2023 Business Outlook
Theme: Reshaping The Financial Sector: Emerging Challenges and Opportunities.

Lagos Continental Hotel, Victoria Island, Lagos State.

February 22, 2023

RESTRUCTURING THE NIGERIAN FINANCIAL SECTOR: OPTIONS AND OPPORTUNITIES.

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AT THE CIIN 2023 BUSINESS OUTLOOK22ND FEBRUARY 2023

PRESENTATION OUTLINE

- Structure and components of the Nigerian financial sector
- Role of the Financial Sector in the economy
- Financial sector evaluation metrics
- Depth of the financial sector
- Access to financial sector
- Efficiency of financial sector

PRESENTATION OUTLINE

- Imperative of Forex policy reform
- Nigeria credit rating and implications for the economy and the financial system
- Monetary and credit outlook
- Concentration risk in the banking system
- Insurance sector regulation
- Cashless policy and impact on the economy

THE NIGERIAN FINANCIAL SECTOR

COMPONENTS OF THE FINANCIAL SECTOR

- Financial Institutions:
- Commercial and merchant banks,
- Savings institutions, development finance institutions,
- Insurance companies, mortgage banks, pension funds,
- Fintech, and financial market institutions.

COMPONENTS OF FINANCIAL SECTOR

- Financial Markets money, foreign exchange, and capital markets
- Financial sector regulators – Central Bank, NAICOM, SEC, PENCOM, NDIC

COMPONENTS OF THE FINANCIAL SECTOR

- Capital Market
- Stock Brokers
- Stock Exchange
- Issuing Houses
- Portfolio Managers
- Investment Advisers
- Trustees

IMPORTANCE OF FINANCIAL SECTOR

- Financial Intermediation
- It promotes economic growth through capital accumulation and technological progress
- By increasing the savings rate, mobilizing and pooling savings, producing information about investment,

IMPORTANCE OF FINANCIAL SECTOR

- Facilitating and encouraging the inflows of foreign capital, as well as optimizing the allocation of capital.
- Risk mitigation
- Countries with better-developed financial systems tend to grow faster over long periods of time

FINANCIAL SECTOR EVALUATION METRICS

- Financial Sector Depth
- Financial Sector Access
- Financial Sector Efficiency
- Financial Sector Stability

DEPTH OF FINANCIAL INSTITUTIONS

- Private Sector Credit to GDP
- Financial Institutions' asset to GDP
- Money Supply to GDP
- Deposits to GDP

DEPTH OF FINANCIAL MARKETS

- Stock market capitalization and outstanding domestic private debt securities to GDP
- Private Debt securities to GDP
- Public Debt Securities to GDP
- International Debt Securities to GDP
- Stock Market Capitalization to GDP

FINANCIAL INSTITUTIONS ACCESS

- Accounts per thousand adults(commercial banks)
- Branches per 100,000 adults (commercial banks)
- Percentage of people with a bank account (from user survey)
- Percentage of firms with line of credit (all firms)

FINANCIAL INSTITUTIONS ACCESS

- Percentage of firms with line of credit (small firms)
- Net interest margin
- Interest Rate Spread

FINANCIAL MARKETS ACCESS

- Percent of market capitalization outside of top 10 largest companies
- Percent of value traded outside of top 10 traded companies
- Ratio of domestic to total debt securities
- Ratio of private to total debt securities (domestic)
- Ratio of new corporate bond issues to GDP

EFFICIENCY OF FINANCIAL INSTITUTIONS

- Net interest margin
- Lending-deposits spread
- Ratio of Non-interest income to total income
- Overhead costs (% of total assets)
- Profitability (return on assets, return on equity)

EFFICIENCY OF FINANCIAL MARKETS

- Turnover ratio for stock market
- Private information trading
- Transaction costs
- Quoted bid-ask spread for government bonds
- Turnover of bonds (private, public) on securities exchange
- Settlement efficiency

METRICS FOR FINANCIAL SYSYTEM STABILITY

- Capital adequacy ratios
- Asset quality ratios
- Liquidity ratios

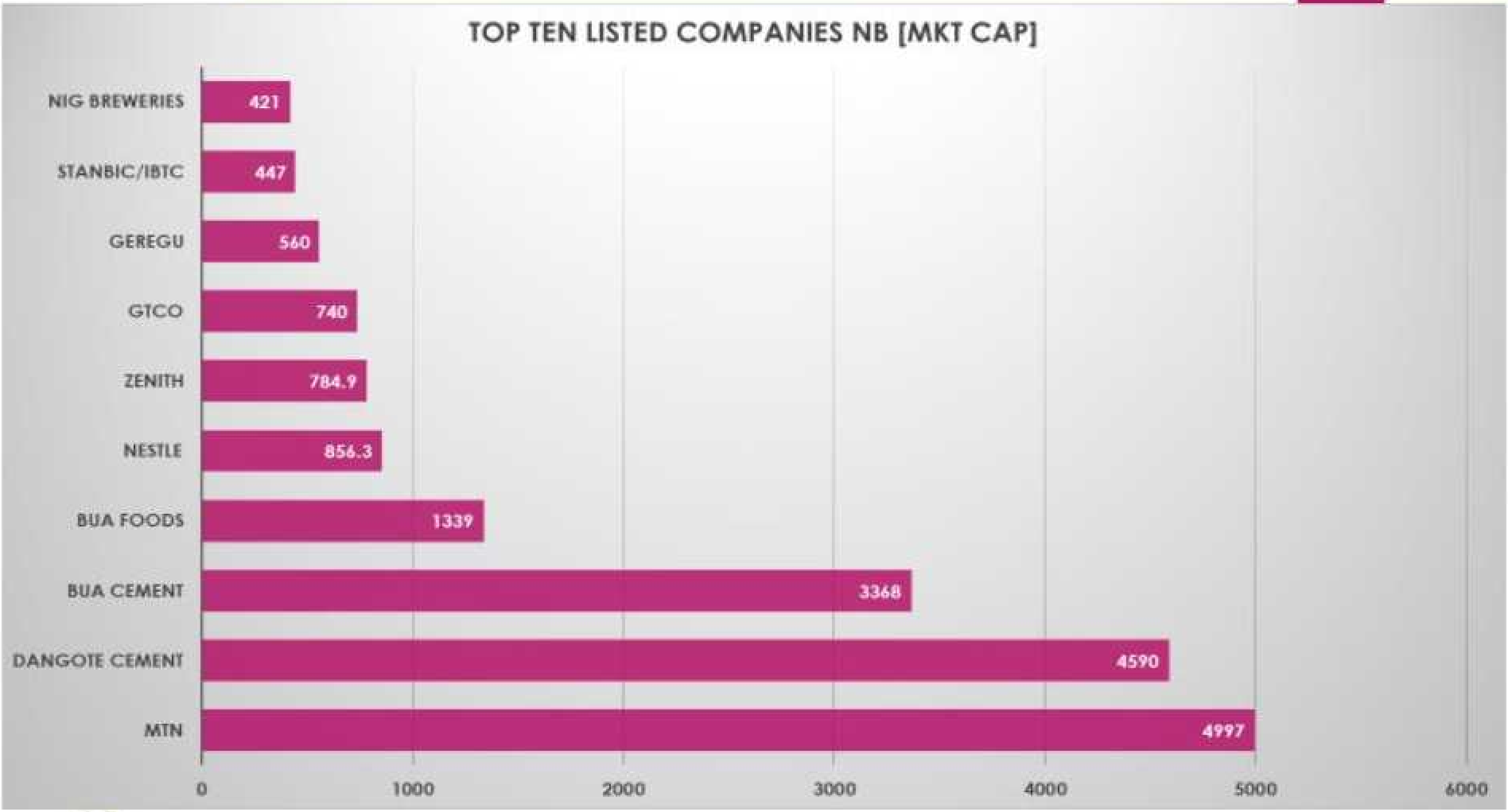
METRICS FOR FINANCIAL SYSYTEM STABILITY

- Capital adequacy ratios
- Asset quality ratios
- Liquidity ratios

Category	Indicator	Non-life	Life
Capital adequacy	Net premium/capital	X	
	Capital/total assets	X	
	Captial/technical reserves		X
Asset quality	(Real estate + unquoted equities + debtors)/total assets	X	X
	Receivables/(Gross premium + reinsurance recoveries)	X	X
	Equities/total assets	X	X
	Nonperforming loans to total gross loans		X
Reinsurance and actuarial issues	Risk retention ratio (net premium/gross premium)	X	X
	Net technical reserves/average of net claims paid in last three years	X	
	Net technical reserves/average of net premium received in last three years		X
Management soundness	Gross premium/number of employees	X	X
	Assets per employee (total assets/number of employees)	X	X
Earnings and profitability	Loss ratio (net claims/net premium)	X	
	Expense ratio (expense/net premium)	X	X
	Combined ratio = loss ratio + expense ratio	X	
	Revisions to technical reserves/technical reserves		X
	Investment income/net premium	X	
	Investment income/investment assets		X
	Return on equity (ROE)	X	X
Liquidity	Liquid assets/current liabilities	X	X
Sensitivity to market risk	Net open foreign exchange position/capital	X	X
	Duration of assets and liabilities		X

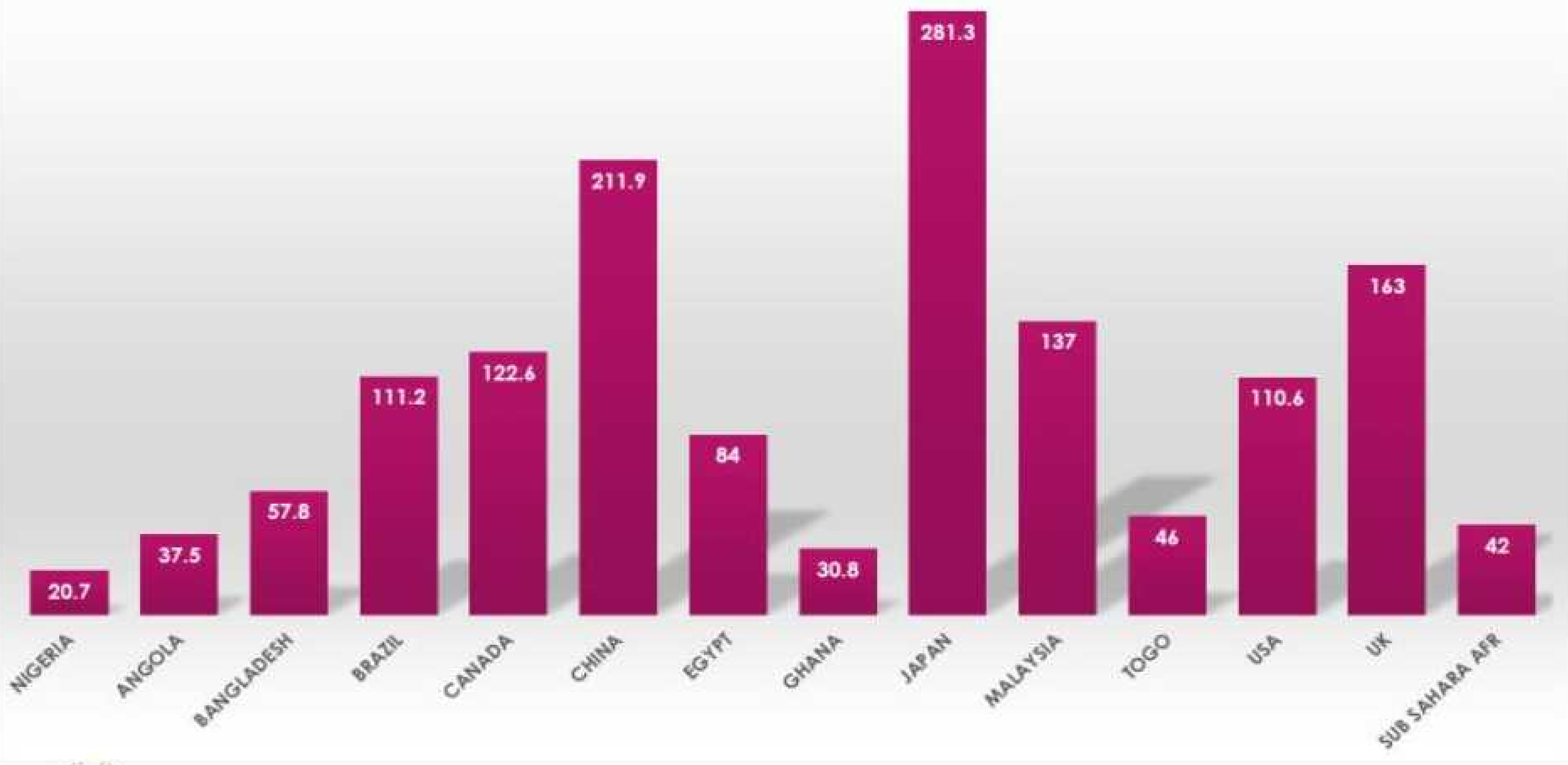
Note: Relevance to life or non-life segment of Insurance is indicated by X.
Source: Das et al. (2003). The authors also propose a set of encouraged indicators for each of the above categories in order to

MARKET CAPITALISATION/GDP RATIO


TOP TEN LISTED COMPANIES NB [MKT CAP]
NIG BREWERIES
421
STANBIC/IBTC
447
GEREGU
560
GTCO
740
ZENITH
784.9
NESTLE
856.3
BUA FOODS
1339
BUA CEMENT
3368
DANGOTE CEMENT
4590
MTN
4997
0
1000
2000
3000
4000
5000
6000


DEPOSIT/LENDING RATES [%] 2022
35
30
25
20
15
10
5
0
JULY
AUGUST
SEPT
OCTOBER
NOVEMBER
DECEMBER
DEPOSIT RATE
LENDING RATE

M2/GDP RATIO


20.7
37.5
57.8
111.2
122.6
211.9
84
30.8
281.3
137
46
110.6
163
42
NIGERIA
ANGOLA
BANGLADESH
BRAZIL
CANADA
CHINA
EGYPT
GHANA
JAPAN
MALAYSIA
TOGO
USA
UK
SUB SAHARA AFR

FOREX POLICY REFORM

- Imperative of market reflective exchange rate regime
- It enhances liquidity in the foreign exchange market.
- It reduces uncertainty in the foreign exchange market and therefore enhances the confidence of investors.
- It is more transparent as mechanism for forex allocation.
- It minimizes discretion in the allocation of forex.
- It reduces opportunities for round tripping and other sharp practices.

