.11	0.45	2.82
GUINEA INSURANCE PLC	NA	FY, 2011	1,107	-381.66	2,910	6,140.00	0.50	3,070.00	50	0.47	1.06	-13.12
INTERNATIONAL ENERGY INS.	NA	FY, 2011	5,275	-4,666	3,680	1,284.09	1.22	1,566.59	0.00	2.87	0.43	-126.79
INVESTMENT AND ALLIED INS.	NA	FY, 2011	37.93	715	-946	28,000.00	0.50	14,000.00	25.00	-0.03	-14.79	-75.54
LASACO ASSURANCE PLC	RIP	FY, 2011	2,704	212.74	6,564	7,323.43	0.50	3,661.72	0.00	0.90	0.56	3.24
LAW UNION AND ROCK INS. PLC	QAR	FY, 2011	4,219	126	4,229	3,437.33	0.50	1,718.67	0.00	1.23	0.41	2.98
LINKAGE ASSURANCE PLC	NA	FY, 2011	2,288	-171	3,184	7,999.99	0.50	4,000.00	25.00	0.40	1.26	-5.37
MANSARD INSURANCE PLC	Approved	FY, 2012	12,445	1,603	14,113	10,000.00	2.26	22,600.00	12.56	1.41	1.60	11.36
MUTUAL BENEFITS ASSURANCE	NA	FY, 2012	5,471	764	5,840	8,000.00	0.50	4,000.00	0.00	0.73	0.68	13.08
N.E.M INSURANCE CO (NIG) PLC	QAR	FY, 2011	8,381	1,344	6,694	5,280.50	0.71	3,749.16	1.92	1.27	0.56	20.08
NIGER INSURANCE CO. PLC	NA	FY, 2011	7,810	1,240	5,489	7,739.48	0.50	3,869.74	25.00	0.71	0.70	22.59
OASIS INSURANCE PLC	Approved	FY, 2011	1,472	106.89	3,579	8,003.51	0.50	4,001.76	12.50	0.45	1.12	2.99
PRESTIGE ASSURANCE CO. PLC	RIP	FY, 2012	4,273	256	4,743	2,508.32	0.55	1,379.58	9.12	1.89	0.29	5.40
REGENCY ALLIANCE INSURANCE	RIP	FY, 2011	2,196	262.82	4,854	6,668.75	0.50	3,334.38	12.50	0.73	0.69	5.41
SOVEREIGN TRUST INSURANCE	QAR	FY, 2011	6,408	704	5,131	6,871.76	0.50	3,435.88	5.56	0.75	0.67	13.72
STACO INSURANCE PLC	NA	FY, 2011	6,485	-1,052	4,062	6,141.09	0.50	3,070.55	0.00	0.66	0.76	-25.90
STANDARD ALLIANCE INSURANCE	NA	FY, 2011	4,552	224	7,692	8,493.17	0.50	4,246.59	0.00	0.91	0.55	2.91
UNIC INSURANCE PLC	NA	FY, 2011	1,184	51.264	2,450	2,582.30	0.50	1,291.15	0.00	0.95	0.53	2.09
UNITY KAPITAL ASSURANCE PLC	QAR	FY, 2011	1,872	414	8,415	13,866.67	0.50	6,933.34	25.00	0.61	0.82	4.92
UNIVERSAL INSURANCE COMPANY	NA	FY, 2010	310.89	-108.28	8,329	16,000.00	0.50	8,000.00	0.00	0.52	0.96	-1.30
WAPIC INSURANCE PLC	Approved	FY, 2012	4,178	552	7,623	7,938.15	0.80	6,350.52	11.43	0.96	0.83	7.24
Industry Averages												
Mean			4,943	243	6,201	8,344	0.68	5,536	11.61	0.96	0.23	-2.82
Median			4,178	224	5,489	7,739	0.50	4,000.00	8.00	0.75	0.70	2.99
Excluding International Energy Ins. and Investment & Allied Ins.												
Mean (Ecl)			5,113	407	6,559	7,877	0.67	5,369	11.54	0.93	0.76	5.21
Median			4,178	224	5,840	7,739	0.50	4,000	8.00	0.75	0.71	3.95

Sources: NSE, NAICOM, NIA, Various Insurers' Annual Reports and PanAfrican Capital Research.

Identifiers:

RUR: Response Under Review; RIP: Review in process; QAR: Queried & Awaiting Responses; NA: Not Available

Contacts:

For enquiries, please contact our offices:

Lagos: 8A, Elsie Femi Pearse, Off Adeola Odeku, Victoria Island, Lagos. Tel: 01-2718630

Abuja: Plot 1568, Mohammadu Buhari way, Area 11, Garki 2. Abuja. Tel: +234 (0)8059200097

Port Harcourt: Plot 19, Stadium Road, Rivers. Tel: +234 08023654668

Website: www.panafricancapitalplc.com; **Email:** info@panafricancapitalplc.com

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For further enquiries, please call **Lanre Bakare** on +234 (0)8023077673, **Mayowa Oladipupo** on +234 (0)8035042312