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Nigeria

Insurance Report

Includes 5-year forecasts to 2023

Contents

Key View

Key View: *We have a positive long-term outlook for Nigeria's insurance market, supported by the size of the country's economy and population. At the same time, the industry's development has been constrained by widespread poverty and a lack of insurance affordability. Even more affluent middle-class consumers have a tendency to avoid purchasing insurance, which hampers the growth of compulsory basic lines such as motor vehicle insurance. Further challenges include the country's economic stability, which has hindered premiums growth in recent years, and high levels of inflation at over 15% in 2019. As oil prices pick up and the economic recovery gains traction, rising business and consumer spending should lead to faster headline growth in insurance premiums.*

HEADLINE INSURANCE FORECASTS (NIGERIA 2016-2023)

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
Gross life premiums written, NGNbn	124.57	152.56	175.82	207.68	243.71	284.12	328.71	380.26
Gross life premiums written, NGN, % y-o-y	18.5	22.5	15.2	18.1	17.3	16.6	15.7	15.7
Gross life premiums written, USDmn	483.9	500.2	576.4	675.4	716.8	752.6	837.5	927.5
Gross life premiums written, USD, % y-o-y	-8.9	3.4	15.2	17.2	6.1	5.0	11.3	10.7
Gross non-life premiums written, NGNbn	201.55	219.80	255.34	278.52	302.13	325.69	349.75	377.67
Gross non-life premiums written, NGN, % y-o-y	1.6	9.1	16.2	9.1	8.5	7.8	7.4	8.0
Gross non-life premiums written, USDmn	783.0	720.6	837.1	905.7	888.6	862.7	891.1	921.1
Gross non-life premiums written, USD, % y-o-y	-21.9	-8.0	16.2	8.2	-1.9	-2.9	3.3	3.4

e/f = Fitch Solutions estimate/forecast. Source: Fitch Solutions, NAICOM

Key Updates And Forecasts

- Accounting for 42.7% of total written insurance premiums in 2019, Nigeria's life insurance market constitutes the smaller major segment of the country's insurance industry. In 2019, life premiums should amount to NGN207.7bn (USD675.4mn). Over the remainder of the forecast period, life premiums should grow by about 16.3% annually, thereby outpacing the non-life segment, and should ultimately reach NGN380.3bn (USD927.5mn) in 2023.
- The larger non-life insurance segment is forecast to grow by 9.1% to NGN278.5bn (USD905.7mn) in 2019. Over the period 2019-2023, non-life premiums should grow by 8.1% on average a year, reaching NGN377.7bn (USD921.1mn) in 2023.
- A report released in early 2018 highlighted the limited progress of Nigeria's National Health Insurance Scheme, which was launched in 2005. The scheme has reportedly only achieved overall coverage of about 3% among the country's population. As such, the vast majority of Nigerians (72%) continue to pay for healthcare services out of pocket, a far higher proportion than in Ghana (50%) and Kenya (26%). The lack of state healthcare provisions and associated insurance coverage presents a long-term opportunity for private insurers, including microinsurance providers.

SWOT

Insurance SWOT

SWOT Analysis	
Strengths	• Largest population in Africa and one of the largest globally, presenting a huge potential market. • Large domestic economy. • Extremely low penetration and density levels present opportunities for long-term growth. • The government appears generally welcoming of overseas investment in the insurance sector.
Weaknesses	• Most Nigerian motorists remain unlicensed and/or uninsured, despite mandatory insurance requirements. • Motor claims have been difficult to collect from insurers, in part because of widespread use of bogus documents by fraudsters. • Lack of capital and capacity in the insurance sector means that many large risks, particularly in the important energy sector, need to be (re)insured outside Nigeria. • Widespread poverty means that there is little capacity for spending on traditional or non-essential insurance products. • Lack of awareness of life insurance and retirement income products. • High inflation is generating negative growth in premiums across key sectors in real terms.
Opportunities	• Microinsurance products catering to low-income households offer enormous growth potential. • Innovative distribution channels, including via mobile telephone payments, could improve awareness of and access to insurance. • Fragmented market indicates scope for foreign insurers to gain market share via local acquisitions. • Group life cover is now compulsory for employers, providing potential for growth in corporate business. • Health insurance could be a key long-term growth area due to the high ratio of out-of-pocket healthcare payments currently made by Nigerian patients.
Threats	• High tax burden on insurers discourages investment and lowers profits. • Inflationary pressures will persist, eroding the real gains made by insurers. • Deterioration in the security situation could deter investors in insurance and other key sectors, such as mining and oil & gas, notably with the emergence of the Niger Delta Avengers. • Nigeria's economy remains over-dependent on oil price fluctuations, impacting all key sectors' potential, including insurance.

Industry Forecast

Life Premiums Forecast

Key View: *We foresee rapid growth in Nigeria's life insurance segment, on the back of rising oil prices and growing household incomes. Add to this the country's large (and growing) population and the very low rate of life insurance penetration at present, and the long-term opportunities for life insurers in Nigeria are considerable. However, high levels of inflation will create some uncertainty, which will mean that the real value of premiums will remain fairly muted through to 2023, and the US dollar value of premiums will be negligible.*

Latest Updates

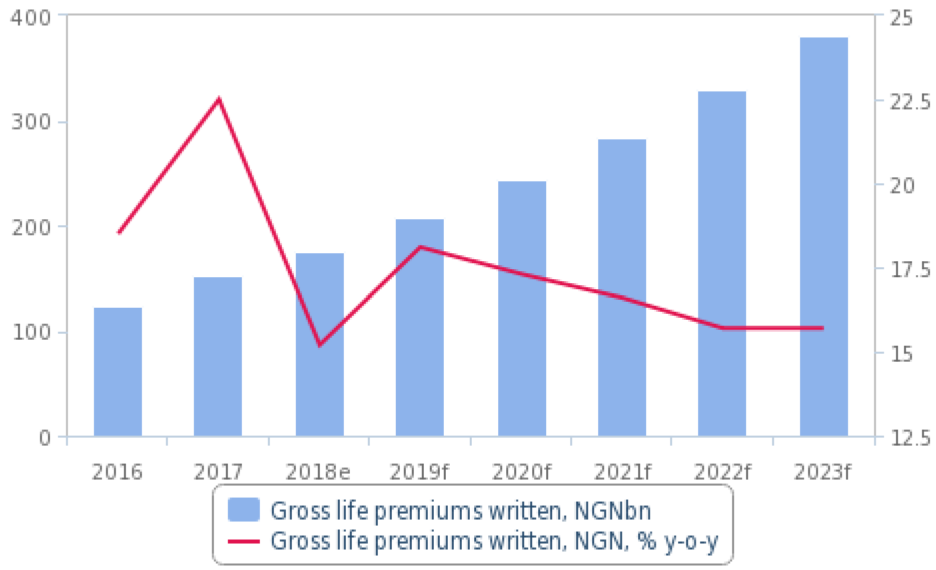
- As Nigeria's economy starts to accelerate amid rising oil prices, we forecast an 18.1% increase in the value of life premiums in local currency terms in 2019, to NGN207.7bn. In US dollar terms, we estimate a 17.2% increase in premiums to USD675.4mn.
- Over our full five-year forecast period, we predict that premium growth will average 16.7% per annum in nominal local currency terms and 7.3% in USD terms, taking the respective values of premiums written in 2023 to NGN380.3bn and USD927.5mn.

Structural Trends

- Only a small portion of Nigeria's population purchases life insurance, and life premiums currently account for around 42% of overall insurance spending in the country. Low incomes and a lack of understanding of the benefits of life insurance remain the most important obstacles facing life insurers. However, a recovering economy, coupled with rising employment and incomes, will drive demand for life insurance products over the forecast period.
- The pace of growth in the life market will outstrip that of the non-life sector, leading life insurers to capture 50.2% of total insurance spending in Nigeria by 2023. However, given the small absolute size of the market (as well as the effects of persistently high inflation), penetration will remain extremely low at about 0.2% of GDP by the end of the forecast period, while density will be just USD4.5 per capita in 2023.

Life Premiums To Grow Rapidly

Gross Life Premiums (2016-2023)



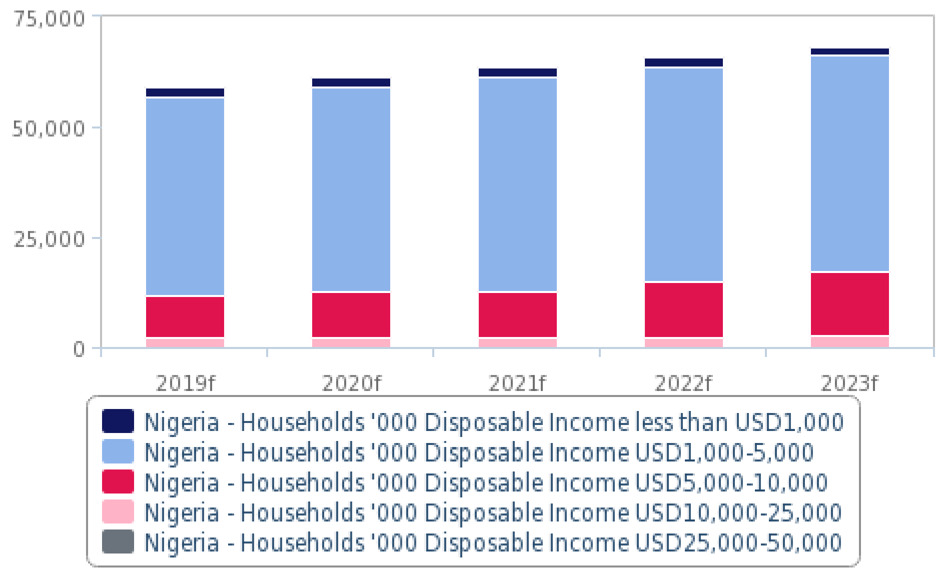
e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

Life Insurance Premiums: Embryonic Throughout Forecast Timeline

On the back of steady economic growth, the underlying growth trends for the life insurance market are good. Premiums are set to grow by 18.1% in 2019 in local currency terms to NGN207.7bn, and by 17.2% in US dollar terms to USD675.4mn. However, given a structurally high level of inflation (consumer price inflation is forecast by our Country Risk team to average 15.4% in 2019), the actual real gains made by local insurers will be much lower. In practice, the development of life insurance will ensure that the segment remains at an embryonic level in 2023.