DOWNSIDES OF CURRENT FOREX POLICY

- Widening gap between the official and parallel market exchange rates.
- Collapse of liquidity in the foreign exchange market resulting in acute scarcity.
- Mounting trade debts.
- Increasing factory closure as many manufacturers are not able to access foreign exchange for raw materials and other inputs.
- Many investors are not able to meet offshore obligations.
- Mounting inflationary pressures
- Sharp drop in capital inflows

NIGERIA'S CREDIT RATING

- S & P , RATING B-, NEGATIVE OUTLOOK
- MOODY'S, RATING Caa1, STABLE OUTLOOK
- FITCH , RATING B-, STABLE OUTLOOK

Characterization of debt and issuer (source: Moody's)		Rating			Linear transformations	
		S&P	Moody's	Fitch	Scale 21	Scale 17
Highest quality	Investment grade	AAA	Aaa	AAA	21	17
High quality		AA+	Aa1	AA+	20	16
		AA	Aa2	AA	19	15
		AA-	Aa3	AA-	18	14
Strong payment capacity		A+	A1	A+	17	13
		A	A2	A	16	12
		A-	A3	A-	15	11
Adequate payment capacity		BBB+	Baa1	BBB+	14	10
		BBB	Baa2	BBB	13	9
		BBB-	Baa3	BBB-	12	8
Likely to fulfil obligations, ongoing uncertainty	Speculative grade	BB+	Ba1	BB+	11	7
		BB	Ba2	BB	10	6
		BB-	Ba3	BB-	9	5
High credit risk		B+	B1	B+	8	4
		B	B2	B	7	3
		B-	B3	B-	6	2
Very high credit risk		CCC+	Caa1	CCC+	5	1
		CCC	Caa2	CCC	4	
		CCC-	Caa3	CCC-	3	
Near default with possibility of recovery		CC	Ca	CC	2	
				C		
Default		SD	C	DDD	1	
		D		DD		
				D		

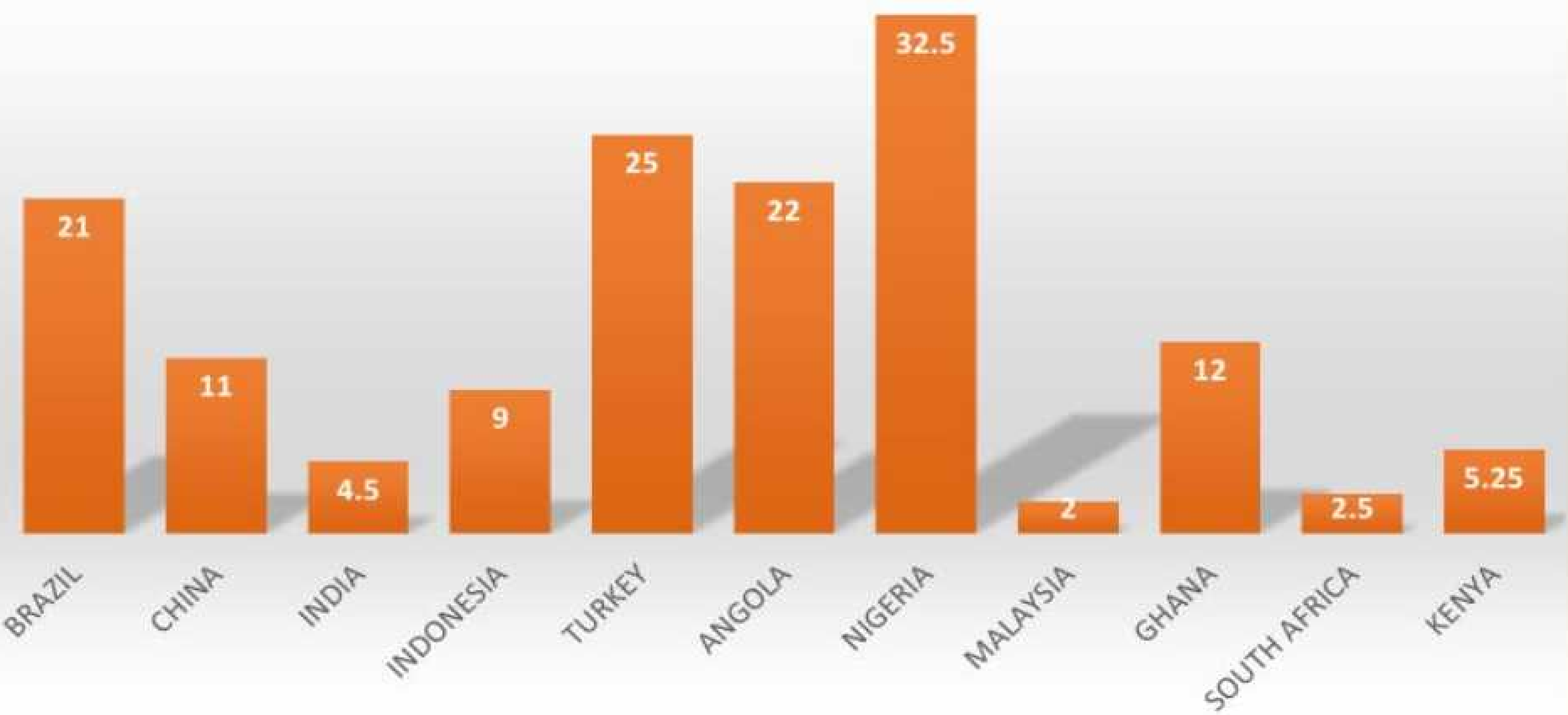
FINANCING PUBLIC DEBT

- Financial sector plays a major role in financing domestic debt
- Debt profile of N42 trillion [12% owed by states]
- CBN Ways and Means of N22.7 trillion
- Debt profile will increase to N77 trillion after securitization of CBN Ways and Means
- Debt service to revenue ratio of over 80%

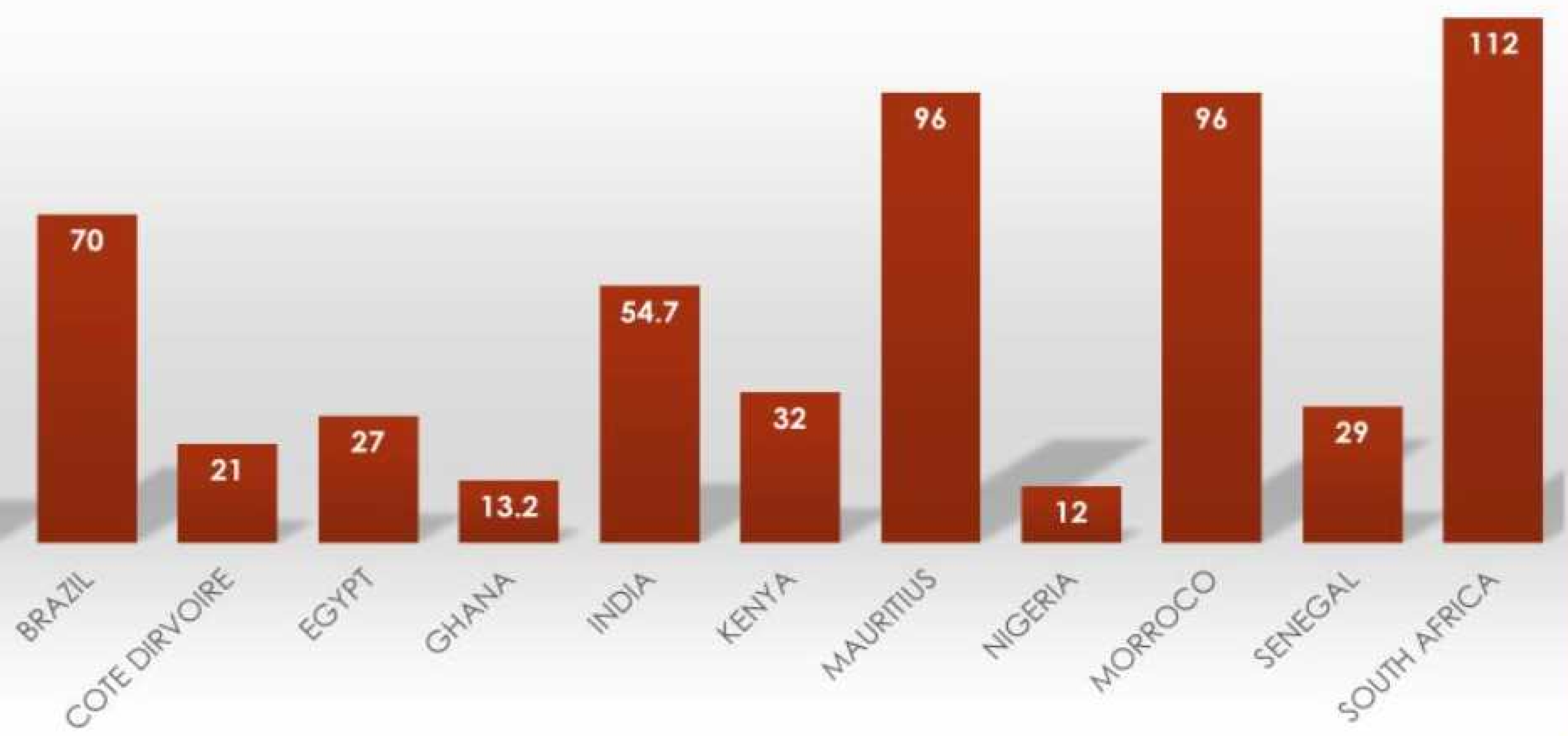
MONETARY AND CREDIT OUTLOOK

- Trajectory of monetary policy points in the direction of further tightening of financial conditions.
- High interest rate outlook
- CRR already at all time high of 32.5%
- MPR at all time high of 17.5%
- Further tightening expected because inflationary pressure is yet to abate.
- High interest rate regime likely for most of the year.
- Other funding options could be explored by busineses

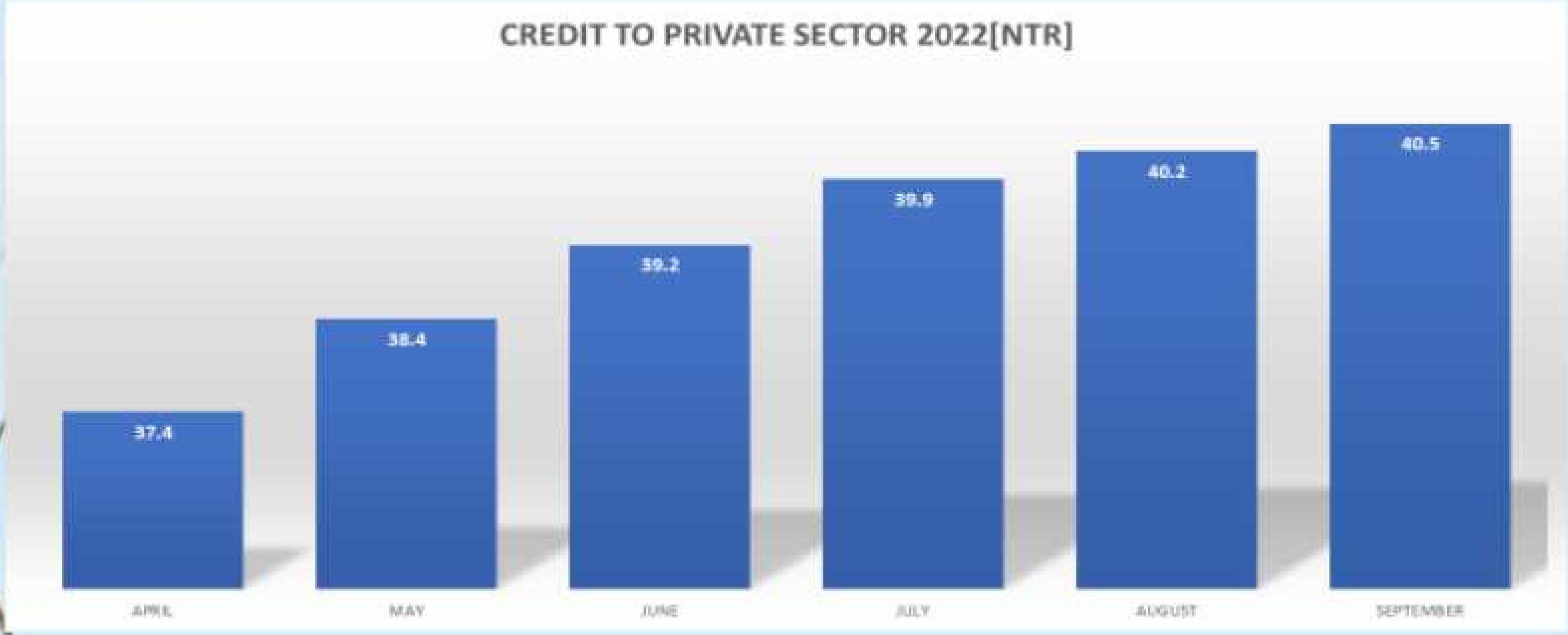
CASH RESERVE RATIO [CRR] OF SELECTED COUNTRIES [%]



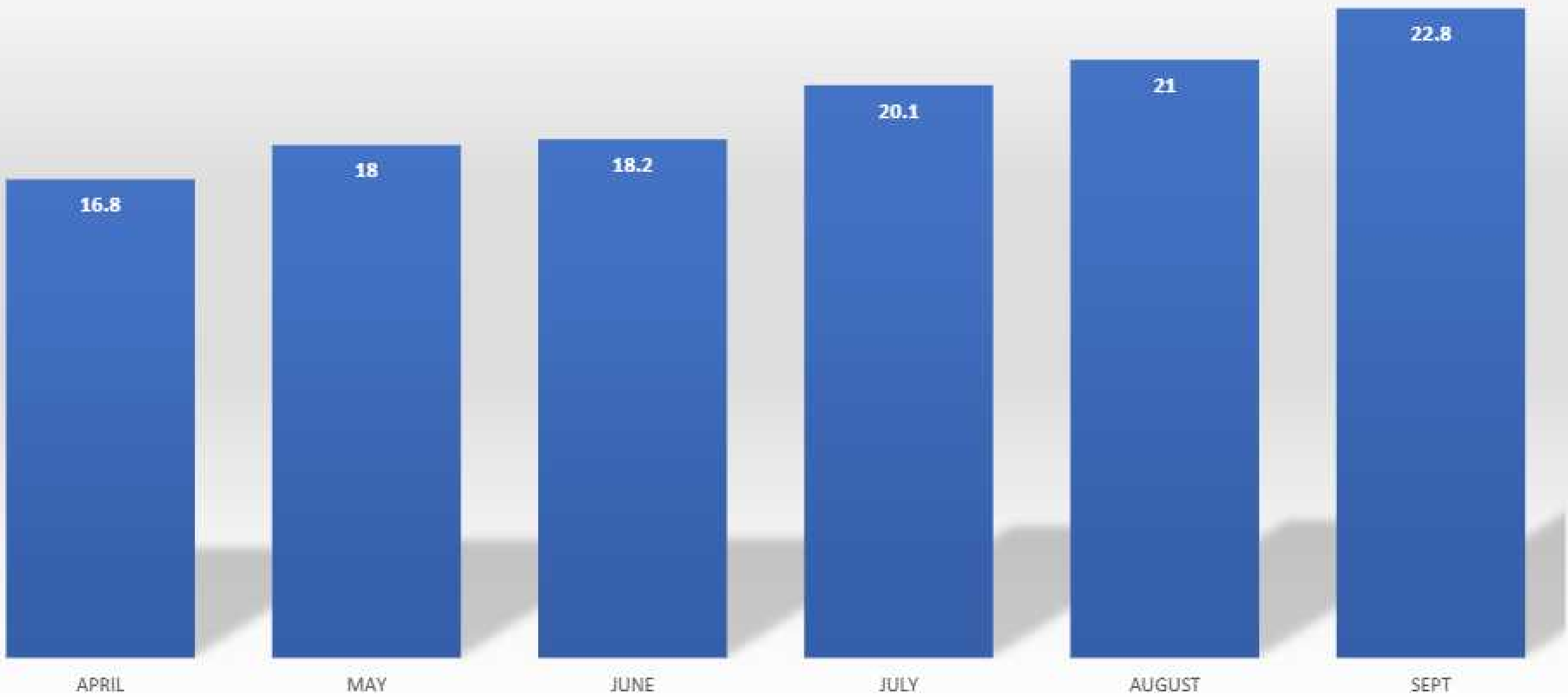
CREDIT TO PRIVATE SECTOR AS PERCENTAGE OF GDP

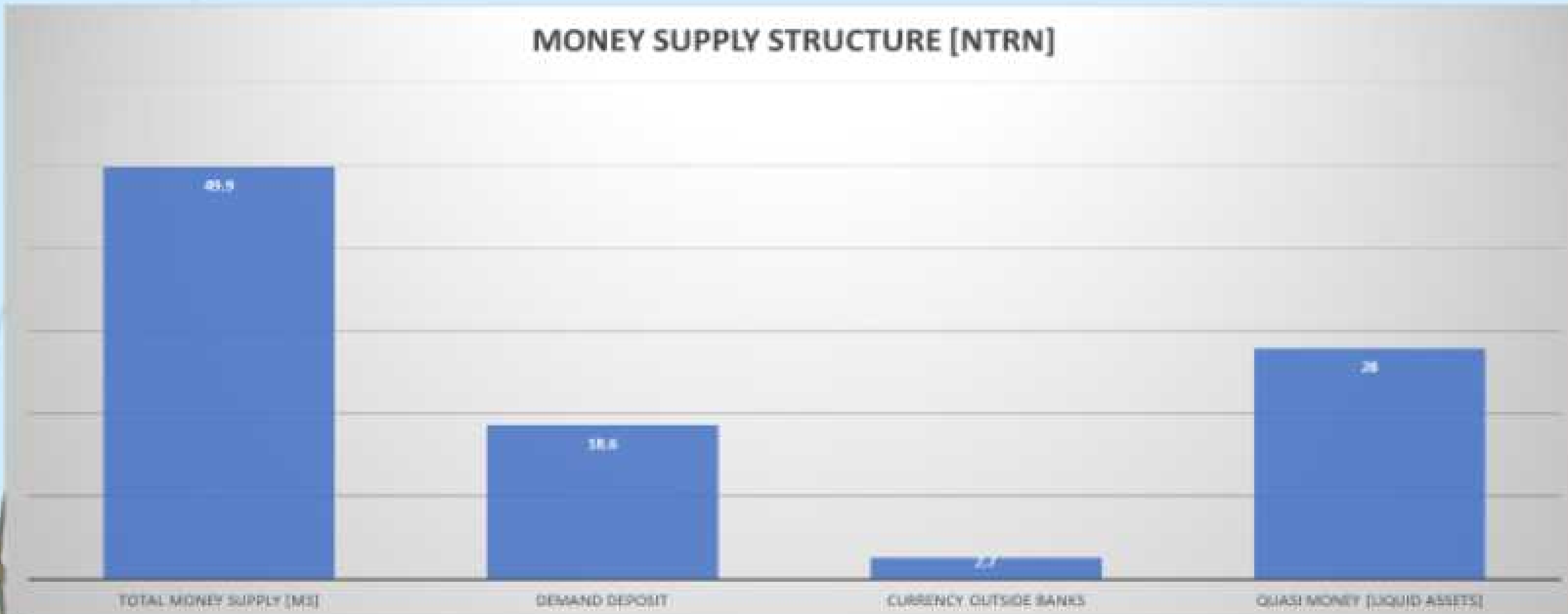



MATURITY PROFILE OF DEPOSIT LIABILITIES [%]
80
70
60
50
40
30
20
10
0
75.2
9.6
3.4
1.8
10.3
0 - 30
31 - 90
91 - 180
181 - 365
Above 365 DAYS


CREDIT TO PRIVATE SECTOR 2022[NTR]
37.4
38.4
39.2
39.9
40.2
40.5
APRIL
MAY
JUNE
JULY
AUGUST
SEPTEMBER

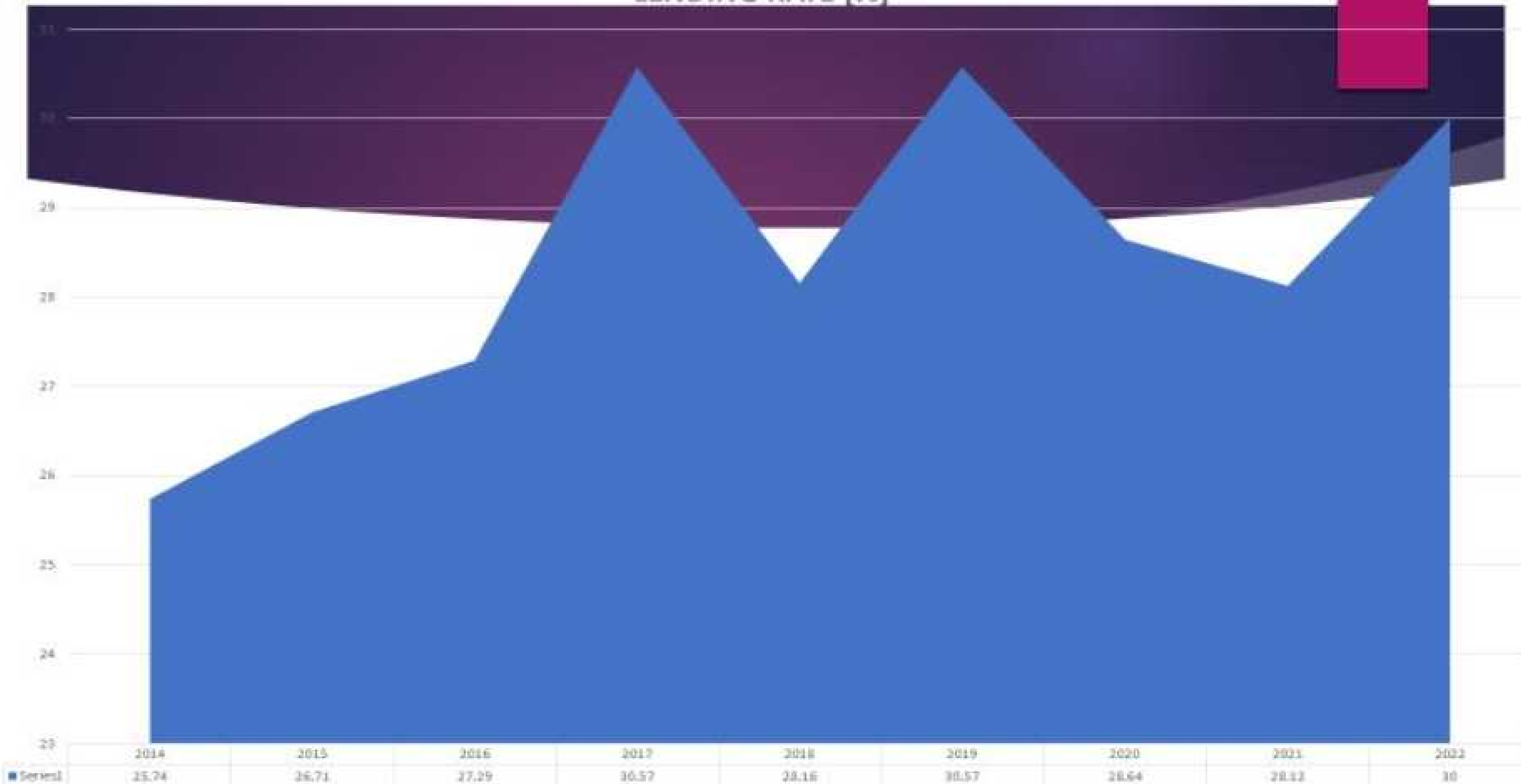
CREDIT TO GOVERNMENT 2022 [NTRN]



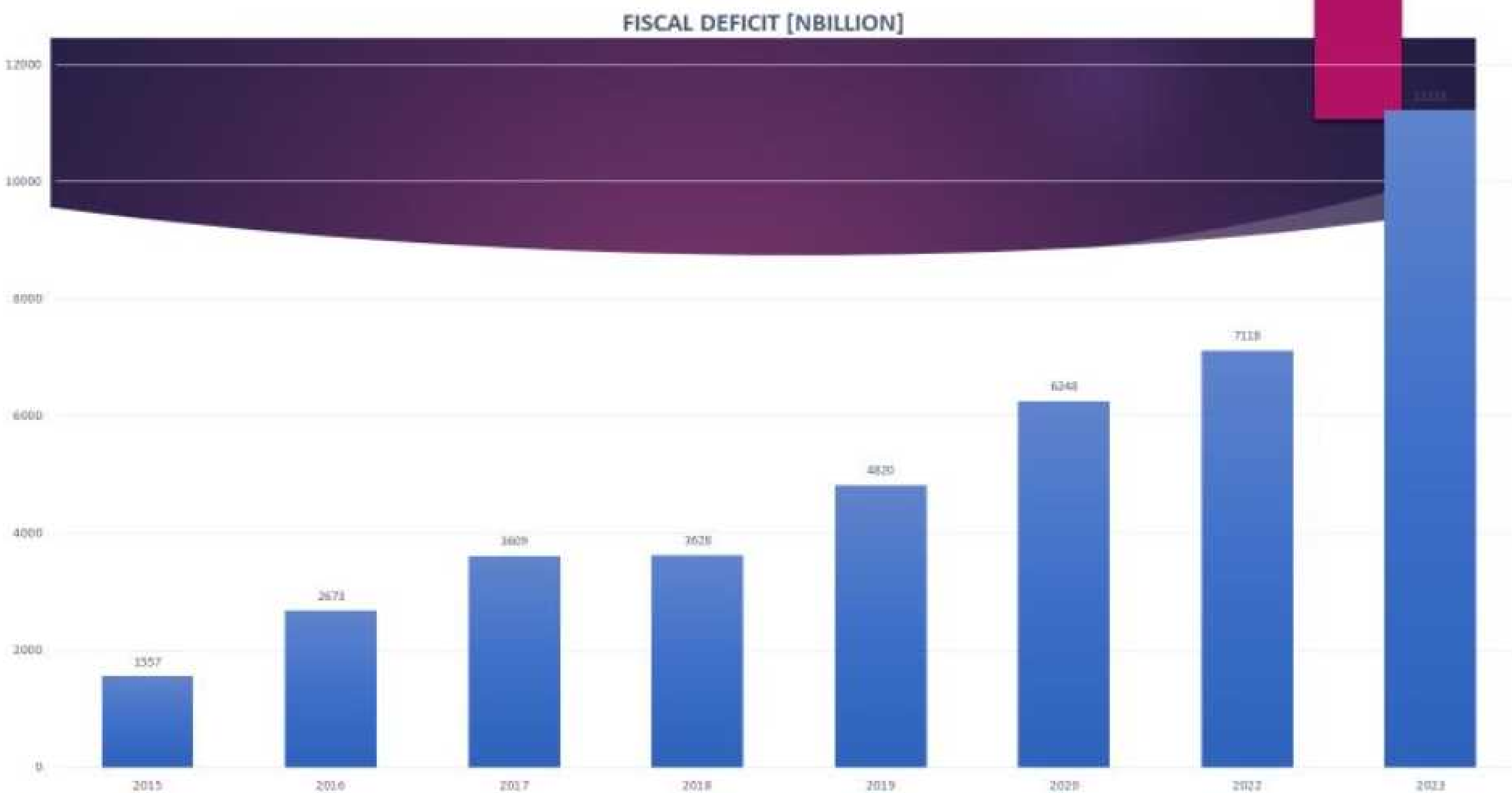


MONEY SUPPLY STRUCTURE [NTRN]
TOTAL MONEY SUPPLY [MS]
DEMAND DEPOSIT
CURRENCY OUTSIDE BANKS
QUASI MONEY [LIQUID ASSETS]

LENDING RATE [%]



NIGERIA INFLATION [%]
25
20
15
10
5
0
15.63
15.7
15.9
16.82
17.71
18.6
19.64
20.52
JAN
FEB
MARCH
APRIL
MAY
JUNE
JULY
AUGUST


FISCAL DEFICIT [NBILLION]
12000
10000
8000
6000
4000
2000
0
1557
2673
3609
3628
4820
6248
7118
2015
2016
2017
2018
2019
2020
2022
2023