Purchasing Power On The Rise

Household Income Breakdown (2019-2023)



f = Fitch Solutions forecast. Source: National sources, Fitch Solutions

The macroeconomic backdrop should improve over the forecast period, to the benefit of life insurers. Oil prices have begun to rise again, the economy is starting to recover and inflation is easing, albeit from its very high base. Our Country Risk team predicts that real GDP growth should rise to 2.4% in 2019 and 3.2% in 2020, while inflation should fall to around 8% by the latter part of the forecast period. The demand environment is also strengthening, and life insurers should benefit from recent legislative changes that make it compulsory for employers to purchase group life cover for their employees. Premiums will grow by 13.7% a year on average in local currency terms over 2019-2023, to reach NGN380.3bn (USD927.5mn). However, the high level of inflation means that the actual level of premiums growth will be much more modest than this figure suggests.

Risks to our current forecasts are largely to the upside. Brent crude broke through USD70/bbl in April 2018, indicating that Nigeria's fiscal situation should significantly improve, while also boding well for the exchange rate and wealth across the economy as a whole. A sustained increase on USD70/bbl would force us to revise our economic forecasts and insurance outlook, for a market that remains heavily oil dependent. A further wildcard scenario would be the emergence of an identifiable microinsurance industry in Nigeria for the sale of life insurance covers. As of April 2018, the country's insurance regulators issued a revised set of standards for the sale of microinsurance, suggesting that a regulated microinsurance industry may be close to fruition.

LIFE PREMIUMS (NIGERIA 2016-2023)

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
Gross life premiums written, NGNbn	124.57	152.56	175.82	207.68	243.71	284.12	328.71	380.26
Gross life premiums written, NGN, % y-o-y	18.5	22.5	15.2	18.1	17.3	16.6	15.7	15.7
Gross life premiums written, % of GDP	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Gross life premiums written, % of gross premiums written	38.2	41.0	40.8	42.7	44.6	46.6	48.4	50.2
Gross life premiums written, USDmn	483.9	500.2	576.4	675.4	716.8	752.6	837.5	927.5
Gross life premiums written, USD, % y-o-y	-8.9	3.4	15.2	17.2	6.1	5.0	11.3	10.7

e/f = Fitch Solutions estimate/forecast. Source: Fitch Solutions, NAICOM

Claims: Steady Performance Overall

Occasional blips aside, life insurance claims in Nigeria grew largely in line with gross premiums to the end of 2014, as the increasing uptake of life coverage among the country's population led to a steady uptick in life claims in both USD and local currency terms. However, in the last couple of years, the claims ratio has risen quite substantially, from 37.1% in 2014 to 47.1% in 2015 and 54.0% in 2016. In 2017, however, we observed a fall back to 2015 levels at 47.5%.

LIFE CLAIMS (NIGERIA 2012-2017)

Indicator	2012e	2013e	2014e	2015e	2016e	2017e
Claims life, NGNbn	23.07	35.70	31.80	49.53	67.26	72.51
Claims life, NGN, % y-o-y	10.8	54.7	-10.9	55.8	35.8	7.8
Life insurance gross loss ratio	35.5	44.3	37.1	47.1	54.0	47.5
Claims life, USDmn	145.3	224.2	192.5	250.4	261.3	237.7
Claims life, USD, % y-o-y	8.8	54.3	-14.1	30.1	4.4	-9.0

e = Fitch Solutions estimate. Source: Fitch Solutions, NAICOM

Non-Life Premiums Forecast

Key View: *Nigeria's non-life market will be outpaced by the life segment over the next few years, growing by 8.1% a year in local currency terms. The figure will be much lower in real terms, owing to the sustained high rate of inflation, which will only drop back below 10% during 2019 and even then will remain higher than in most other markets. The one positive for non-life insurers will be growing demand as the economy accelerates, driving business and consumer spending and demand for key product lines.*

Latest Updates

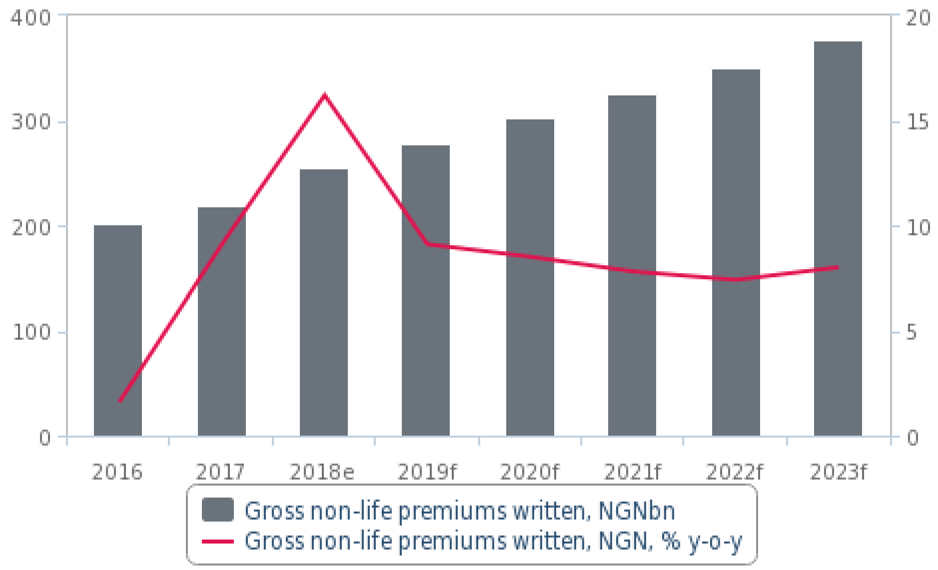
- With business and consumer confidence starting to recover, we expect an uplift in non-life premiums growth in 2019, with premiums set to grow (nominally) by 9.1% in local currency terms to NGN278.5bn.
- However, persistently high inflation means that real growth in premiums revenue will remain negative.
- Nominal growth will slow marginally through the remainder of the forecast period as the current base effects subside, and will average 8.1% a year over the five-year forecast period to 2023.

Structural Trends

In theory, the absolute size of Nigeria's economy, the importance of the country in global terms as an energy producer and the large population should provide non-life insurers with a substantial and rapidly growing market. This opportunity has been boosted by past efforts on the part of the regulators to lift capitalisation levels and the quality of business written. In practice, the dominant feature of the segment is the destruction of premiums written by high inflation, at least in recent years. In real terms, premiums have been falling, although 2019 estimates indicate that the market may have bounced from the very low base created by the poor performance of the previous few years. Premiums have also been faring poorly in USD terms, falling by 21.9% in 2016 and 8.0% in 2017. It will take many years to reverse the negative cumulative effect of these declines. Even in the motor vehicle insurance sub-sector, where slightly more aggressive enforcement of compulsory lines may generate support, the outlook is stymied by weak consumer demand for big-ticket items.

Steady Non-Life Premiums Growth

Gross Non-Life Premiums (2016-2023)



e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

Non-Life Insurance Premiums: Faster Growth, But Inflation Will Erode Gains

In recent years, Nigeria has been the classic example of a major emerging market, where premiums and claims in local currency terms are artificially boosted by inflation. Beyond inflation and currency weakness, challenges are varied and include: a persistently difficult business environment, the lack of scale of most of the indigenous insurers, the ability of multinational companies to purchase coverage of Nigerian risks from global markets, low levels of income for most households, limited understanding on the part of consumers of the benefits of insurance and erratic enforcement of compulsory lines. In 2019, we forecast premiums to grow by 9.1% in local currency terms to NGN278.5bn, and by 8.2% in US dollar terms to USD905.7mn. Given an average consumer price inflation forecast for the year of 15.4%, growth is set to be negative in real terms.

The segment is dominated by three sub-sectors: motor vehicle insurance, property insurance (including both corporate and household covers) and personal accident insurance. The outlook for all the major sectors is quite subdued overall, and we forecast overall growth in non-life premiums to average 8.1% a year over the remainder of the forecast period in local currency terms. While we expect the rate of inflation to subside to around 8% from 2021 onward, the real level of premiums growth is unlikely to resume a positive footing before the end of the forecast period. By 2023, we expect the nominal value of the market to be NGN377.7bn (USD921.1mn).

NON-LIFE PREMIUMS (NIGERIA 2016-2023)

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
Gross non-life premiums written, NGNbn	201.55	219.80	255.34	278.52	302.13	325.69	349.75	377.67
Gross non-life premiums written, NGN, % y-o-y	1.6	9.1	16.2	9.1	8.5	7.8	7.4	8.0
Gross non-life premiums written, % of GDP	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Gross non-life premiums written, % of gross premiums written	61.8	59.0	59.2	57.3	55.4	53.4	51.6	49.8
Gross non-life premiums written, USDmn	783.0	720.6	837.1	905.7	888.6	862.7	891.1	921.1
Gross non-life premiums written, USD, % y-o-y	-21.9	-8.0	16.2	8.2	-1.9	-2.9	3.3	3.4

e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

Claims: Greater Scrutiny Yielded Fruit

Ahead of the economic crash, non-life claims rose slowly but steadily, in line with non-life premiums growth, reflecting a deceleration in claims compared to the years prior to 2010. Claims grew on average by 77% over 2008 and 2009. There was a plunge of 24% in 2010, followed by modest increases in 2011 and 2012. This is attributable to greater rigour on the part of insurance companies in assessing the veracity of claims before paying them.

The composition of Nigeria's non-life insurance claims for each of the market's sub-segments closely matches that of the value of premiums written within each of them. Together, motor vehicle and property insurance claims typically represent about 47% of overall claims activity in USD terms during our review period. Rising incomes supported a steady increase in car ownership, while residential property prices in Lagos and other major cities spiralled, rendering them less affordable in relative terms. The picture has become rather more complicated since the oil-induced economic crash, although full reliable figures for claims post-2014 remain questionable. However, if recent figures are even moderately reliable, the gross loss ratio remains more than manageable, having stayed below 55% throughout.

NON-LIFE CLAIMS (NIGERIA 2012-2017)

Indicator	2012e	2013e	2014e	2015e	2016e	2017e
Claims non-life, NGNbn	43.63	71.60	64.97	65.99	78.57	113.94
Claims non-life, NGN, % y-o-y	10.8	64.1	-9.3	1.6	19.1	45.0
Non-life insurance gross loss ratio	23.9	39.5	32.7	33.3	39.0	51.8
Claims non-life, USDmn	274.7	449.6	393.3	333.6	305.3	373.5
Claims non-life, USD, % y-o-y	8.7	63.7	-12.5	-15.2	-8.5	22.4

e = Fitch Solutions estimate. Source: Fitch Solutions, NAICOM

Non-Life Sub-Sector Forecast

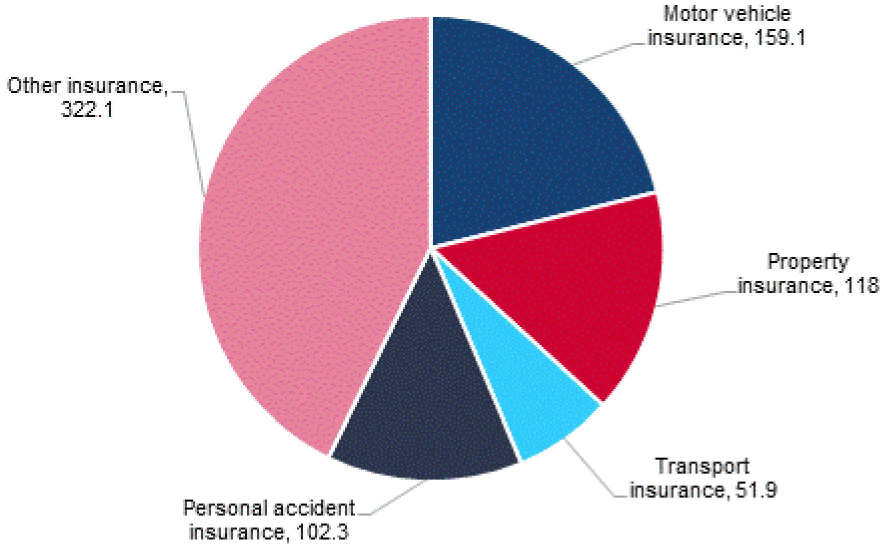
***Key View**: Motor and property insurance currently dominate Nigeria's non-life insurance market, accounting for about 30% of all underwriting in the sector. While the share taken by the property segment will fall only modestly, rising fuel prices as well as more familiar constraints mean that motor will decline in relative importance during the forecast period. Putting aside the effects of high inflation, the longer-term prospects for most non-life lines are quite bright, as economic expansion drives demand from local consumers and businesses.*

Latest Updates

- Motor insurance will underperform other major non-life lines as insurance avoidance and higher fuel costs wipe out much of the current positive economic momentum. Motor premiums will grow by 5.4% in 2019 in local currency terms to NGN48.9bn.
- Property lines will fare better owing to strengthening residential and retail real estate markets. Premiums for this line will grow by 7.8% in 2019 to NGN36.3bn.

Basic Lines Key To Non-Life Revenues

Non-Life Premiums Breakdown, 2019 (USDmn)



Source: NAICOM, Fitch Solutions

Structural Trends

The key trend in Nigeria's non-life segment is persistent inflation, which is higher than in most other countries. Growth in premiums in real (or USD) terms has been negative for most sub-sectors over recent years. Unlike other segments, the motor vehicle sub-sector is unlikely to derive much benefit from rising oil prices, though the market may receive some support from greater enforcement of compulsory lines. Premium growth in some other sub-sectors (particularly transport insurance) will be held back by price competition, alongside widespread evasion and forgery of documents.

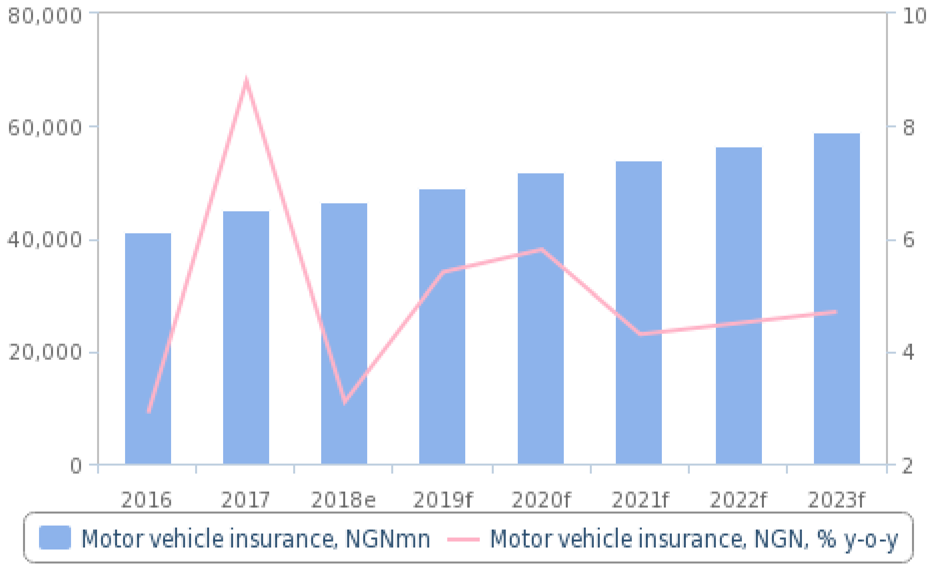
As is the case in most other countries where non-life insurance is at an early stage of development, Nigeria's motor vehicle and property insurance lines dominate the overall non-life segment. We forecast market shares of 17.6% and 13.0% respectively in 2019: these are the two largest sub-segments. The market share of the sluggish motor segment is set to slip to just 15.6% in 2023. Personal accident insurance, another basic line, is the third largest, with a projected market share of 11.3% in 2019.

Motor Insurance: Sluggish Growth To Persist

Motor insurance is compulsory in Nigeria, which helps to drive demand for the product, although there are many instances of individuals purchasing fraudulent insurance certificates. Insurance avoidance means that the projected expansion of the country's passenger car fleet only translates loosely to the actual premiums written by insurers. While an improving economic backdrop will boost consumer spending and vehicle sales, this will partly be offset by rising oil prices, which may deter some consumers. Overall, we expect motor premiums to grow by 5.4% in local currency terms in 2019 to NGN48.9bn, and by 4.5% in US dollar terms to USD159.1mn.

Motor Premiums Are Rising

Motor Premiums (2016-2023)

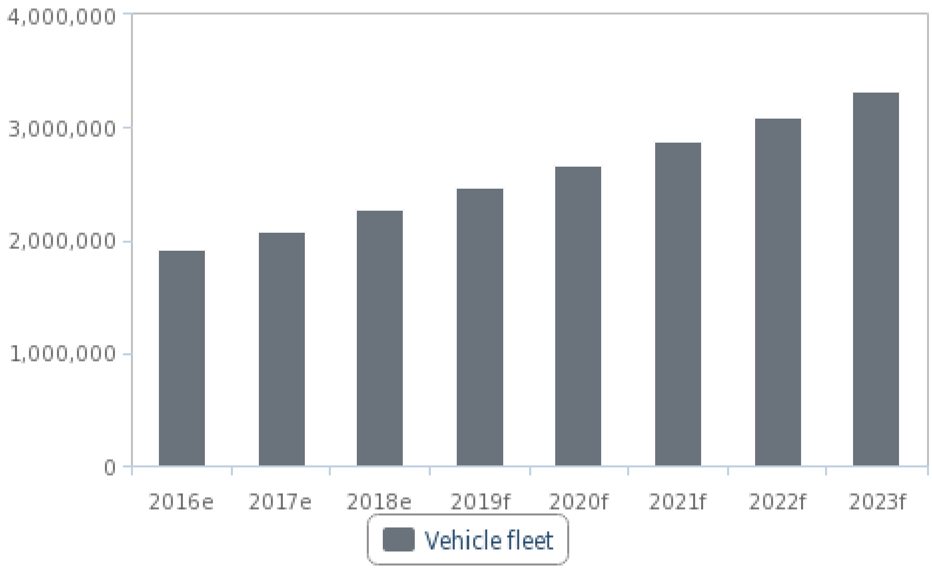


e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

Over our five-year forecast period, we expect to see steady growth in the nominal value of motor insurance premiums in NGN terms, though any gains will be quickly eroded by the country's high inflation levels. Driven by a modest economic recovery, uptake of motor policies will be driven by the increasing number of cars on the road, with the country's passenger car fleet set to expand by about 7.9% a year on average over 2019-2023. As mentioned, the impact of a growing consumer base will be significantly mitigated by the tendency of local drivers to avoid paying for motor vehicle insurance. The result is that motor premiums growth will continue to linger between 4% and 5% a year through to 2023 in local currency terms and will turn negative in USD terms. At the end of the forecast period, the nominal value of the motor insurance segment will be NGN59.1bn (USD144.1mn).

Vehicle Ownership Is Growing

Vehicle Fleet Size (2016-2023)



e/f = Fitch Solutions estimate/forecast. Source: NBS, Fitch Solutions

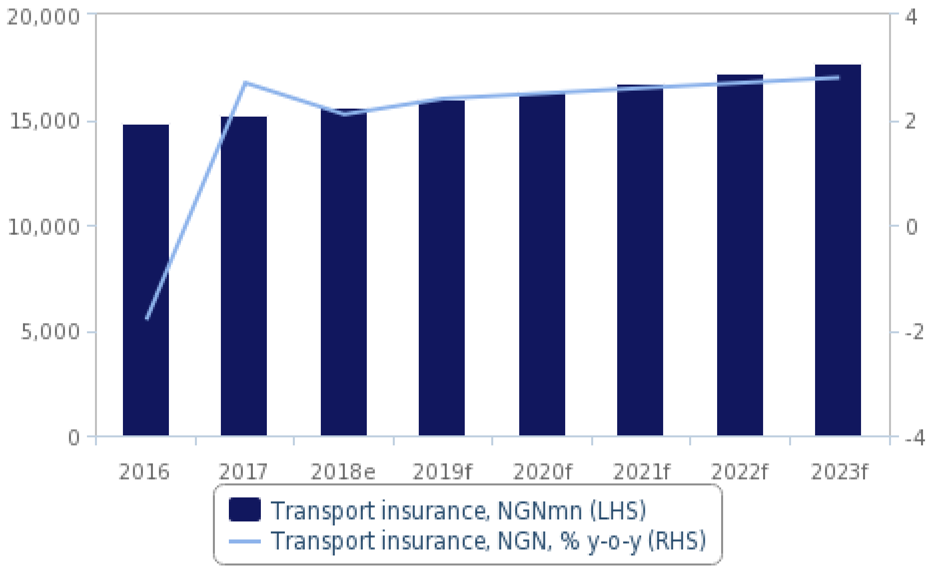
With lower car prices likely as a result of lower costs on insurance premiums, the long-term growth in motor insurance premiums will become more dependent on greater enforcement of existing legislation, which already mandates compulsory motor insurance on the one hand, and improved product provision on the other. Over the very long term, the picture is brighter. Nigeria's autos market should be boosted by stronger local production by local manufacturers. Increased local production should lead to cheaper prices for new cars in Nigeria and consequently make them more affordable.