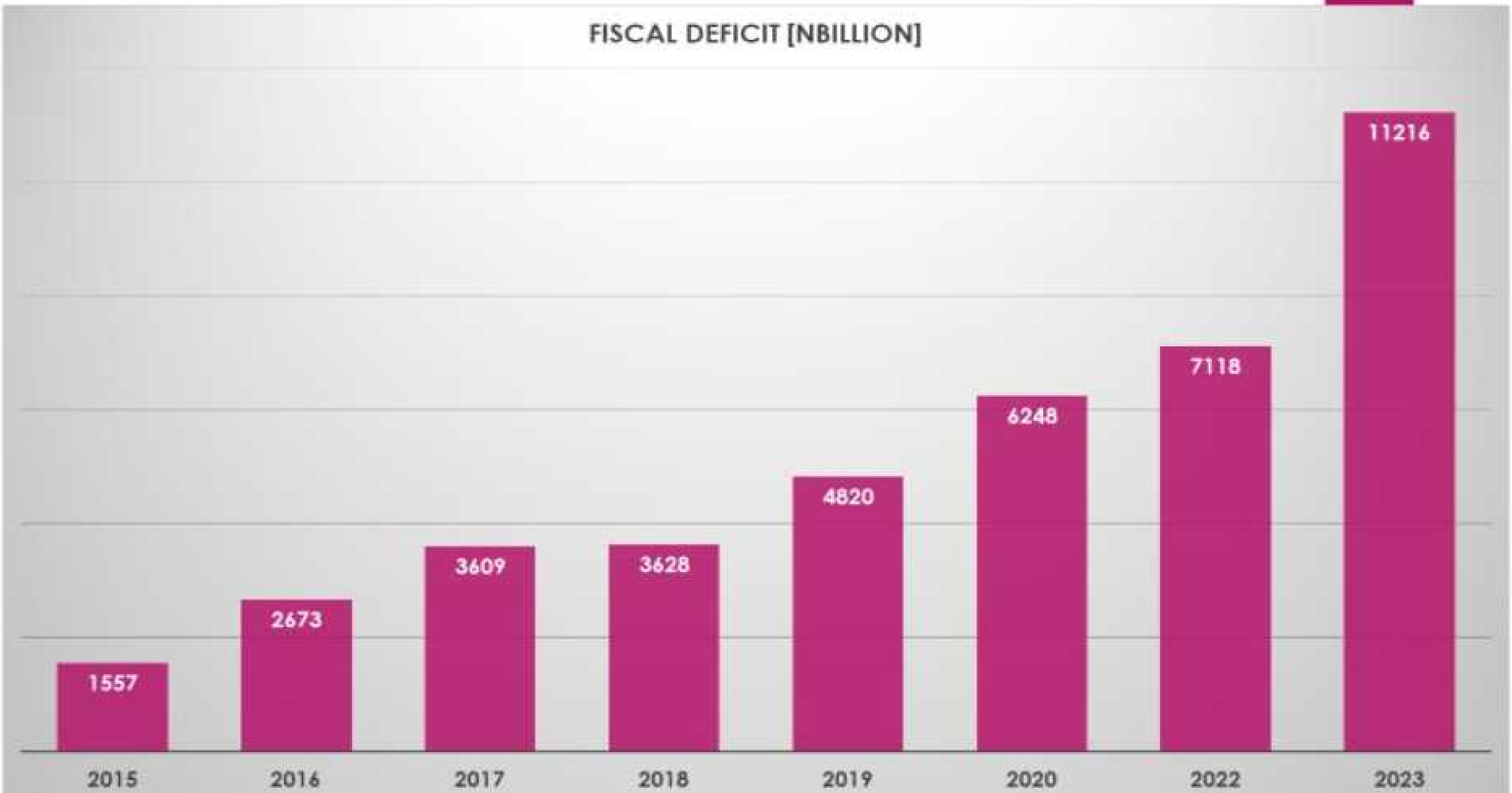
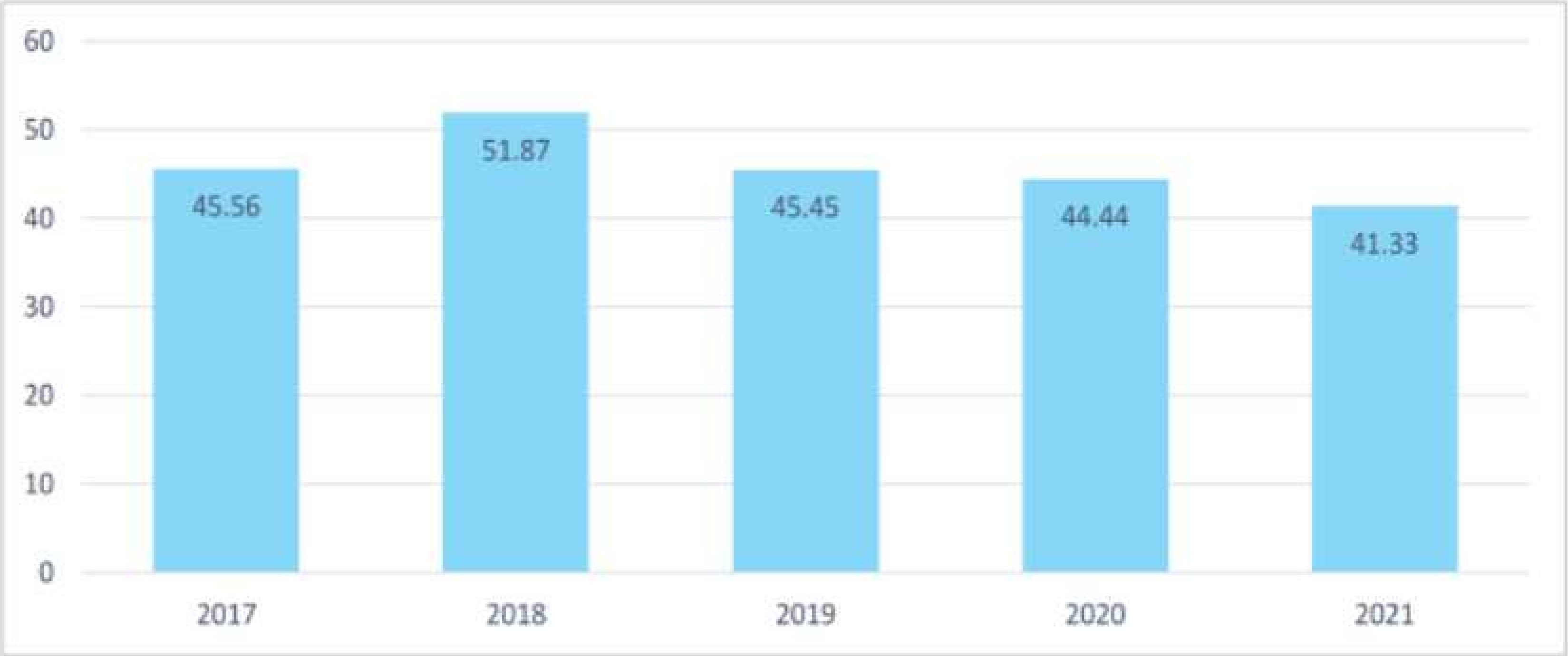
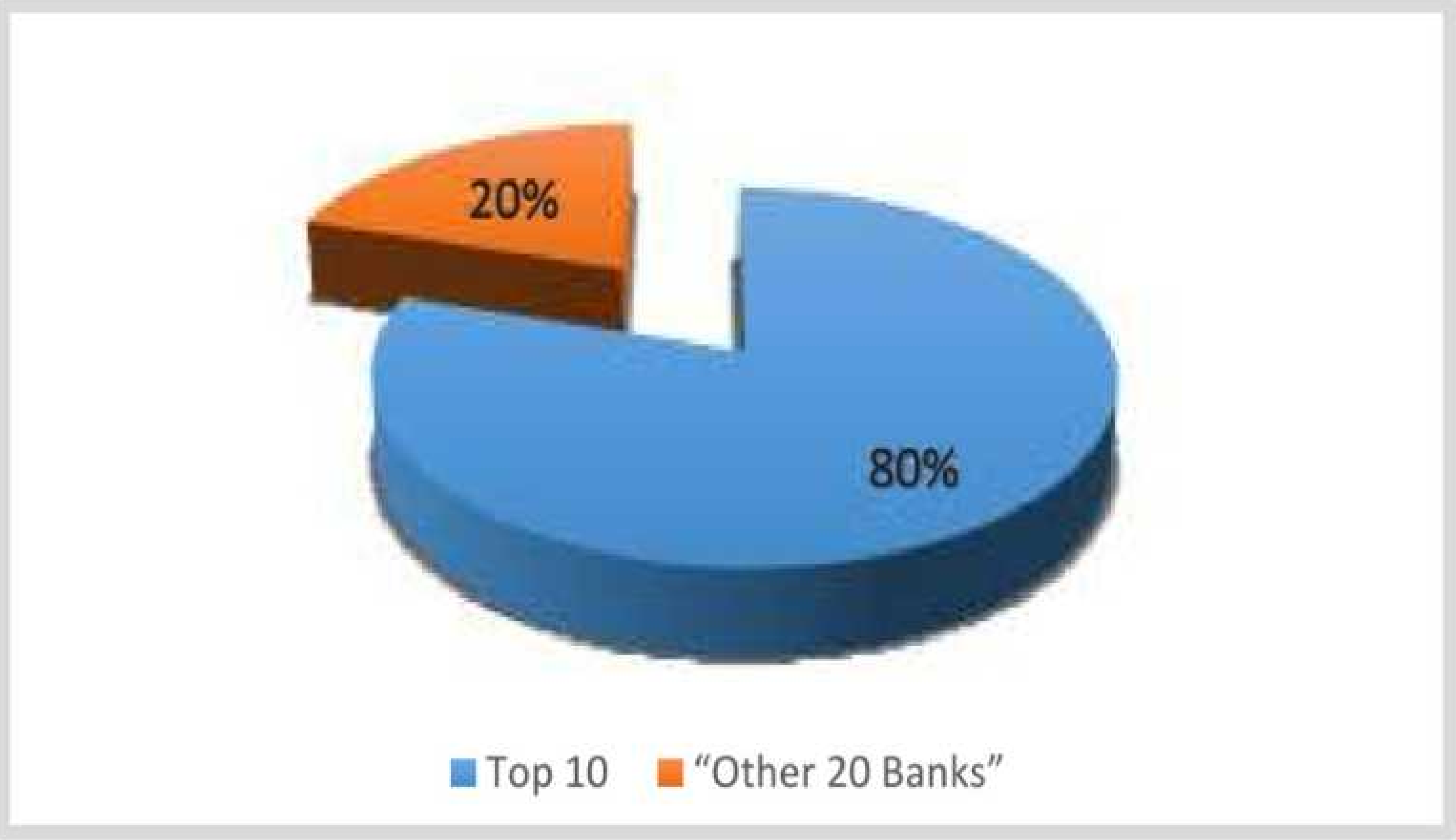

FISCAL DEFICIT [NBILLION]
1557
2673
3609
3628
4820
6248
7118
11216
2015
2016
2017
2018
2019
2020
2022
2023

Chart 12.6: 5-Year Trend of DMBs' Average Liquidity Ratio (%)