Transport Insurance: A Competitive Market

Transport insurance accounts for around 5.7% of all non-life activity, representing a decline over the last couple of years. Given that customers are overwhelmingly large companies, the segment is dominated by larger and better capitalised insurers, but transport premiums have been hit hard by the economic downturn, particularly in the oil industry, which accounts for a significant bulk of commercial transport insurance. With oil prices (and exports) continuing to recover, transport premiums will demonstrate positive local currency growth of 2.4% y-o-y in 2019 (albeit only in nominal terms), to reach NGN16.0bn.

Steady Growth In Transport

Transport Premiums (2016-2023)



e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

Pricing pressures will constrain growth in premiums. The emergence of rebel group the Niger Delta Avengers in the country's oil rich heartlands represents a potential significant threat. This could see prices of commercial transport premiums rise, but without any corresponding profit accruing to the insurers, due to the heightened risk of vehicle and even personnel hijackings. We predict that premiums will rise by 2-3% per annum over the next five years in local currency terms, while contracting by about 3.2% per annum in USD terms.

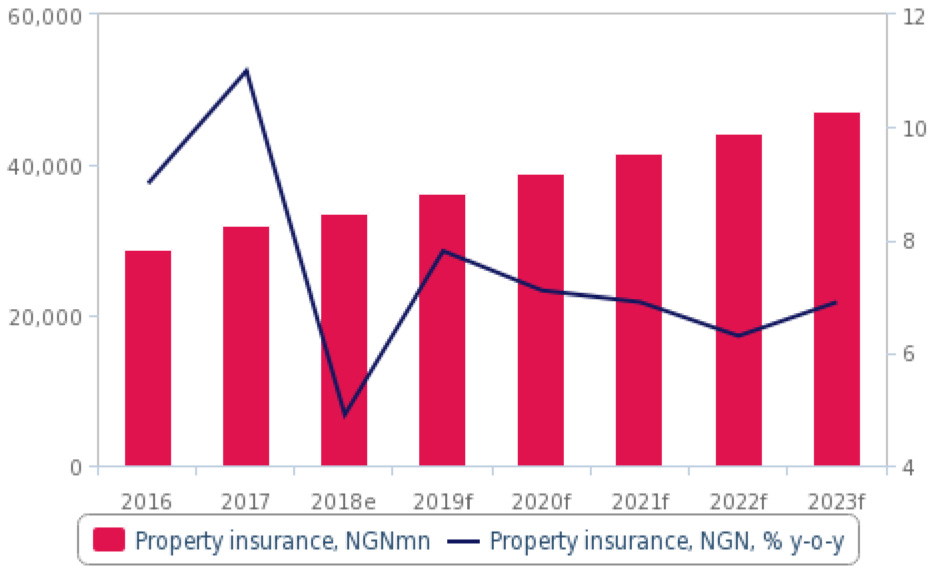
Property Insurance: Oversupply In Key Sectors Constrains Outlook

Property insurance is the second largest sub-segment of the Nigerian non-life market, accounting for a forecast 13.0% of all premiums written in 2019. Considering the size of Nigeria in geographic terms, and the high number of households, property insurance is substantially underdeveloped. With annual premiums of less than USD100mn, this is a small market by international standards. Structurally, the development of property insurance has been constrained by the low incomes of most households. Cyclical trends have also been unfavourable, with the oil price bear market and consequent deterioration in macroeconomic fundamentals having led to challenging dynamics, particularly in the industrial and residential markets, creating an oversupply of space. The industrial segment has been hit hard by the depreciation of the naira, while the residential market encountered an unsustainable boom in construction activity during the years of strong economic growth that preceded 2014.

However, the retail segment is a bright spot, with demand for space in this segment belying the overall economic slowdown and therefore encouraging greater construction activity. Against this backdrop, we forecast premiums to grow by 7.8% in 2019 in local currency terms to NGN36.3bn.

Growing Demand For Property Insurance

Property Premiums (2016-2023)



e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

We expect property insurance premiums to grow at an average rate of 7.0% per annum in local currency terms over the remaining period to 2023, taking the total value of premiums by the end of this forecast period to NGN47.2bn. In US dollar terms, the pace of growth will be much lower at 0.9% a year, and we expect some fluctuation resulting from currency market movements.

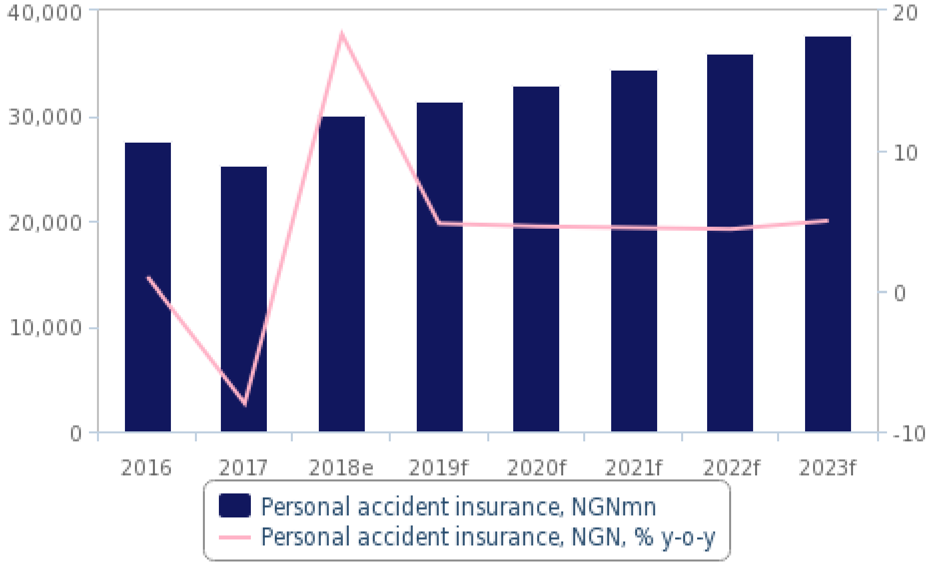
Households and corporate clients should contribute to this growth over the medium-to-long term. Urbanisation and the growth of Nigeria's middle classes should underpin demand for household covers, even as the property sector declines in relative importance. Longer term, the prospects are better than on a five-year view. Some upside risk for our core forecast period is created by oil price trends, in particular the fact that Brent crude broached USD70 per barrel in April 2018.

Personal Accident Insurance: Growing From A Low Base

Basic lines dominate Nigeria's underdeveloped non-life insurance segment. Personal accident insurance, which is often the line first purchased by new users of insurance, is the third largest sub-sector in terms of premiums written. As is the case in the other sub-sectors, premiums are being artificially boosted by high inflation. In 2019, we forecast personal accident premiums to grow by 4.8% in local currency terms to NGN31.5bn (USD102.3mn).

Steady Growth In Personal Accident Segment

Personal Accident Premiums (2016-2023)



e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

The lack of unemployment benefits, medical care coverage and disability benefits in Nigeria means that, for those who can afford it, personal accident insurance is very much on the shopping list, even if the current high inflation (and weak growth) environment means that it is not viable for many would-be new purchasers over the next few years. Real growth in this segment will likely reappear late in our forecast period. Beyond the forecast period, Nigeria's increasingly affluent middle class, combined with gradually rising employment rates, should ensure moderate demand for personal accident insurance cover. By 2023, we forecast the nominal value of this sub-sector to be NGN37.7bn (USD91.9mn).

NON-LIFE INSURANCE PREMIUMS BY PRODUCT LINE (NIGERIA 2016-2023)								
Indicator	**2016**	**2017**	**2018e**	**2019f**	**2020f**	**2021f**	**2022f**	**2023f**
Motor vehicle insurance, NGNmn	41,390.1	45,051.6	46,444.4	48,937.2	51,769.9	54,002.5	56,435.8	59,084.4
Motor vehicle insurance, NGN, % y-o-y	2.9	8.8	3.1	5.4	5.8	4.3	4.5	4.7
Motor vehicle insurance, % of non-life insurance	20.5	20.5	18.2	17.6	17.1	16.6	16.1	15.6
Property insurance, NGNmn	28,919.3	32,100.3	33,662.5	36,282.6	38,859.0	41,525.9	44,150.8	47,177.9
Property insurance, NGN, % y-o-y	9.0	11.0	4.9	7.8	7.1	6.9	6.3	6.9
Property insurance, % of non-life insurance	14.3	14.6	13.2	13.0	12.9	12.8	12.6	12.5
Transport insurance, NGNmn	14,862.0	15,261.2	15,580.3	15,956.1	16,355.6	16,780.2	17,231.9	17,712.6
Transport insurance, NGN, % y-o-y	-1.8	2.7	2.1	2.4	2.5	2.6	2.7	2.8
Transport insurance, % of non-life insurance	7.4	6.9	6.1	5.7	5.4	5.2	4.9	4.7
Personal accident insurance, NGNmn	27,595.4	25,380.8	30,017.6	31,457.9	32,901.7	34,392.1	35,906.7	37,688.9
Personal accident insurance, NGN, % y-o-y	1.0	-8.0	18.3	4.8	4.6	4.5	4.4	5.0
Personal accident insurance, % of non-life insurance	13.7	11.5	11.8	11.3	10.9	10.6	10.3	10.0
Other insurance, NGNmn	71,741.5	65,039.7	86,689.7	99,043.6	111,428.4	124,213.0	137,204.3	152,491.6
Other insurance, NGN, % y-o-y	-7.3	-9.3	33.3	14.3	12.5	11.5	10.5	11.1
Other insurance, % of non-life insurance	35.6	29.6	34.0	35.6	36.9	38.1	39.2	40.4

e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

Industry Risk/Reward Index

Sub-Saharan Africa Insurance Risk/Reward Index

Sub-Saharan Africa is the lowest-scoring region in the Fitch Solutions Insurance Risk/Reward Index (RRI), with a regional average of just 26.14 out a possible 100. This is primarily due to the small size of the region's markets, with the exception of top-scorer South Africa and the offshore financial hub of Mauritius. The former, which accounts for a high number of the region's insurance premiums, is a significant outlier with an RRI score of 66.26. A number of the region's markets do, however, benefit from strong regulatory practices, with Namibia, Ghana and Kenya being key examples of this. Botswana is a prime example due to its solid risk score of 66.18 – the second highest behind Mauritius.