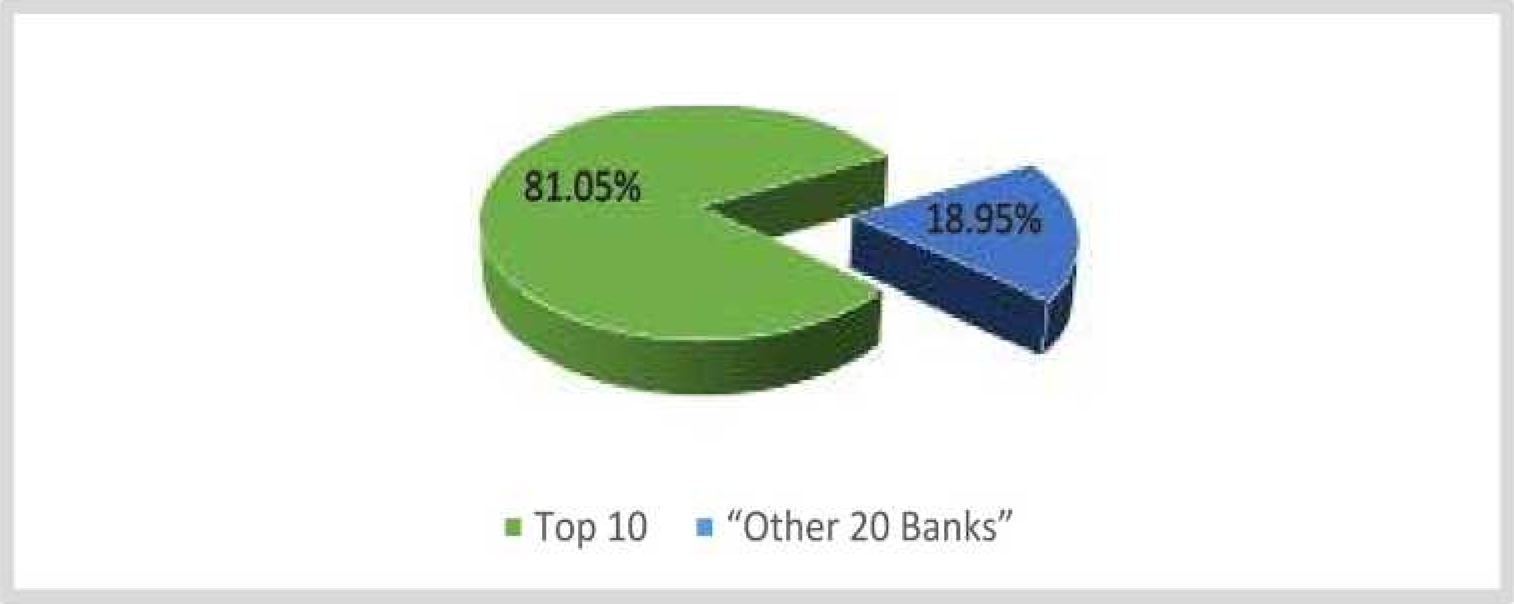
Source: *NDIC*

Chart 13.1: Market Share of DMBs Assets



Nigeria Deposit Insurance Corporation

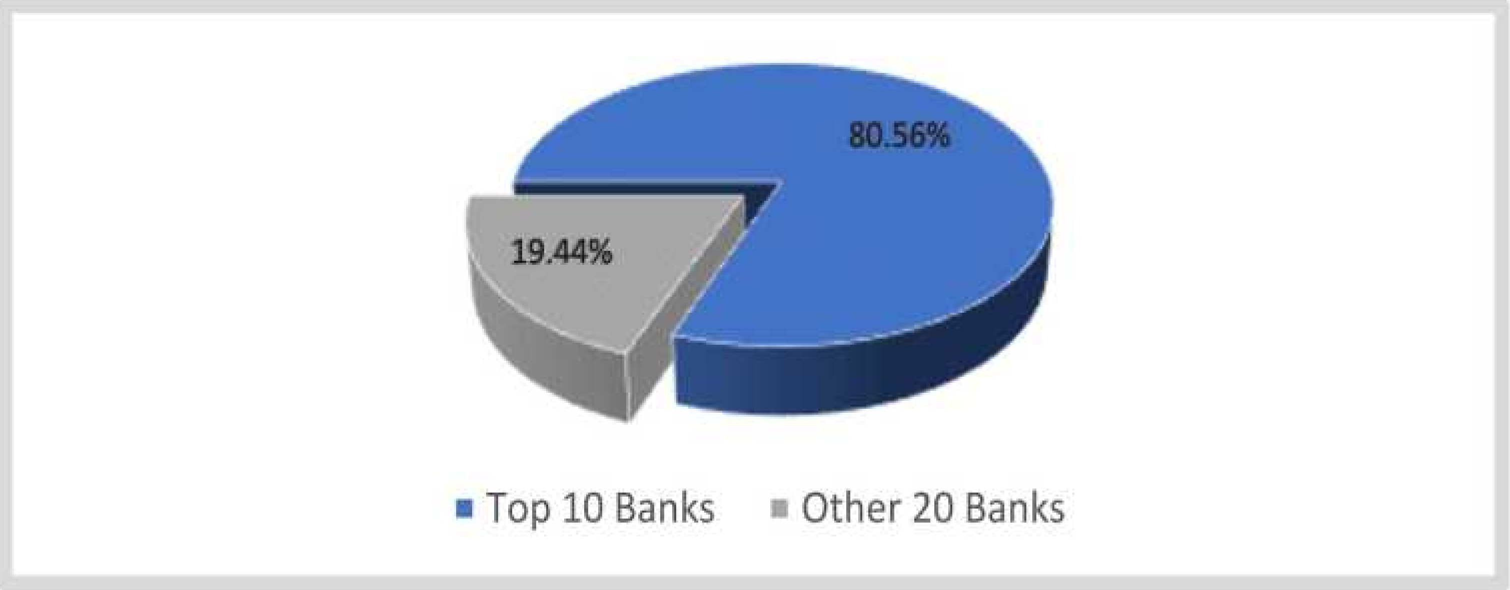
Chart 13.2: Market Share of DMBs Total Loans



Source: *NDIC*

Nigeria Deposit Insurance Corporation

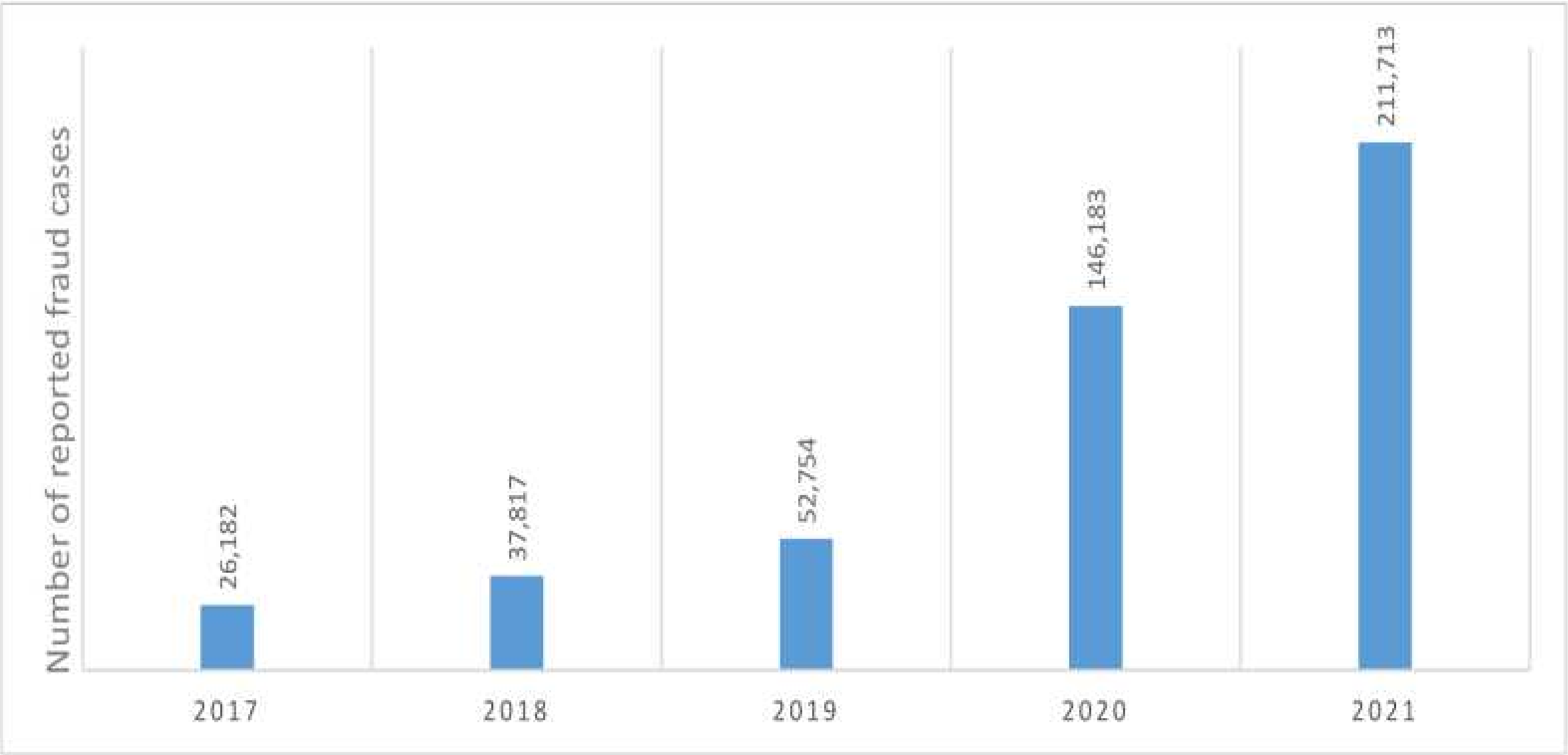
Chart 13.3: Market Share of Bank Deposit Liabilities



*Data exclude the Non-Interest Banks

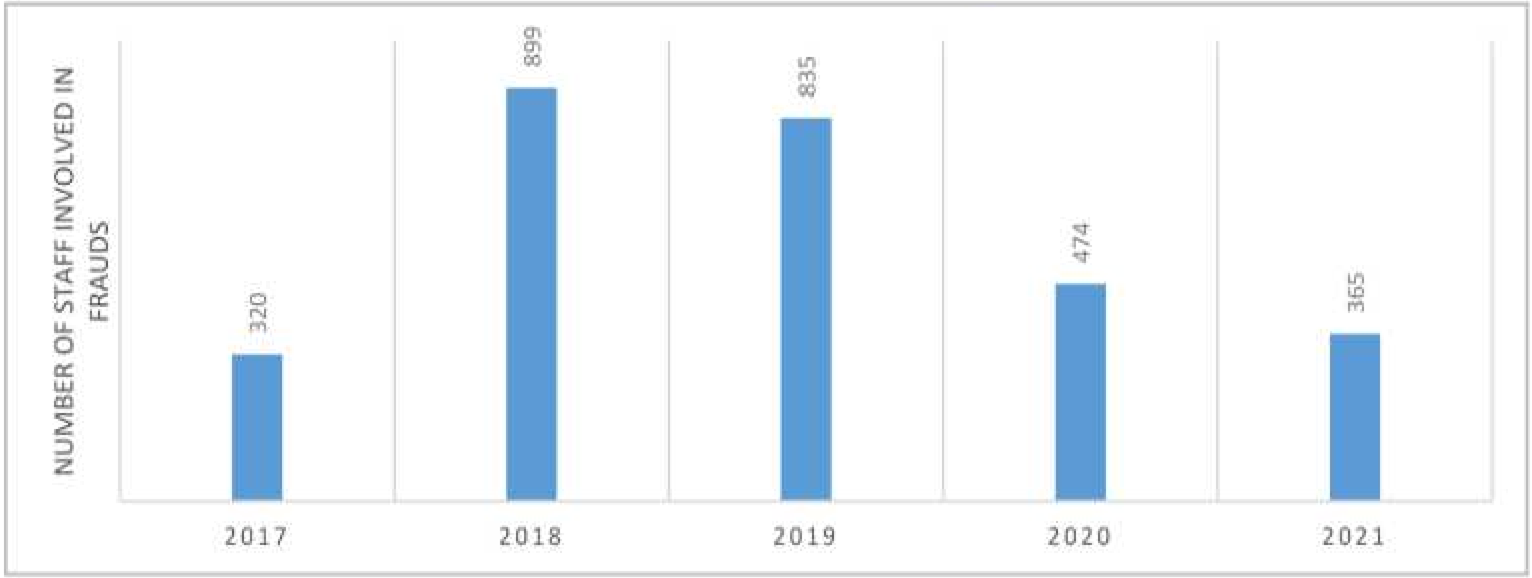
Source: *NDIC*

Chart 14.1: Total Number of Reported Frauds in DMBs



Source: *NDIC*

Chart 14.2: Total Number of Staff Involved in Frauds and Forgeries, 2017 - 2021



Source: *NDIC*

SIGNIFICANCE OF REGULATION IN THE INSURANCE INDUSTRY

- The quality of regulatory environment is critical to the stimulation of investment in any sector.
- Regulatory Risk is one of the biggest risk in the Nigerian economy
- Good regulatory governance focusses on ensuring a balance between three major interests:
- Interest of investors
- Interest of the policy holders/customers
- Interest of Society/Public

Historical Background

- Insurance Industry in Nigeria is still in its infancy despite being in existence for over sixty years.
- Good regulatory environment can make a whole lot of difference in the growth of the insurance industry.
- Weak insurance penetration
- Weak performance in the stock market
- Low contribution to GDP

BEST PRACTICE PRINCIPLES IN INSURANCE REGULATION

The International Association of Insurance Supervisors [IAIS] has articulated a number of key attributes of a good regulator.

The organisation is a voluntary membership organisation of insurance supervisors and regulators from more than two hundred jurisdictions.

The body is responsible for developing principles and standards for supervision of insurance.

Applicability of the Principles

- The principles apply to insurance supervision and regulators in all jurisdictions regardless of development, sophistication of insurance market and type of insurance products or services.
- It applies to all insurance either private or government owned.
-

Risk Based Regulation and Supervision

- This entails greater focus or supervision of insurers line of business or market practices that poses the greatest risk to policy holders, insurance sector and the financial system.

Principle of Proportionality

This implies an increase or decrease in the intensity or supervision according to risk inherent to insurers.

And the risk posed by insurers to policy holders, insurance sector or the financial system.

Regulatory Powers

Regulatory powers and objectives must be clearly defined. This is essential for transparency in the exercise of these powers.

It is important for regulations to be stable over time.

Regulatory changes should be done in a way that does not create instability or unbearable shocks on the industry.

Regulatory Independence

- The regulator must be operationally independent, accountable, and transparent in the exercise of its responsibility and powers.
- It should have adequate resources to discharge its responsibilities
- Such independence enhances legitimacy and credibility of the regulatory process.
- Regulatory system should not be vulnerable to interference from any quarters either from government or industry players. This could compromise the independence of the regulatory insitituion.
- The financing model should not put the independence of the regulator at risk.

Regulatory Transparency

The regulators should publish its requirement, policies and supervisory procedures.

The regulators should consult publicly and widely on significant changes to requirements, policies and supervisory procedures.

The regulator must have sufficient resources, human, technological and financial resources to enable it conduct effective supervision.

Licensing and Person Specification

Requirements and procedures for licensing must be clear, objective made public and be consistently applied.

A good regulatory system requires that board members, senior management, key persons in control functions and significant owners of an insurance company should be and remain suitable to fulfil their respective roles.

Corporate Governance Framework

Good regulatory regime require insurance companies to establish and implement a corporate governance framework which provides for sound, prudent management and oversight of insurance business.

It should also adequately recognise and protect the interest of policy holders.

Risk Management and Internal Control

Good regulatory governance requires an insurance company to have as part of its overall corporate governance framework effective systems of risk management and internal control including effective compliance and internal audit
.

Supervisory Review

It is expected that the regulator will ensure off site monitoring and on site inspection to examine the business of the insurer, evaluate financial condition, conduct of business, corporate governance framework and overall risk profile and assess compliance issues.

Preventive Measures & Sanctions

Corrective Measures and Sanctions should be put in place. This should be timely to achieve the objective of insurance supervision.

This should be based on clear objective, consistent and publicly disclosed criteria.

Exit from the market and Resolution

There should be options for voluntary exit

There should be resolution for insurance companies that are no longer viable or are likely to be no longer viable and have no reasonable prospect of returning to viability.

Re-insurance

- Reinsurance and other forms of risk transfers should be effectively supervised. The nature of reinsurance should be examined within the supervisory framework.

Valuation

- The regulatory framework should establish requirements for the valuations of asset and liability for solvency purposes.

Investment

- The regulatory framework should spell out investment requirements and guidelines for solvency purposes.
- This should take into account the context of risk that the insurance company faces
- There should be good enterprise risk management framework.
- There should be good capital adequacy requirement to absorb unforeseen losses.

Insurance Intermediaries

Requirements for the conduct of insurance intermediaries must be clear and adequate.

Regulator must ensure professionalism in the conduct of the intermediaries.

There should be effective framework for insurance intermediation

Conduct of Business by Insurance Companies

Customer should be treated fairly to ensure good customer focus.

All obligations that are contractual must be duly discharged.

Public Disclosure

- The regulatory system must ensure that insurance companies disclose relevant and comprehensive information to give policy makers and market participants a clear view of their business activities, risks, performance, and financial position.

FRAUD AND MONEY LAUNDERING

- Insurance companies should have a framework to deter, prevent, detect, report and remedy fraud in insurance business.
- There should be measures to curb money laundering and financing of terrorism.