There were a few shifts in the ten leading countries this quarter, with Ghana and Namibia swapping positions; Côte d'Ivoire falling to 10th place; and lower Risks and Rewards scores bumping Malawi to 13th in the list. New entrants Uganda and Zimbabwe only saw marginal increases in their RRI scores of 0.41 and 0.76, respectively, but this was enough to elevate them to the top 10. This reflects our Country Risk team's view the East Africa will be key to SSA's growth.

Our front runner, South Africa, has a stronger insurance sector compared with most of the region. This has enabled a number of its domestic players to expand operations into other Sub-Saharan markets, including **Sanlam**, **Old Mutual** and **Liberty Holdings**.

The Insurance RRI considers the current state and long-term potential of the non-life and the life segments. It also assesses how open each segment is to new entrants and economic conditions. Collectively, these measures enable an objective review of the limits to potential returns across all countries – and over a period of time. The score also focuses on the risks to the realisation of returns, which is based on our proprietary Country Risk Index. It embodies a subjective assessment of the impact of the regulatory regime on the development and competitive landscape of the insurance sector.

SUB-SAHARAN AFRICA INSURANCE RISK/REWARD INDEX

	Industry Rewards	Industry Rewards Non-Life	Industry Rewards Life	Country Rewards	Rewards	Industry Risk	Country Risks	Risks	Insurance Risk/ Reward Score	Rank
South Africa	73.75	70.00	77.50	56.75	66.95	65.00	64.40	64.64	66.26	1
Mauritius	38.75	37.50	40.00	61.35	47.79	60.00	70.65	66.39	53.37	2
Botswana	23.75	20.00	27.50	53.61	35.69	60.00	70.30	66.18	44.84	3
Ghana	25.00	27.50	22.50	41.82	31.73	50.00	60.84	56.51	39.16	4
Namibia	30.00	25.00	35.00	42.46	34.98	40.00	53.75	48.25	38.96	5
Kenya	26.25	27.50	25.00	33.42	29.12	45.00	43.92	44.35	33.69	6
Nigeria	15.00	12.50	17.50	41.53	25.61	25.00	50.42	40.25	30.00	7
Uganda	15.00	15.00	15.00	30.80	21.32	40.00	43.29	41.97	27.52	8
Zimbabwe	31.25	30.00	32.50	29.27	30.46	20.00	20.47	20.28	27.40	9
Cote d Ivoire	20.00	20.00	20.00	29.51	23.80	40.00	32.89	35.74	27.38	10
Gabon	10.00	15.00	5.00	39.11	21.64	30.00	47.60	40.56	27.32	11
Senegal	15.00	20.00	10.00	28.80	20.52	30.00	48.96	41.37	26.78	12
Malawi	11.25	12.50	10.00	33.05	19.97	40.00	43.75	42.25	26.65	13
Tanzania	10.00	12.50	7.50	29.20	17.68	40.00	45.35	43.21	25.34	14

	Industry Rewards	Industry Rewards Non-Life	Industry Rewards Life	Country Rewards	Rewards	Industry Risk	Country Risks	Risks	Insurance Risk/ Reward Score	Rank
Zambia	10.00	12.50	7.50	40.66	22.26	15.00	39.64	29.78	24.52	15
Angola	10.00	12.50	7.50	32.05	18.82	40.00	34.93	36.96	24.26	16
Benin	8.75	10.00	7.50	23.32	14.58	30.00	44.61	38.77	21.83	17
Burkina Faso	8.75	10.00	7.50	26.24	15.75	30.00	38.25	34.95	21.51	18
Rwanda	8.75	15.00	2.50	32.55	18.27	10.00	41.59	28.95	21.47	19
Cameroon	17.50	22.50	12.50	20.78	18.81	30.00	25.41	27.25	21.34	20
Mali	7.50	10.00	5.00	27.97	15.69	20.00	42.76	33.65	21.08	21
Togo	11.25	12.50	10.00	24.66	16.61	20.00	30.53	26.32	19.53	22
Madagascar	3.75	5.00	2.50	27.05	13.07	10.00	41.31	28.78	17.78	23
Ethiopia	6.25	10.00	2.50	29.54	15.57	10.00	31.13	22.68	17.70	24
Congo-Brazzaville	10.00	15.00	5.00	18.75	13.50	20.00	29.64	25.78	17.18	25
Niger	6.25	7.50	5.00	25.99	14.15	15.00	29.45	23.67	17.00	26
Burundi	6.25	7.50	5.00	24.58	13.58	20.00	25.72	23.43	16.54	27
Central African Republic	3.75	5.00	2.50	24.38	12.00	20.00	21.00	20.60	14.58	28
Chad	3.75	5.00	2.50	24.13	11.90	20.00	15.88	17.53	13.59	29
Guinea	2.50	2.50	2.50	19.12	9.15	20.00	25.75	23.45	13.44	30
DRC	2.50	2.50	2.50	17.42	8.47	10.00	29.48	21.69	12.43	31

Note: Scores out of 100, with 100 the best. Source: Fitch Solutions

Market Overview

Life Market Overview

Nigeria's life market has become increasingly more concentrated in recent years. Still, we see scope for further consolidation over the long term. The top five players now account for 71.3% of the market, according to figures for 2016. **Leadway Assurance** is the biggest player, with 25.4% of the market. **AIICO** comes in second with a share of 17.8%, while the third biggest player is **African Life**, with 10.4%.

Product Offering

The Nigerian life insurance market is even less developed than non-life insurance. Although traditional life insurance is offered, the share of corporate products will likely continue to outpace that of individual products due to the new Pension Reform Act, which came into effect on July 1 2014. The new Act replaced the Pension Reform Act of 2004, recognising the difficulties that many smaller enterprises had in complying with the old Act. Employers in Nigeria are now required to contribute to employees' pensions if they employ more than 15 staff. In addition, there have been increases in the minimum amounts to be contributed by employers (from 7.5% to 10.0% of income) and employees (from 7.5% to 8.0%).

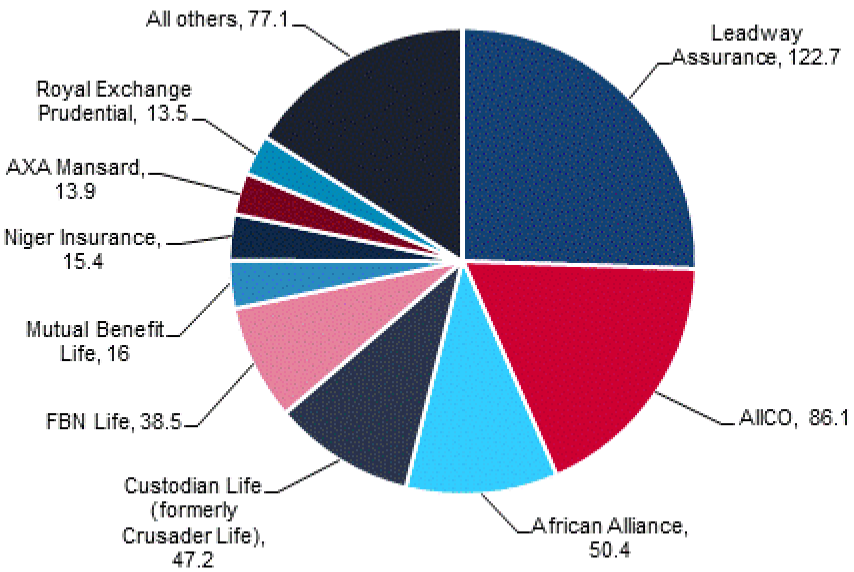
Retirement gratuities may also count towards the contributions made to employees' pensions, and death benefits arising from group life policies can be paid directly to named beneficiaries. However, more modern life products, such as critical illness or inflation-indexed benefits, have not yet acquired a real presence in the market. Rather, affordable micro-insurance products, geared more towards short-term life cover, are particularly popular among Nigerian consumers. Nigeria's insurance sector is regulated, supervised, administrated and controlled by the National Insurance Commission (NAICOM).

Regulatory changes were adopted in 2017, after the National Pension Commission (Pencom) directed NAICOM to bring annuity assets under the custodianship of Pension Fund Custodians (PFCs) in October 2016. On March 20 2017, NAICOM in turn directed all Life companies underwriting Life Annuity business 'to transfer all annuity assets under their custody to licensed PFCs'. In mid-July 2017, eight out of 26 life companies had successfully complied with the new directive: **AXA Mansard Insurance**, **Custodian Life**, **Cornerstone Insurance**, **FBN Insurance**, Leadway Assurance, **Niger Insurance** and **Standard Alliance Insurance** were all judged to be compliant. The other 18 firms had yet to transfer funds as required, or even to sign service agreements with PFCs. Firms not yet in compliance were not permitted to receive new annuity investments from prospective clients.

In H217, firms began gearing up for additional potential regulatory changes, in a context where NAICOM's CEO Alhajij Mohammed Kari declared that insurance companies needed to further increase their capital bases, in line with the introduction of Risk Based Supervision. This indicated that life insurance companies would have to raise their minimum capital base from NGN2bn to an as yet unspecified level (in a previous initiative to bolster capital requirements, the minimum was raised ten-fold from NGN200mn). By late October 2017, a report in the Leadership newspaper stated that five insurance firms had concluded initial plans to raise a cumulative NGN20bn, including via new share issues on the Nigerian Stock Exchange.

A Concentrated Market

Nigeria - Life Market Share, 2016 (USD)



Source: NAICOM, Fitch Solutions

Competitive Landscape

New data show that Nigeria's life market has become more concentrated in recent years, having previously been very fragmented, although there is still some scope for further consolidation over the long term. The top five players account for 71.3% of the market, according to figures for 2016. Leadway Assurance is the biggest player, with 25.4% of the market. AIICO comes in second with a share of 17.8%, while the third biggest player is African Life, with 10.4%.

Leadway Assurance is backed by reinsurers including **Swiss Re** and **Munich Re**. Additional players are AIICO**,** which is a locally owned public insurer, Niger Insurance, **Mutual Benefit Life**, **Industrial & General** and **Capital Express**. Niger Insurance, which holds nearly 3.2% of the market, is backed by Swiss Re. Mutual Benefit Life is the life operator within the larger subsidiary network of the composite **Mutual Benefits Group**, which grants it access to capital and a multi-channel distribution network.

Nigeria's life insurance market is open to new entrants, particularly to those bringing the innovative capacity and capital needed to develop new, low-cost products for the country's growing middle class and micro-insurance solutions geared towards the lower-income portion of the population. So far, NAICOM has issued licences to 16 firms to commence microinsurance operations in the country. Outside capital and expertise are being courted to help advance the development of this fledgling industry.

In spite of the market's highly underpenetrated nature (with a premium-to-GDP ratio of under 1%), foreign multinationals in particular have in recent years become attracted by the market's strong growth prospects and accessible opportunities. For example, in 2013, **Old Mutual** entered the market with the establishment of **Old Mutual Nigeria Life Assurance Company Limited**. In addition, in late 2014, the large France-based multinational **AXA** entered the Nigerian life insurance market through the full acquisition of **Assur Africa Holdings**, which also included a 77% stake in Mansard Insurance (now re-branded to AXA Mansard Insurance). This provided AXA with the opportunity to combine its brand reputation and industry experience with direct access to established distribution channels and an established customer base.

We are mindful that some of the main problems that have hitherto constrained the development potential of the life segment will likely persist at least in the short-to-medium term, including the unwillingness of Nigerians to enter into long-term insurance contracts and the lack of understanding of the benefits of life insurance solutions among customers. Therefore, those insurance companies which decide to enter the Nigerian market will likely need to invest quite heavily in educating prospective consumers and nurturing future demand.

The economic downturn has dented the business of most players on Nigeria's life market. Premium growth in real terms has been in negative territory, due to high inflation. This trend looks likely to continue through 2018 and 2019, undermining revenues and profits. However, one firm that appears to be bucking the overall trend is **Custodian & Allied**. The firm announced a 31% surge in profit before tax to NGN4.7bn in the first six months of 2017. Our Country Risk team estimates that inflation for 2017 as a whole averaged 16.5% in Nigeria. Custodian & Allied was voted insurance company of the year by the Lagos Chamber of Commerce & Industry in August 2017.

LIFE INSURANCE PREMIUMS, 2011-2016 (USDMN)

	2011	2012	2013	2014	2015	2016
Leadway Assurance	28.8	60.1	105.1	128.2	157.8	122.7
AIICO	64.3	43.7	84.1	147.1	122.6	86.1
African Alliance	11.7	21.0	41.3	61.3	71.9	50.4
Custodian Life (formerly Crusader Life)	8.3	11.2	11.2	15.2	35.8	47.2
FBN Life	8.2	18.2	24.5	43.0	49.1	38.5
Mutual Benefit Life	29.5	16.8	15.9	23.1	17.4	16.0
Niger Insurance	30.5	44.8	47.6	48.0	39.9	15.4
AXA Mansard	15.2	20.1	18.7	23.1	18.4	13.9
Royal Exchange Prudential	3.9	7.6	13.5	16.0	17.7	13.5
Zenith Life	6.5	11.9	9.6	14.5	15.1	13.0
Capital Express	21.5	17.8	21.5	27.8	7.7	11.2
Lasaco	8.2	8.2	10.2	na	9.6	8.7
UBA Metro Life	11.5	12.6	9.9	11.0	10.5	8.1
Standard Alliance Life	13.8	18.1	11.8	18.1	11.9	7.1
Cornerstone	7.0	12.0	9.1	8.4	11.0	7.0
Industrial & General	25.2	16.3	10.6	na	10.1	5.9
WAPIC Life	7.7	7.0	4.4	3.9	5.4	4.8
Ensure (Formerly Union Assurance)	6.7	10.6	na	9.8	6.3	4.1
Old Mutual (Acquired Oceanic Life)	3.1	4.2	4.9	5.4	10.7	3.9
NSIA (aka ADIC)	5.1	3.0	6.0	na	6.7	3.3

na = not available. Source: NAICOM, Fitch Solutions

Non-Life Market Overview

In comparison to Nigeria's life market, the non-life market is highly fragmented. The biggest player, **Leadway Assurance**, took a share of just 11.7% in 2016, with premiums of USD83.7mn. **Custodian and Allied** places second with 8.8%, while **AXA Mansard** comes in third with 7.7%. There is scope for consolidation, especially as the market develops from what is quite a low base, enabling new entrants and existing players to generate economies of scale by potentially acquiring some of the small operators. There are 14 insurers with a market share of 4.0% or less.

Product Offering

As with the life sector, Nigeria's non-life insurance sector is regulated, supervised and administered by the National Insurance Commission (NAICOM). The non-life insurance market is more developed than life insurance. All traditional non-life products are present in the market, and their market share is balanced between motor, property, transport and personal accident lines of business. Health insurance is an underdeveloped line, but presents significant long-term growth potential in a country where out-of-pocket payments account for 72% of total healthcare expenditure (compared with 50% in Ghana and 26% in Kenya).

The expansion of the health segment is likely to be driven by the development of the microinsurance industry. Given its large and fast-growing low-income population, there is considerable potential for the expansion of microinsurance in Nigeria. In early 2018, NAICOM released a new set of guidelines aimed at kick-starting an officially regulated microinsurance industry in the country. The guidelines set out a series of rules and standards for providers. They include setting a maximum insurable amount of NGN2mn (USD5,600) for each microinsurance policy holder. NAICOM has so far issued microinsurance contracts to 16 operators in the country, and has suggested that it would welcome outside investors in this segment.

Competitive Landscape

Nigeria's non-life insurance market is fragmented, with only four companies holding more than 5% market share. The biggest player, Leadway Assurance, took a share of just 11.7% in 2016, with premiums of USD83.7mn. Custodian & Allied places second with 8.8%, while AXA Mansard comes in third with 7.7%. Fourth and fifth place are taken by **NEM** and **Royal Exchange Assurance** respectively. There is scope for consolidation, especially as the market develops from what is quite a low base, enabling new entrants and existing players to generate economies of scale by potentially acquiring some of the small operators. There are at least 14 insurers that take a market share of between 1.8% and 4.0%.

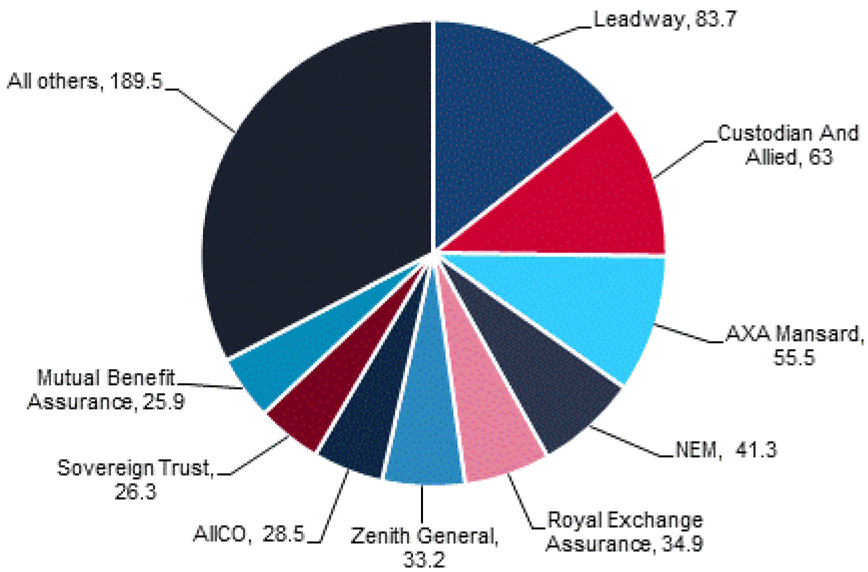
Despite NAICOM's efforts to boost minimum capital requirements, as well as to eliminate bogus insurers from the market, the competitive landscape still contains dozens of sub-scale indigenous insurance companies. In light of NAICOM's efforts since 2011 to stop the issuance of new operating licences to non-life and life companies, which has already resulted in considerable consolidation in recent years, many of these smaller firms may make effective acquisition targets for established players and foreign newcomers. This is in line with various company reports stating the general preference of foreign insurers entering the market through non-organic routes, as this enables them to access local knowledge and established distribution channels, as well as rapidly achieve scale. Such entry strategies are further encouraged by the fact that foreign insurers are permitted to own and control a 100% share in local companies.

The attractiveness of the market to foreign insurers has been reduced by the deterioration of the security situation in the north of Nigeria. Security challenges due to insurgency have so far had a destructive effect on key infrastructure and may also discourage foreign non-life insurers from capitalising on the segment's growth prospects. Security challenges cause disruptions to local business operations, and destabilise the country's overall business environment. In the south west of the country, the Niger Delta Avengers threaten the oil heartlands.