Macro-prudential Supervision

- The regulator must ensure proper monitoring of macro-economic issues, policy issues, environmental factors and identify vulnerabilities as well as systemic risks
- There should be supervisory coordination and cooperation, especially for insurance companies operating on cross-border basis.
-

CONTEMPORARY CONCERNS ON REGULATORY EFFECTIVENESS

Concerns over of fake insurance

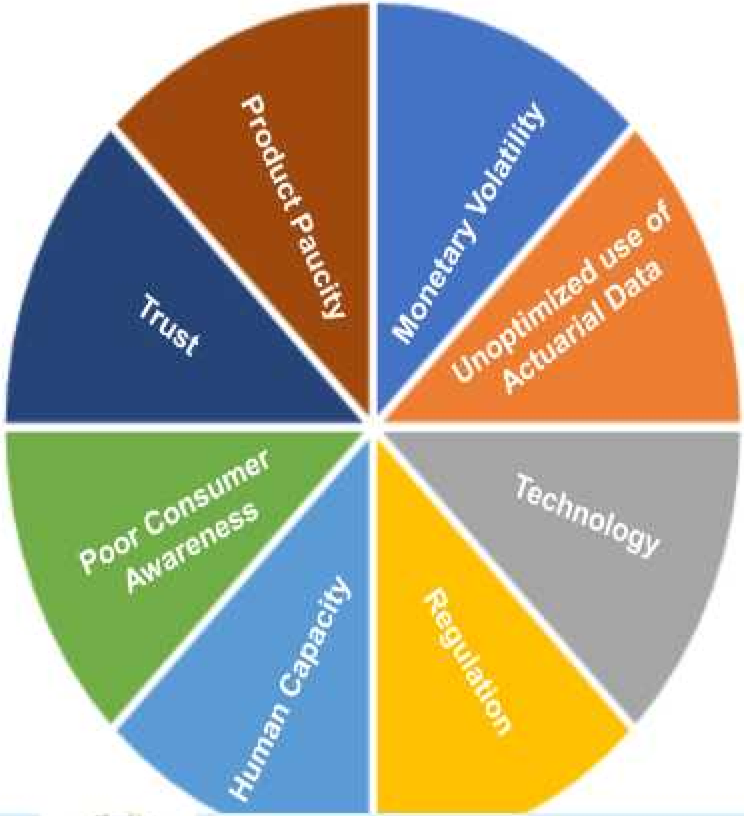
Inadequate sanctions for poor handling of claims by insurance companies which is affecting the image by reputation of the insurance industry.

Perception of some players as untouchables or sacred cows in the industry who violate the rules and commit infractions without consequences.

CONTEMPORARY CONCERNS ON REGULATORY EFFECTIVENESS

- Integrity of financial statements of insurance companies.
- The timelines for resolution of complaints are very long and bureaucratic.
- Need for better customer protection.
- Need to take firm action against ailing insurance companies. Such companies create a reputational problem for the industry.

NIGERIAN INSURANCE SECTOR – GROWTH IMPEDIMENTS



1. **Monetary Volatility:** Sum insured are generally priced based on nominal values
2. **Unoptimized use of actuarial data:** Collaborative use of actuarial data should be encouraged
3. **Technology:** The business environment is rapidly changing, and adoption of technology is a game changer
4. **Regulation:** Limited cooperation between regulator and industry to grow market
5. **Human Capacity:** Shortage of experience in certain aspect of insurance
6. **Poor consumer awareness**: Insurance companies need to take innovative measures to promote the concept of insurance among the public
7. **Trust:** There is a perceived lack of trust in insurance generally
8. **Product Paucity**: Lack of products that are relevant to the changing

PATH TO PROGRESS: ACTIVE REGULATION

- Facilitate an industry where the insured are not denied their rightful claims

- Continuous monitoring of capital adequacy to prevent insurance firms from failing

- Continue driving adherence to high ethical and operational standards

- Promote the use of new generation technology and implementing standards to mitigate associated risk.
- Actively monitor using technology

COMPULSORY INSURANCE PRODUCTS AND COMPLIANCE ISSUES

- Group life Insurance in line with the Pencom Act 2004
- Employers liability in line with the Workmen's Compensation Act 1987
- Buildings under construction-section 64 of the Insurance Act 2003
- Occupiers liability insurance –section 65 of the Insurance Act 2003
- Motor Third party Insurance –section 68 of the Insurance Act 2003
- Health care Professional indemnity insurance under section 45 of the NHIS Act 199
- Compliance is generally very weak

NIGERIAN INSURANCE SECTOR: STRENGTHS AND OPPORTUNITIES

Strengths

- Large population
- Large domestic economy with extremely low penetration and density
- Admission of new operators by supportive regulator
- Mature re-insurance industry
- Significant investment appetite by local investors
- Positive regulatory partnership and changes to develop pension savings and GLA

Opportunities

- Microinsurance products catering to low-income households
- Innovative distribution channels (e.g. InsureTech)
- Fragmented market
- Insurance is largely driven by statute, making it compulsory in many instances
- Young and reasonably well-educated population

NIGERIAN INSURANCE SECTOR: WEAKNESSES AND THREATS

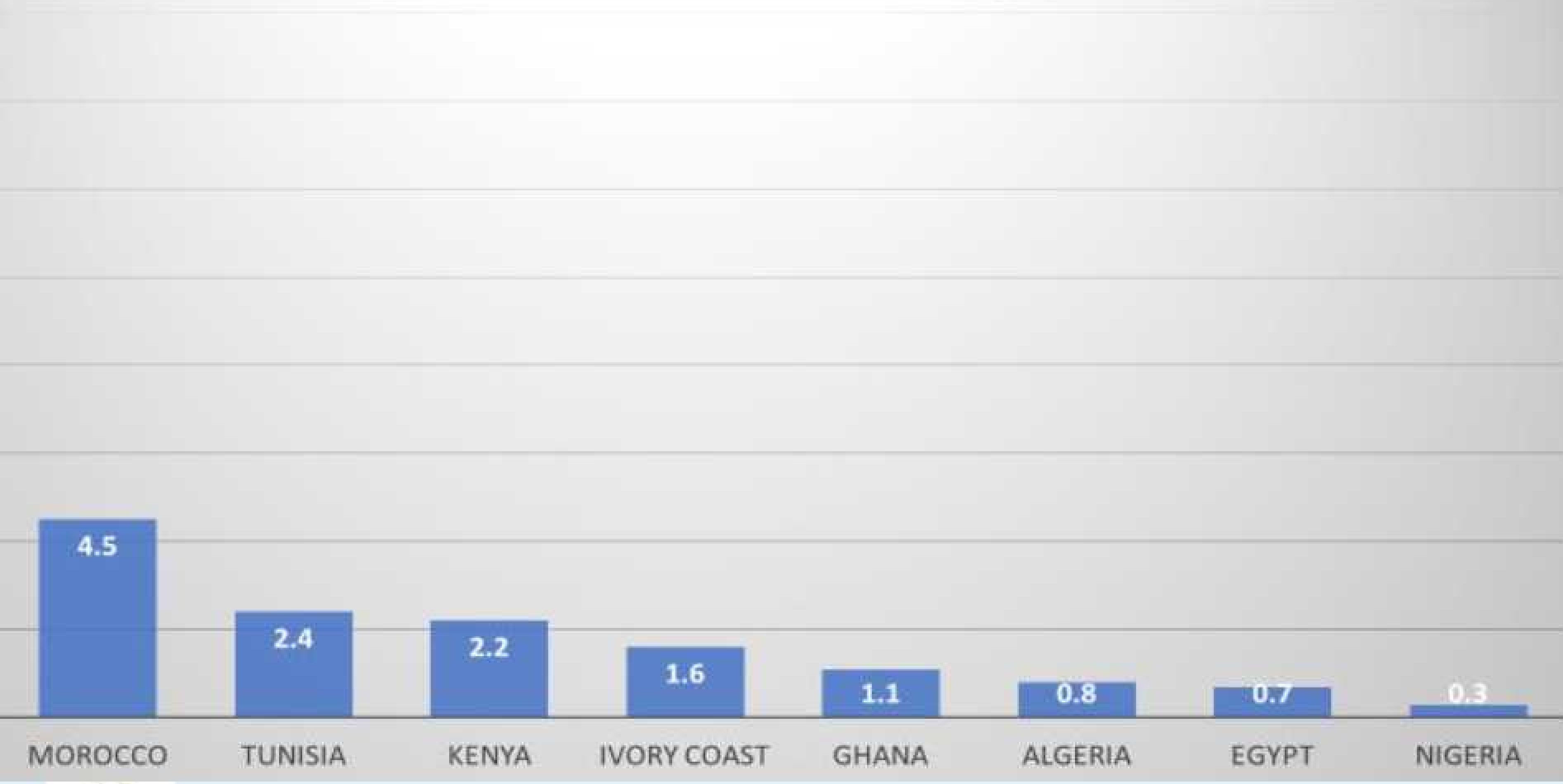
Weaknesses

- Low level of insurance e.g. motor
- Cumbersome claims processing
- Capacity for risk sharing
- Low purchasing power of the buying public
- Lack of awareness of life insurance and retirement income products

Threats

- Shrinking insurance pool e.g. exit of FDIs
- Inflationary pressures
- Deterioration in security
- Concentration risk

INSURANCE PENETRATION IN AFRICA 2021 [%]

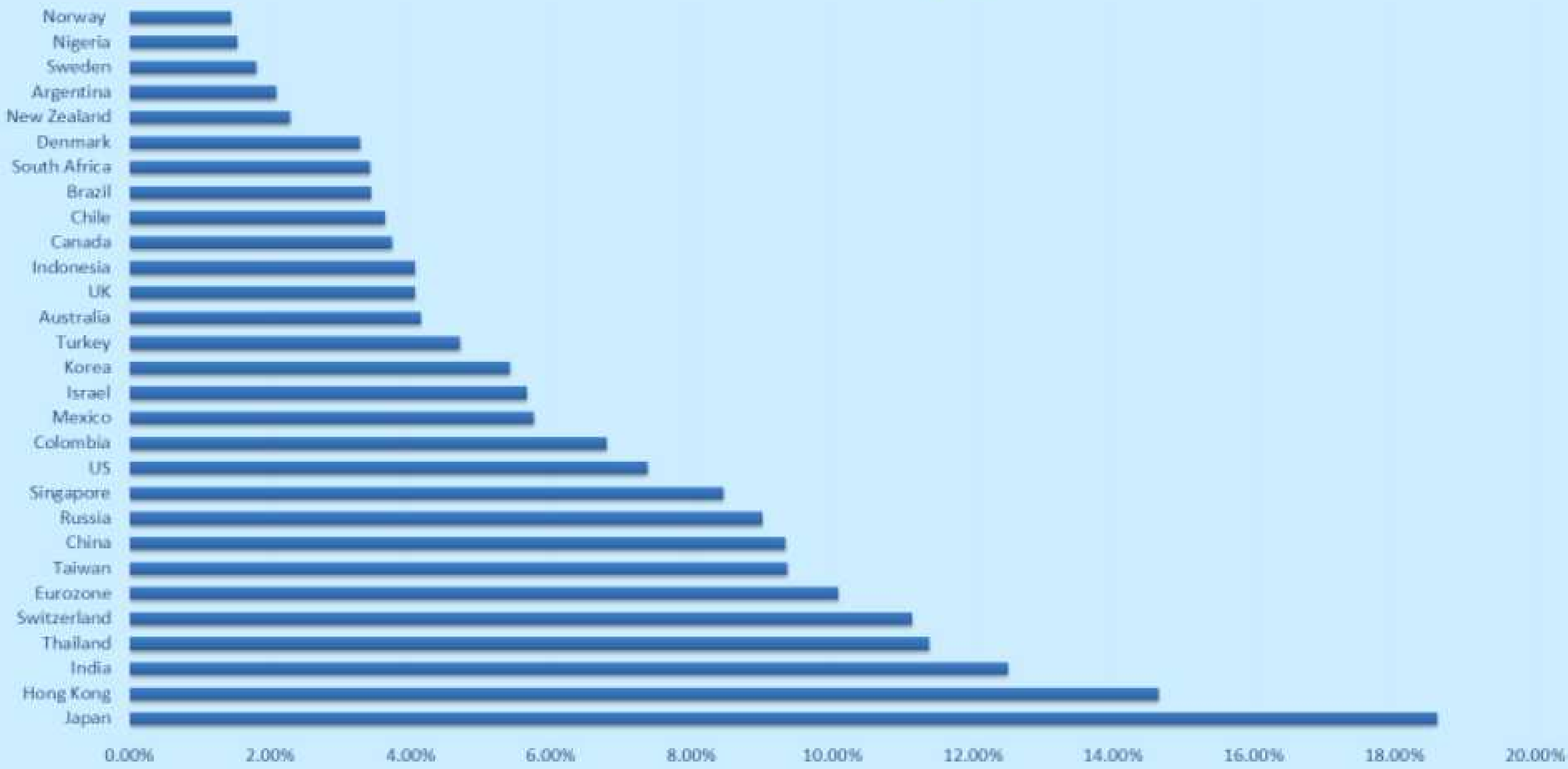


CASHLESS POLICY CONUNDRUM

CASH NOT THE PROBLEM OF THE ECONOMY

- Cash is not the problem of the Nigerian economy.
- It is a misconception to say that 85% of cash outside the banking problem is a problem.
- Cash is a payment instrument and should therefore be predominantly outside the banking system, not within.
- What matters is money supply ,not cash
- Cash is only 5% of money supply. Cash is N2.6 trillion, Money supply is N52 trillion
- Cash to GDP Ratio less than 1.5%, which is one of the lowest globally. Cash is N2.6 trillion, GDP is about N250 trillion.

CASH TO GDP RATIO [%]



MONEY SUPPLY [NTRN]

E PAYMENT STATISTICS [JANUARY –SEPTEMBER 2022]

MODE OF PAYMENT	VALUE [NTRILLIONS]
ELECTRONIC TRANSFERS	272
MOBILE TRANSFERS	12.9
POS	6.1
E BILLS	2.2
CHEQUE	2.4

Thank you

Reshaping the Financial Sector: Emergent Challenges & Opportunities

Being a paper delivered by Olawale Oluwade, CEO/Principal Consultant, Growth Masters Consulting, Abuja – Nigeria, at the 2023 Business Outlook Conference by the Chartered Institute of Insurance of Nigeria (CIIN) held on February 22, 2023, at the Lagos Continental Hotel, Victoria Island, Lagos

Chartered Insurance Institute of Nigeria – 2023 Business Outlook Conference.