One area of Nigeria's insurance market that is particularly badly affected by bogus activity is transport insurance. An estimated 300,000 cargoes imported into the country are either not accompanied by insurance papers or else accompanied by fake policies, according to an investigation by Nigeria's Guardian newspaper, published in July 2017. NAICOM and the Nigeria Customs Service (NCS) have sought to address the problem, but the NCS is ill equipped to do so, according to the Commissioner for Insurance Alhaji Mohammed Kari, who acknowledged that the 'Customs Service doesn't have the facility to identify fake insurance'.

Fragmented Market

Nigeria - Non-Life Market Share, 2016 (USD)



Source: NAICOM, Fitch Solutions

NON-LIFE INSURANCE PREMIUMS, 2011-2016 (USDMN)

	2011	2012	2013	2014	2015	2016
Leadway	125.7	172.3	121.6	na	98.7	83.7
Custodian And Allied	64.5	74.5	107.8	97.8	83.5	63.0
AXA Mansard	49.0	58.3	66.6	na	61.9	55.5
NEM	52.7	60.8	56.1	57.8	54.1	41.3
Royal Exchange Assurance	37.8	39.0	42.3	40.7	35.2	34.9
Zenith General	36.2	37.2	41.5	46.7	40.5	33.2
AIICO	54.1	60.2	58.7	na	38.0	28.5
Sovereign Trust	41.1	48.7	54.5	43.6	36.0	26.3
Mutual Benefit Assurance	35.1	31.6	32.9	68.7	51.7	25.9
STACO	41.6	43.8	42.3	35.7	29.2	22.5
Cornerstone	20.4	28.5	23.6	na	25.1	22.4
Consolidated Hallmark	26.3	26.1	26.1	27.9	30.5	22.2
WAPIC	20.3	14.1	14.8	21.2	24.7	20.3
International Energy	33.8	37.8	37.7	36.4	21.1	16.2
Linkage	14.7	14.0	16.9	20.0	18.6	15.4
Law Union And Rock	27.1	25.4	23.7	25.2	19.8	15.4
NSIA (Acquired ADIC)	16.3	24.5	23.3	na	21.7	15.2
Lasaco	17.3	19.8	23.4	na	19.3	13.7
Old Mutual (Acquired Oceanic Life)	11.0	6.9	11.6	16.1	15.4	13.2
Regency Alliance	13.0	14.4	19.8	20.9	16.0	13.0

na = not available. Source: NAICOM, Fitch Solutions

Company Profile

AXA Mansard Insurance

SWOT Analysis	
Strengths	• Composite insurer, with broad range of personal (including life) and corporate lines. • Significant variety of local, government-related and multinational corporate clients. • Visibility from its stock exchange listing. • Rise in premiums and net profit in 2016, despite Nigeria's economy being in recession.
Weaknesses	• Low retention ratios and the lack of growth of net premiums. • Constrained by Nigeria's high poverty levels and lack of citizens' education about the benefits of life insurance.
Opportunities	• A probable beneficiary of any increase in non-life penetration or life density over time. • Product innovation. • Further partnership with major foreign players.
Threats	• A series of takeovers during recent years may undermine consistency in terms of strategy and management. • Nigeria's entire economy, the insurance sector included, is highly vulnerable to the vagaries of global oil prices.

Company Overview

Established in 1989, Mansard Insurance was a subsidiary of Guaranty Trust Bank (GTBank) for nine years (2002-11). In 2011, GTBank sold the insurance company, which was rebranded. The buyer was Assur Africa Holding, a consortium of three European Development Finance Institutions and two private equity firms. Assur Africa Holding's 77% share in turn was acquired by France-based AXA in late 2014. More recently, in July 2015, Mansard upgraded its brand to AXA Mansard Insurance, as this will provide the company with increased access to a broader product portfolio within protection, health, pensions and savings and investments lines. Mansard offers a very broad range of corporate products and services. To retail clients, it offers home, motor and health insurance. Its life insurance offerings include group life, personal life, personal education, personal index linked and annuity.

Financial Data

Results For 9M18

- Profit for the period of NGN2.6bn
- Gross premiums written of NGN28.9bn
- Gross premium income of NGN24.7bn
- Investment income of NGN3.9bn
- Total assets of NGN73.05bn

Leadway Assurance Company

SWOT Analysis

Strengths	• A leading composite insurer in Nigeria. Life and non-life market shares of about 25% and 12% respectively. • Broad range of personal (including life) and corporate lines. • Strong establishment connections. • Backed by the International Finance Corporation, which is a 19% shareholder. • Nationwide branch network. • Consistently profitable in recent years.
Weaknesses	• The company does not generally have pricing power across most of the lines in which it operates. • Constrained by the country's high poverty rates and lack of citizen education about benefits of insurance. • Significant non-performing assets.
Opportunities	• Product innovation. • Partnership with major foreign players. • There is considerable scope for expansion in the underdeveloped microinsurance sector.
Threats	• Possible reversal of recent rally in oil prices, in an economy which remains painfully commodity dependent. • Cut-throat competition from rivals that are keen to increase market share regardless of profitability.

Company Overview

Leadway Assurance Company Limited was established in 1970 and is now one of the largest composite insurers in Nigeria, offering a range of life and non-life insurance products and other financial services. It is a private company. The largest shareholders are the Sir Hassan Olusola Odukale Trust and the International Finance Corporation (IFC - the private sector arm of the World Bank): they hold 21% and 19% of the stock respectively. OHO Investments, with 14% of the stock, is the third largest shareholder.

Leadway serves both individual and corporate clients. In relation to corporate clients, risks are covered in all major industries in Nigeria, including the oil & gas sector, shopping, construction and engineering and government establishments. The firm has developed reinsurance relationships with global leaders, such as Swiss Re and Munich Re. Leadway's clients include Unilever, Guinness Nigeria, Cadbury Nigeria and Mobil. Leadway also insures the US embassy.

Life Assurance & Pension products include life/annuity contracts, individual deposit administration, personal savings plans, personal annuity plans and mortgage protection. In May 2015, the company launched a new funeral cover plan (Leadway Family Benefit Plan Plus), a multi-life policy which covers funeral expenditures for the assured lives and policyholder. As life insurance is set to be the main driver of the overall insurance sector in the coming years, we may see the company invest more in its life business.

General insurance lines include fire/all risks, property, personal accident/workers' compensation, householders' comprehensive, general liability, marine cargo and marine hull, engineering, motor, aviation, oil & gas and goods in transit.

The company also provides property management, hospitality management and financial asset management services and has developed an investment portfolio that includes debt and equity. Leadway has nominees on the boards of Union Assurance Company, Prestige Assurance, C&I Leasing, Business & Management Skills Limited and Total Health Trust Limited. Other companies in which Leadway is a significant investor include the Protea Hotel Leadway, Leadway Pensure PFA Limited, Leadway Capital and Trusts Limited, Leadway Properties & Investment Limited, Oakwood Park Limited, First Bank of Nigeria and Continental Reinsurance Co. Limited.

Latest Updates

In November 2017, Leadway announced that it had established a franchise initiative which seeks to reach 1,000 entrepreneurs, as a form of collaborative premium building. The move was designed to increase the firm's reach in the retail market, in a context where many potential consumers remain unaware of the benefits of insurance.

Strategy

The company argues that its competitive advantages include its simple claims procedure and investment in IT infrastructure. Leadway has corporate offices in Lagos and Kaduna, as well as a branch network in 19 different cities across Nigeria. There are also 11 agency offices nationwide. The company has also begun to distribute its products via a 'mobile office', which visits areas that were previously out of reach.

Financial Data

Group Financial Highlights 2018

- Gross insurance premiums received of NGN88.0bn
- Profit before tax of NGN9.5bn
- Total comprehensive income of NGN4.6bn
- Profit for the year of NGN7.3bn

MMI Holdings

SWOT Analysis

Strengths	• MMI Holdings is the third largest life insurance group in South Africa. It would rank as a (very) large insurer in the vast majority of countries. • Significant capacity to realise economies of scale. • Well capitalised and benefits from its relationship with the RMB group. • Broad range of products, multiple distribution channels and strong brands in its six core businesses. • Thanks to its listing (and that of RMI), MMI can access global capital markets. • Its regional footprint across Sub-Saharan Africa is one of the largest of any South African life insurer.
Weaknesses	• MMI faces rapidly changing regulatory environments, which often imply higher costs.
Opportunities	• Further product innovation. • Further expansion into Sub-Saharan Africa. • Realisation of substantial benefits from the merger of Metropolitan and Momentum.
Threats	• The fragility of the South African economy, which is being undermined by rising political instability. • High inflation in Nigeria and exchange rate weakness have had a severely negative impact on insurance markets in this country. • Unanticipated increases in costs as a result of regulatory changes. • Robust competition from other leading players.

Company Overview

MMI Holdings is a JSE-listed insurance holding company. It was formed in late 2010 through the merger of Metropolitan with Momentum Limited, which were both substantial South African life companies. A part of the logic for the merger was that Metropolitan and Momentum had complementary businesses. Metropolitan was focused on mid- to lower-income market segments, while Momentum was catering mainly for mid- to higher-income market segments.

Metropolitan International operates in Botswana, Ghana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Swaziland, Tanzania and Zambia. It offers health insurance and administration, risk savings and investment products, retirement fund administration and short-term insurance.

In Nigeria, Metropolitan International operates through the UBA Metropolitan Life Insurance joint venture (JV), in which the other partner is United Bank for Africa (UBA). The JV has been able to build on UBA's extensive brand presence, the established distribution network and local expertise and has benefited from Metropolitan's success as a low-cost developer, administrator and distributor of life insurance and financial products and services. The primary focus is on risk and investment products and there is a strong emphasis on group life insurance, credit protection (including mortgage protection) and other areas of particular need for Nigerians. The company has also developed unique products specifically for the Nigerian market.