Theme: "Reshaping The Financial Sector; Emergent Challenges & Opportunities."

A Conference Presentation, Lagos, February 22, 2023.

A One-day Conference Presentation for the CIIN on;

"RESTRUCTURING THE FINANCIAL SECTOR FOR SUSTAINABLE GROWTH: OPPORTUNITIES & CHALLENGES."

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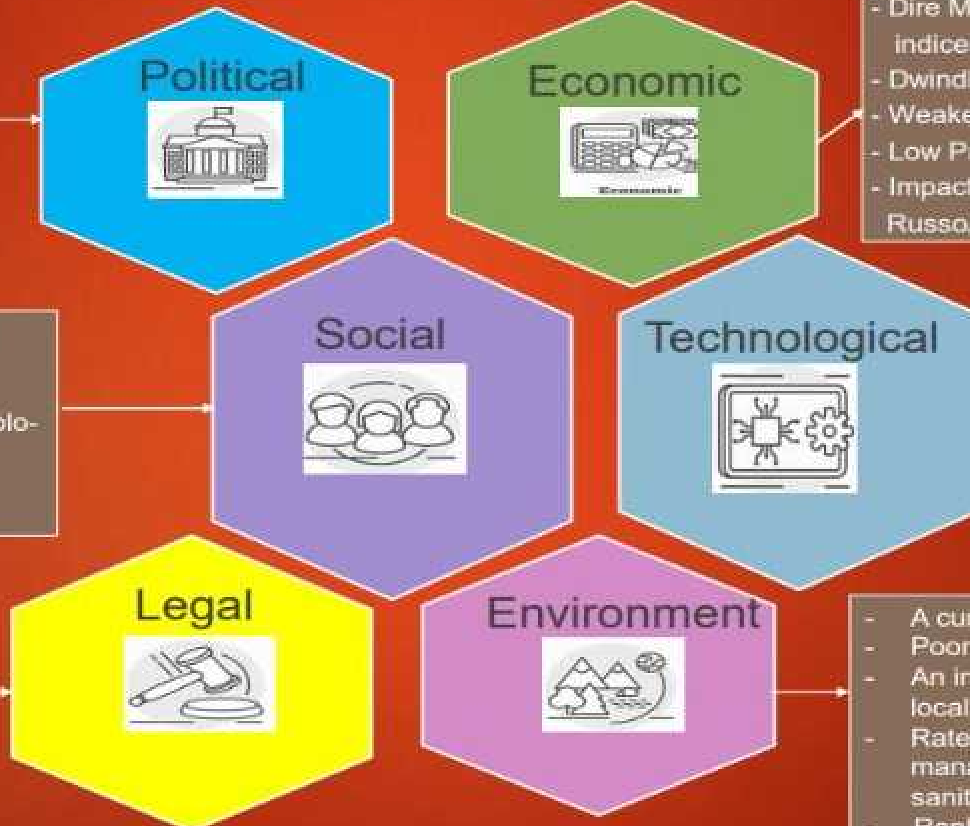
CURRENT MACRO-ECONOMIC INDICATORS

- Huge loss of FOREX revenue due to crude oil theft, (about $30B in last 8-years).
- Huge debt stock of projected N77Tr. by May 2023. (DMO).
- 21.09% General Inflation Rate. (NBS)
- 23.72% (CPI) Food Inflation Rate. (NBS)
- GDP, $440.80B, grew by 2.25% 3rd Quarter 2022. (NBS)
- PCI of $2,028 as of 2021.
- General Unemployment 33.5% (NBS)
- Youth Unemployment 42 % –50% (NBS)
- Forex Rate N435: 1USD (CBN Rate) & N790 –1USD (Parallel Rate)
- 7% Tax to GDP rate, one of the lowest in Africa. (CBN)
- High PMS & Energy Costs driving high transport costs;
- Crude Oil Production drop from 1.8MBPD to less than 1.1MBPD since 2021. (NNPC)
- 20M Children Out-of-School (WB, UNESCO, IMF).
- 100 under-5 Nigerian Children die every hour. (WHO, UNICEF)
- 70% of Under-10s Unable to comprehend simple English sentence or handle basic numeracy tasks. (UNESCO)
- 133 Nigerians living in Multi Dimensional Poverty (NBS).

The Nigerian Business Environment – A PESTLE Analysis

- An unstable political environment due to forthcoming general elections.
- Uncertainties on policy directions of new government.
- Dealing new political actors.



- Dire Macroeconomic indices & Huge Debt trap
- Dwindling revenues
- Weakening local currency
- Low Production output
- Impact of Global affairs – Russo/Ukraine war, etc.

- 133 representing 63% of pop in multidimensional poverty.
- Rampant insecurity,
- High General & Youth Unemplo-yment
- Poor hard Infrastructure

- Low Internet Penetration
- Low Access for the Unbanked
- Low patents per million persons/MENA countries
- High cost of proprietary technology
- Barriers to Tech. Transfers

- Weak legal & regulatory system
- Slow & inept ACJA
- An unfriendly business environment.
- Corruption-prone legal system.

- A cumbersome business environment
- Poor access to electricity
- An insecure & unsafe environment to local & foreign workers.
- Rated poorly in general waste management & environmental sanitation.
- Ranks poorly in open defecation, etc.

2023 Annual Budget Appropriation Act Highlights at a Glance:

2023 FGN Budget
Budget of Fiscal Consolidation and Transition

Revenue	₦'trn 2023	₦'trn 2022	%Change
Oil Revenue	2.23	2.19	2%
Non-oil Revenue	2.43	2.13	14%
Independent & Other sources	5.83	5.65	3%
Total	10.49	9.97	5%

Expenditure	₦'trn 2023	₦'trn 2022	%Change
Statutory Transfers	0.97	0.82	18%
Capital Expenditure	5.97	6.23	-4%
Debt Service	6.31	3.69	71%
Sinking Fund	0.25	0.29	-14%
Non-debt Recurrent Expenditure	8.33	7.11	17%
Total	21.83	18.14	20%

Budget Deficit

2023 ₦'trn 11.34

2022 ₦'trn 8.17

% Change 39%

Key Assumptions

Inflation Rate 17.16%

Oil Production Volume (bpd) 1.69 million

Oil Price $75 pb

Exchange Rate ₦435.57/US$1

GDP Growth Rate (%) 3.75%

Source: KPMG

Strategic Objectives of 2023 Budget;

The 2023 Budget, christened "Budget of Fiscal Sustainability & Transition" is designed to achieve the following Strategic Objectives;

- Facilitate Macroeconomic Stability, Human Capital Development and Food Security;
- Boost manufacturing performance
- Improve Defense and Internal Security
- Improve business environment and transport infrastructure
- Ensure Energy Sufficiency
- Promote industrialization focusing on SMEs.

Strategic Success Factors:

- ✓ Swift passage & effective implementation of Finance Act 2022 for non oil revenue mobilization.
- ✓ A fiscally disciplined & prudent political leadership
- ✓ Adopting a Single Foreign Exchange rate & CPI stability.
- ✓ Guaranteed Stable Polity pre and post 2023 General Elections.
- ✓ Prompt cessation of fuel subsidy.
- ✓ Ending crude oil theft.
- ✓ Adopting Creative strategies to deficit financing & not over reliance on debts accumulation.
- ✓ Impact of Russian/Ukraine war on commodity prices & global macroeconomic indices.
- ✓ Impact of flooding in the Nigerian Food basket on inflation, food prices and agricultural production/exports.
- ✓ OPEC production cuts & quota allocations stability.

2023 General Economic Outlook: A SWOT Analysis.

Strengths:

- 79 Million htrs of arable land
- Huge Youth Population
- Huge gas reserves
- Abundant mineral resources
- Huge market potential

Opportunities:

- 219 million population/market
- Largest economy (GDP) in Africa
- Increasing Diaspora Population /Remittances
- Opportunity for FDIs
- Potentially a $1Tr. GDP by 2033

Weaknesses:

- Poor Critical Infrastructure
- Low Economic Output
- Unstable Polity
- Weak Currency
- High Unskilled workforce

Threats:

- Huge Debt Trap
- Rampant Insecurity
- Systemic Corruption
- Economic Sabotage
- 133 Million Extremely Poor

Nigerian Insurance Industry: Challenges & Opportunities –

Challenges:

- Mass poverty
- Low penetration rate of 0.3% comp. to South Africa of 16.7% (highest globally!)
- Low Insurance density of 0.5% versus about 60% in SA.
- Low risk absorptive capacity; Nigeria's Insurers total assets is $4.7B versus S.A. with $251B (2021)
- Poor perception
- Low awareness
- Weak compliance & enforcement
- Rampant corruption
- High Inflation & Unemployment
- High Operating costs
- Harsh operating environment

Opportunities:

- Largest economy in Africa $440.80B with potential for growth/expansion to $1Tr in 10-years.
- 219M population presents huge opportunities for microinsurance products.
- Embedded opportunities in other classes of compulsory insurance products.
- Industry's GPI has exponential growth potential with right strategies & systemic restructuring.
- 72% of about 12m cars on Nigeria roads uninsured. (NIA)
- Huge opportunities in Agricultural sector for Agric Insurance products/services
- Spate of rising insecurities presents business opportunities for various insurance policies.
- Metaverse Insurances – the insurance of virtual/digital assets such as cryptocurrencies , NFTS, etc.

Strategic Recommendations: A Stakeholder's Approach

How does these identified challenges & opportunities impact the financial sector especially the insurance industry & help to achieve sustainable growth in the 2023 financial year?

I present my recommended Stakeholders Approach;

- The FG/State/LGAs
- NAICOM/CIIN/NIA/NCRIB/SEC
- Operators
- Consumers

FG/State/LGAs:

The FG, States & LGAs have two Critical roles;

1. Focus on growing the National Economy from its current $440.80Billion GDP to minimum $1Tr. by 2033.
2. To ensure it's MDAs comply fully with extant provisions of relevant laws on compulsory insurances, i.e,

- Third Party Motor Insurance Cover (Motor Vehicle T.P. Ins. Act 1945)
- Group Life Assurance for all Employees (PRA 2014, S.9(3).)
- Health Care Professional Indemnity Insurance S.45 of NHIS Act.
- Employers Liability/Workmens' Compensation Insurance (NSITF ACT)
- Occupiers Liability insurance or Insurance of Public Buildings
- Builders Liability Insurance, (Ins. Act 2003).
- Aviation Third Party Insurance. (Ins. Act 2003)
- Marine Insurance (Cargo). (Ins. Act 2003)

NAICOM/CIIN/NIA/NCRIB/SEC/:

- Ensure a robust but fair supervision of industry operators for efficient service delivery.
- Collaborate with all stakeholders on effective strategies to deepen rates of Insurance & Micro -insurance penetration & density in the national economy & within the African continent.
- Ensure the rights of consumers are protected.
- Be Proactive in the promotion of the Industry in the National Polity.
- Provide leadership at strategic engagements with the different levels of government in the promotion & defense of rights of operators.
- Encourage operators to focus on attracting high quality manpower & continuous development of same.
- Ensure robust Corporate Governance policies is scrupulously adhered to with stiff sanctions to defaulters.
- Ensure operators live up to their contractual obligations and adhere to Service Level Agreements
- Collaboration with the FRSC & NPF to enforce TPO Motor Insurance Cover through the NIID.
- Mete out appropriate sanctions to erring operators promptly and fairly.
- Champion a robust & consistent industry-wide 'Citizens Awareness' on the benefits of insurance products & services.

Operators:

- FG's budget size of N21.83Tr. or $48.5B is poor in comparison to other African nations. Besides, its only 50% feasible & Insurance Operators Must plan based on 50% of budget size.
- 2023 budget has a N11.34Tr. deficit that has to be financed through borrowings thus increasing the nation's already huge debt burden.
- Operators MUST focus on the National Economy and not necessarily on the national budget. The Economy is valued at $440.80B or N198.31Tr.
- If the industry can underwrite 1% of this, or $4.4B, it would be more than 290% increase compared to 2021 performance!!
- The 2021 GPI is about $1.4B (N630.40B) or 0.32% of GDP and shows clearly the huge gap & daunting task to be accomplished. In comparison, S.A. underwrites 16% or $67B of its $419B GDP.

Operators (2)

- The key strategic differentiator to achieving the desired quantum growth for the industry in the short to long term are; PEOPLE. TECHNOLOGY & SYSTEMS. The emphasis is however more on the quality of PEOPLE in strategic positions.
- Invest heavily in R&Ds. (Examples of HSBC, AIG & AXA)
- Product innovation/diversification
- Aggressive expansion of distribution channels through technology platforms
- Strategic alliances with FINTECHS & MMO
- Robust Brand Management of Insurance Industry
- Also, a drastic reduction in management expenses and operating costs.
- Utilize newer & cheaper channels of product marketing & distribution, etc.

Consumers:

The overall objective of the foregoing Recommendations is to ensure Consumers of Insurance products/services adopt a more favorable attitude to insurance generally & thereby the following targets is aggressively pursued within the next 10-years on a year-on-year consistent basis;

- Insurance Penetration rate - at least 2% of GDP by 2033
- Insurance density - 30% premiums per capita by 2033
- Microinsurance penetration rate - 1% of GDP by 2033
- Mcroinsurance density - 50% premiums per capita by 2033
- Microinsurance coverage ratio - 50% of total population covered by 2033

Conclusions

- The fate of the industry is inexorably tied to the overall growth & prosperity of the nation's economy. They rise and sink together. Therefore, the quality, capacity, vision & patriotism of political leadership is a strategic factor with far reaching implications on the Financial Services Sector & insurance industry specifically.
- A drastic improvement in the overall performance of the industry must be via a stakeholders approach and sustained consistently in the short to long term.
- The Industry MUST focus on three overarching strategies; PEOPLE, TECHNOLOGY & SYSTEMS.
- The Industry must focus on attracting high quality people with strategic thinking skills to fill Board, Executive & Senior Management positions to attain its maximum potentials.
- Invest heavily in R&Ds. (Examples of HSBC, AIG & AXA)
- A good model to benchmark is South Africa with a quarter population than Nigeria but has higher per capita insurance patronage (60%) and the highest rate of penetration in the world, 16%!
- Insurance operators in South Africa dominate the continental landscape with over 65% of total African GPI. Nigerian operators lag far behind on the list of Top 50 African Insurers ranking; 25th, 43rd & 46th respectively. (Source: "Nigeria Missing in Africa's insurance top 20."; thenationonline.net, May 23, 2022.)