Financial Data

Group Results

Six Months Ended December 31 2018

- Net insurance premiums of ZAR20.4bn
- Net income of ZAR18.7bn
- Results of operations of ZAR3.4bn
- Earnings for the year of ZAR1.3bn
- Total assets of ZAR462.3bn

Old Mutual Group

SWOT Analysis

Strengths	• Clear leadership position in both of the main insurance segments in South Africa. • Distributes through Nedbank, a leading universal bank. • Broad range of products, multiple distribution channels and strong brands. • Multiple stock market listings mean strong access to global capital markets. • In southern Africa, Old Mutual has a long record of thriving in spite of challenging economic and political conditions.
Weaknesses	• Mutual & Federal, the South African element of the emerging markets business, and Nedbank face competition from rivals that have many of the same advantages. • Rapidly changing regulatory environments, which often implies higher costs.
Opportunities	• Further product innovation. • Further expansion into Sub-Saharan Africa. • Particularly rapid expansion in East Africa. • Nigeria is an even bigger potential insurance market than South Africa, according to its West Africa CEO.
Threats	• Fragility of the South African economy. • Unanticipated increases in costs as a result of regulatory changes. • Robust competition from other leading players in South Africa.

Company Overview

Old Mutual was originally founded in Cape Town in 1845. Today, it is a FTSE 100 company with more than 12mn customers worldwide and around GBP300bn in assets under management. It is listed on the London Stock Exchange and the Johannesburg Stock Exchange, among others.

Old Mutual entered the market in Nigeria in 2013 with the establishment of Old Mutual Nigeria Life Assurance Company Limited. This was followed in 2014 by the acquisition of Oceanic Insurance short-term non-life business in early 2014. Nigeria has been targeted as a core growth market in the latest annual report.

In Nigeria, the company offers a range of personal insurance products, including home and motor insurance. Old Mutual also caters for businesses via corporate group life assurance (a compulsory line in Nigeria) and credit life assurance.

Strategy

In our view, Old Mutual will likely increase its commercial efforts within non-life insurance, and particularly in the motor vehicle segment.

Financial Data

Group Results

Year Ended December 31 2017

- Gross written insurance premiums of ZAR39.7bn
- Net earned premiums of ZAR36.4bn
- Total revenue of ZAR67.9bn
- Total expenses of ZAR62.8bn
- Profit from continuing operations after tax of ZAR6.0bn

Insurance Methodology

Industry Forecast Methodology

Our industry forecasts are generated using the best-practice techniques of time-series modelling and causal/econometric modelling. The precise form of model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined.

Common to our analysis of every industry, is the use of vector autoregressions. Vector autoregressions allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

We mainly use OLS estimators and, in order to avoid relying on subjective views and encourage the use of objective views, we use a 'general-to-specific' method. We mainly use a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', for example poor weather conditions impeding agricultural output, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately selected regression models. We select the best model according to various different criteria and tests, including but not exclusive to:

- R2 tests explanatory power; adjusted R2 takes degree of freedom into account;
- Testing the directional movement and magnitude of coefficients;
- Hypothesis testing to ensure coefficients are significant (normally t-test and/or P-value); and
- All results are assessed to alleviate issues related to auto-correlation and multi-co linearity.

Sector-Specific Methodology

In constructing these indices, the following indicators have been used. Almost all indicators are objectively based.

Our insurance reports provide detailed insight into insurance markets globally, examining both the present conditions in and prospects for each market. Incorporating the most up-to-date information available from sources such as industry regulators, trade associations, comparable information from other countries and our own economic and risk data, our analysts provide a comprehensive picture of the insurance sector. The principal focus of the reports is on gross written premiums, to which 'premiums' refers unless otherwise stated.

The following are considered in our reporting of the sector:

- We consider health insurance to be included in the non-life sector. As such, in instances where sources report health insurance as part of the life sector, the required adjustments are made to conform to our standardised definitions.
- Where a market contains a significant inward reinsurance sector, these accepted premiums are considered as part of the non-life

sector and are classed within the 'Other' category of our non-life breakdown.
- Life insurance contains all long-term savings products that are legally structured as insurance products and therefore do not contain pension plan contributions and other long-term saving schemes that are not legally constituted as being within the insurance sector.

Life

In projecting life insurance premiums, the following are considered:

- The likely development of population.
- The likely development of life density (life premiums per capita).
- Wider macroeconomic trends.

In some instances, further factors are considered, including:

- Maturity of the life insurance sector.
- Competitive and regulatory environments.
- Life density in nearby markets at similar levels of development.

Non-Life

In projecting non-life insurance premiums on a line-by-line basis, the following are considered:

- The likely development of nominal GDP.
- The likely development of non-life penetration (non-life premiums as a percentage of GDP).
- Autos sector data, typically passenger car fleet size.
- Banking sector data, typically Client Loans figures.
- Shipping/Freight data, typically freight tonnage.
- Household stratification data, typically number of permanent properties.
- Healthcare data, typically private health expenditure.

In some instances, further factors are considered, including:

- Maturity of the non-life insurance sector.
- Competitive and regulatory environments.
- Non-life penetration in nearby markets at similar levels of development.

Reinsurance and Net Premiums

When forecasting the size of reinsurance markets, the following are considered:

- Historic levels of reinsurance coverage in both life and non-life sectors.
- Projected development of the life and non-life sectors.
- Prevalence of reinsurance in similar markets.

Where applicable, 'net premiums' refers to net written premiums and is considered as gross written premiums, less the cost of reinsurance. In some instances, source data is reported according to different definitions of 'net premiums'. In these cases, this data is used and forecasts for net premiums and reinsurance are made separately.

When forecasting net premiums independently of the reinsurance market, the following are considered:

- Historic levels of net premiums in both life and non-life sectors.
- Projected development of the life and non-life sectors.

At a general level we approach our forecasting from both a micro and macro perspective, taking into account the expansion plans of relevant domestic and international firms, as well as wider economic outlook. In this regard, macro variable projections, such as output, consumption, investment, policy, and GDP growth are employed.

Burden of Disease

The 'burden of disease' in a country is forecasted in disability-adjusted life years (DALYs) using our Burden of Disease Database, which is based on the World Health Organization's burden of disease projections and incorporates World Bank and IMF data.

Risk/Reward Index Methodology

Our Risk/Reward Index (RRI) provides a comparative regional ranking system evaluating the ease of doing business and the industry-specific opportunities and limitations for potential investors in a given market.

The RRI system divides into two distinct areas:

Rewards: Evaluation of sector's size and growth potential in each state, and also broader industry/state characteristics that may inhibit its development. This is further broken down into two sub categories:

- Industry Rewards (this is an industry specific category taking into account current industry size and growth forecasts, the openness of market to new entrants and foreign investors, to provide an overall score for potential returns for investors).
- Country Rewards (this is a country specific category, and the score factors in favourable political and economic conditions for the industry).

Risks: Evaluation of industry-specific dangers and those emanating from the state's political/economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period. This is further broken down into two sub categories:

- Industry Risks (this is an industry specific category whose score covers potential operational risks to investors, regulatory issues inhibiting the industry, and the relative maturity of a market).
- Country Risks (this is a country specific category in which political and economic instability, unfavourable legislation and a poor overall business environment are evaluated to provide an overall score).

We take a weighted average, combining market and country risks, or market and country rewards. These two results in turn provide an overall risk/reward score, which is used to create our regional ranking system for the risks and rewards of involvement in a specific industry in a particular country.

For each category and sub-category, each state is scored out of 100 (100 being the best), with the overall risk/reward index a weighted average of the total score. Importantly, as most of the countries and territories evaluated are considered by us to be 'emerging markets', our indices is revised on a quarterly basis. This ensures that the index draws on the latest information and data across our broad range of sources, and the expertise of our analysts.

Our approach in assessing the risk/reward balance for infrastructure industry investors globally is fourfold:

First, we identify factors (in terms of current industry/country trends and forecast industry/country growth) that represent opportunities to would-be investors.

Second, we identify country and industry-specific traits that pose or could pose operational risks to would-be investors.

Third, we attempt, where possible, to identify objective indicators that may serve as proxies for issues/trends to avoid subjectivity.

Finally, we use our proprietary Country Risk Index in a nuanced manner to ensure that only the aspects most relevant to the infrastructure industry are incorporated. Overall, the system offers an industry-leading, comparative insight into the opportunities/risks for companies across the globe.

INDICATORS

Rewards

Insurance market rewards	Rationale
Non-life premiums, 2017 (USDmn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in non-life premiums, five years to end-2021 (USDmn)	Indicates growth potential. The greater the likely absolute growth in premiums the better.
Non-life penetration, %	Premiums expressed as % of GDP. An indicator of actual and (to an extent) potential development of non-life insurance. The greater the penetration the better.
Non-life segment measure of openness	Measure of market's accessibility to new entrants. The higher the score the better.
Life premiums, 2017 (USDmn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in life premiums, five years to end-2021 (USDmn)	Indicates growth potential. The greater the likely absolute growth in premiums the better.
Life penetration, %	Premiums as % of GDP. An indicator of actual and (to a certain extent) potential development of life insurance. The greater the penetration the better.
Life segment measure of openness	Measure of market's accessibility to new entrants. The higher the score the better.
Country rewards	
GDP per capita (USD)	A proxy for wealth. High-income states receive better scores than low-income states.
Active population	Those aged 16-64 in each state, as a % of total population. A high proportion suggests that market is comparatively more attractive.
Corporate tax	A measure of the general fiscal drag on profits.
GDP volatility	Standard deviation of growth over 7-year economic cycle. A proxy for economic stability.
Financial infrastructure	Measure of financial sector's development, a crucial structural characteristic given the insurance industry's reliance on risk calculation.
Risks	
Regulatory framework	
Regulatory framework and development	Subjectively evaluates de facto/de jure regulations on development of insurance sector.
Regulatory framework and competitive landscape	Subjectively evaluates impact of regulatory environment on the competitive landscape.
Country risk (from our Country Risk Index)	
Long-term financial risk	Evaluates currency volatility.
Long-term external risk	State's vulnerability to externally induced economic shock, which tend to be principal triggers of economic crises.
Policy continuity	Evaluates the risk of sharp change in broad direction of government policy.
Legal framework	Strength of legal institutions. Security of investment key risk in some emerging markets.
Bureaucracy	Denotes ease of conducting business in a state.

Source: Fitch Solutions

Weighting

Given the number of indicators/datasets used, it would be inappropriate to give all sub-components equal weight. Consequently, the following weighting has been adopted:

WEIGHTING OF INDICATORS	
Component	**Weighting, %**
Rewards	70, of which
- Industry rewards	65
- Country rewards	35
Risks	30, of which
- Industry risks	40
- Country risks	60

Source: Fitch Solutions

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