Thank You for listening.

About: GROWTH MASTERS CONSULTING (GMC).

- GMC was established 2006, and is duly registered with the CAC with RC. No.: **672130** as a full Management Consultancy & Risk Advisory services firm with particular emphasis on Corporate Strategy formulation & execution, Risk Advisory Services, Brand Management, Human Resources Capacity Development, PPP Advisors, etc. Our global operations are four-fold & includes:

- GMC Management Advisory Services,
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- GMC Research & Business Intelligence Services,
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Thank you

Reshaping the Financial Sector: Emergent Challenges & Opportunities – The National Budget as it Relates to the Insurance Sector

Being a paper delivered by Adeolu Adewunmi-Zer, at the 2023 Business Outlook Conference by the Chartered Institute of Insurance of Nigeria (CIIN) held on February 22, 2023, at the Lagos Continental Hotel, Victoria Island, Lagos

CHARTERED INSURANCE INSTITUTE OF NIGERIA

KNOWLEDGE TRUST & EFFICIENCY

2023 BUSINESS OUTLOOK CONFERENCE

RESTRUCTURING THE FINANCIAL SECTOR FOR SUSTAINABLE GROWTH: Opportunities and Challenges

CIIN Discussion Points
Ms Adeolu Adewumi-Zer

Lagos, NIGERIA
Feb 2023

Discussion Outline

Key Challenge

Limited collaboration between industries within financial sector

Key Opportunity

Big data, technology and artificial intelligence

Innovation

Collaboration + Big Data = "Embedded Intelligence"

A true customer-centric approach demands seamless collaboration within the financial sector

1st step: Health, Life/non-Life, Pension

2nd step: Insurance, Banks, Savings/ Development Finance Institutions, FinTech

Limited access to data provides even more opportunity for those who are able to leverage emerging technology

The pandemic may have accelerated digital transformation across the world of financial services, but, behind the scenes, providers still face a significant tech debt

Emerging technologies and innovations will impact and transform financial services in Nigeria

- **Artificial Intelligence**
  AI has proven helpful in multiple ways, from powering recommendation engines and chatbots within the retail world to improving fraud analysis and prevention in the banking industry.

- **Finance-as-a-Service**
  There have long been high barriers that protect traditional financial service organizations from much new competition. However, the advent of open APIs and Finance-as-a-Service (FaaS) is knocking these barriers down, yielding a considerable influx of startups that provide finance-like services.

- **Embedded Finance**
  In a similar theme, the influx of embedded finance products into retail experiences continues to gain traction.

What next? Start roundtable discussions within financial services sector, including with tech startups, to each tackle one big problem

First topic could be how to tackle the five "V's" of big data: volume, variety, velocity, value and veracity which make data insights so valuable and yet so difficult to harness

Thank you

Reshaping the Financial Sector: Emergent Challenges & Opportunities – The National Budget as it Relates to the Insurance Sector

Being a paper delivered by Olufemi AWOYEMI, mni, Chairman of Proshare LLC at the 2023 Business Outlook Conference by the Chartered Institute of Insurance of Nigeria (CIIN) held on February 22, 2023, at the Lagos Continental Hotel, Victoria Island, Lagos

Reshaping the Financial Sector:

Emergent Challenges & Opportunities – The National Budget as it Relates to the Insurance Sector

Olufemi AWOYEMI, *mni, FCA, FCIB, FCTI, FIoD*
Chairman of Proshare LLC

Wednesday, February 22, 2023

Lagos, Nigeria

'Inconvenient truths, like chloroquine are bitter. But also like the drug, they are necessary, if problems are not to fester into worse outcomes. Nigeria and Nigerians must come to the understanding that often times, bitter can be best.

We are comfortable providing evidence-based uncomfortable and, therefore, bitter truths.'

\- Olufemi Awoyemi, *mni*

Seven Things I wish to Address:

1. Position **Insurance in the Context of Global Economic Headwinds**;
2. Establish the **Economic Context of the Nigerian Insurers** Headache ;
3. Present the **Major Implications** of the headwinds for local enterprises and insurers;
4. Examine the **Key Takeaways of the 2023 Budget** within the context of the Financial Industry;
5. Identify the **Challenges and Opportunities** of the Financial Sector;
6. Highlight ways to **Avoid Frittering Away the Golden Opportunities** in the Insurance Industry
7. Offer Concluding **Thoughts**

Insurance in the Context of Global Economic Headwinds.

Insurance in the context of Global Economic Headwinds

- Countries globally have gone through an iron compactor between 2022 and 2023 as they see their economies get crushed by **disruptive headwinds.**
- **Supply chain disruptions** caused by the Russian-Ukrainian war were a key factor, making it difficult to source primary production input and food commodity products (wheat, barley, and rye), with rising energy costs putting pressure on distribution and logistic expenses.
- **The Tripod:** **Inflation rates** have risen, **interest rates** soared, and **growth** spluttered down a dark void. The world has been splintered into blocs of paranoid trading partners and psychotic trading foes.
- Simply put, the world has become a more dangerous and uncertain place to live. Is this a good or a bad time for Insurers? Only time will tell.

Economic Context of the Nigerian Insurers Headache.

CHANGING DYNAMICS OF RISK PROTECTION INSURANCE 3-SCENARIOS

Reality

Gloom

- Slower economic growth
- Higher inflation rate
- Higher interest rate

Status quo

- Flat Growth rate
- Modest inflation rate
- Moderate interest rate

Eldorado

- Faster rate of economic growth
- Lower inflation rate
- Lower interest rate

Agility, creativity, and clarity would make risk protection viable in all three scenarios.

Source: **Proshare** Research

Proshare.

Economic Context of the Nigerian Insurers Headache

- The macroeconomic condition of Nigeria with an official **inflation rate of 21.82%** as of January 2023 and an unofficial inflation rate of over 40% presents a threat to economic stability.

- Recall the Tripod, rising inflation necessitates higher interest rates which in turn slows growth.

- Cause of Nigeria's rising domestic inflation rate is **multifaceted namely exchange pass-through effect, and domestic supply bottlenecks**.

- The disruptions present a challenge to lifting industrial production in the country. **Industrial production growth currently stands at an extremely tepid -7.2%.**

Economic Context of the Nigerian Insurers Headache

- A further cause of inflation is the country's ballooning fiscal expenditure. The rise in the federal government's spending has been supported by the oversized accommodation of fiscal spending by the Central Bank of Nigeria (CBN) in violation of sections 38(1-2) of the CBN Act (as amended in 2007). The dumping of the provisions of the Act has seen CBN's 'Ways & Means' lending rise from N869bn in 2015 to N24.5trn in 2023.

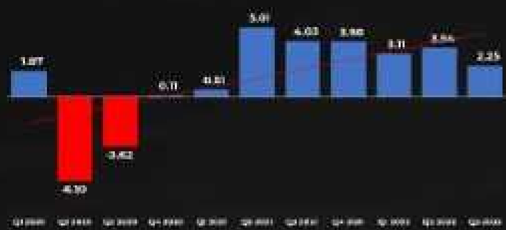
- The reliance of the Federal Government on debt as a means of repeatedly plugging the national budget deficits has worsened external currency valuation and accelerated the rise in domestic inflation. Some estimates suggest that over 70% of Nigeria's inflation rate is attributable to foreign exchange depreciation.

- This in turn has increased the pressure on the Federal Ministry of Finance (MoF) to raise excise taxes and even corporate income tax (CIT) for upstream oil and gas companies. Now, what does all this mean for local businesses?

Major Implications of the Economic Headwinds on Local Enterprises and Insurers.

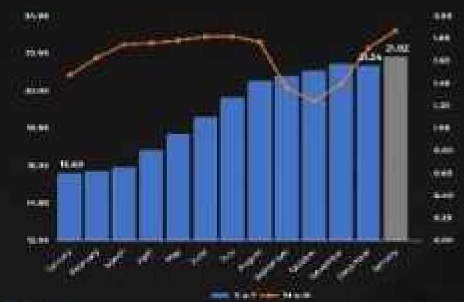
THE NIGERIAN ECONOMY IN FRAMES

Nigeria Real GDP Growth (%) Q1 2020 - Q3 2022



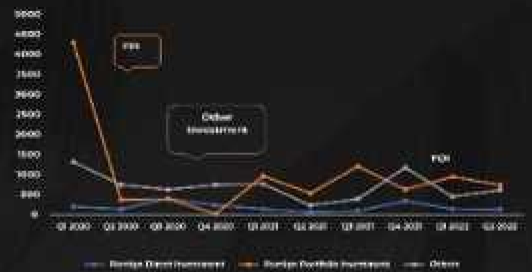
Foreign Reserves($'bn) and Exchange Rate (N/$ At Parallel Market) Jan 2022 - Feb 2023

Nigeria's Headline Inflation May (%) (2021 - Dec 2022)

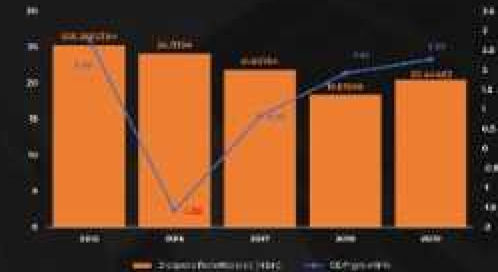


Monetary Policy Rate (MPR) and PMI (%) 2021 -2022

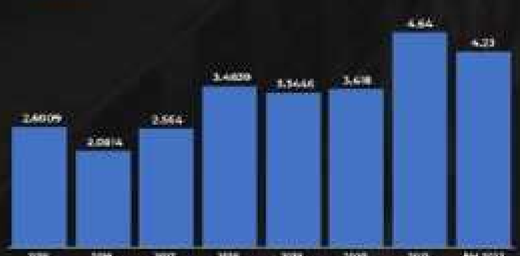
Trend of Capital Import Components Q1 2020 - Q2 2022



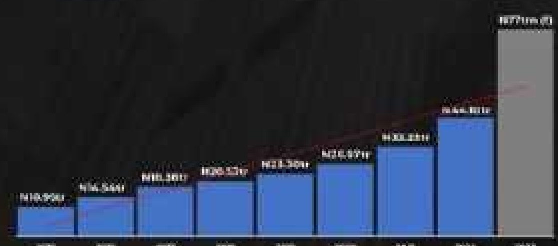
Diaspora Remittances and Global GDP growth (2015 - 2019)



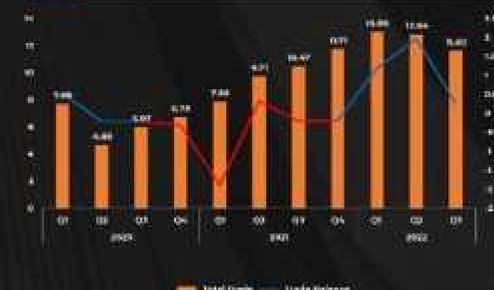
Federal Government Revenue (N'Trn) (2015 -2020)



Federal Government Debt (N'Trn) (2015 -2021)



Merchandise Trade & Trade Deficit (N'Trn) (Q1 2020 -Q3 2022)



Source: NBS, CBN, Budget Office, IMF WEO, and **Proshare** Research

Implications for Local Enterprises and Insurers

Monetary Policy

- The 600 basis points (6%) **increase in the Monetary Policy Rate (MPR)** over the last ten months, has raised the cost of credit to borrowers; this presents companies with flatter profit margins which in turn leads to a cut back in production, a rise in the cost of borrowing and a growing likelihood of loan defaults.
- The rise in MPR adjusts interest rates to rising inflation making it **costlier for companies to raise corporate bonds** or commercial notes from the local debt market.
- With the tightening of corporate operations, **Insurers would witness a sizeable drop** off in gross premium income as policies such as goods-in-transit, group life policies, warehouse and property policies and health insurance fizzle as claims rise.

Implications for Local Enterprises and Insurers

Fiscal Policy

- The current debt position of N77trn (assuming the ways and means loans of the FGN are securitized), with a revenue-to-GDP ratio of 7.4% has led to a **rating downgrade** by Moody's and Fitch.
- Companies that could use their reputation to raise funds from the capital market are seeing this **financing window shatter** as investors vote with their feet to safer investment jurisdictions.
- The rise of Nigeria's **country risk premium** used in measuring credit default swaps (CDS) from 990 basis points (9.9%) to 1620 basis points (16.2%) within 12 months is proof of the growing jitters amongst foreign investors in Nigerian credit instruments

Implications for Local Enterprises and Insurers

Priority in Budgetary Allocation

- On the upside, the **increase of the defence budget** to 13.4% of total allocations will raise capital and recurrent expenditure for the armed forces, and **present opportunities** for insurance to structure both group and individual retail products for the military.

- This is particularly important as regards **life insurance claims for soldiers**, soldiers' medical insurance, and funds to pay claims arising from collateral damage suits. It also provides the means for the armed forces to deploy kinetic formations to reduce tension, which can enable actuary experts to price-in risk in highly volatile areas in the South-East, North-West, North-East

Implications for Local Enterprises and Insurers

Structural Policy

- The domestic petrol sector challenge throws up a few potential business gems, the stand-off between the independent marketers and the NNPC on the increased landing cost of PMS, and the difficulty in keeping prices below N200 per litre in under-recovery and the attendant scarcity of products represent **risks and opportunities in goods-in-transit (GIT) insurance** and risk protection for businesses that require energy for production.
- The consequence is a set of chain reactions that require a **more structured coverage** in General Liability Insurance, Business Income Insurance, Professional Liability Insurance, and Workers' Compensation Insurance.
- Overall, **Insurance thrives in uncertainty** as individuals, and organizations. As risks rise, Insurance becomes a more saleable product. However, as uncertainty dominates businesses and economies, insurance claims become a scarier prospect as Insurance firms' claims ratios balloon. So, what to do?

The 2023 Budget in Summary:

The key Takeaways.

A GLIMPSE OF THE 2023 BUDGET

N21.83trn
Expenditure

Total **expenditure** for the 2023 budget stood at **N21.83trn**, 20% higher than the amended 2022 budget, with aggregated capital expenditure of N6.46 (3.5% lower than that of 2022 but representing 30% of total expenditure in 2023); recurrent spending of N8.33trn, and debt service of N6.31trn (71% higher than 2022 estimate and 29% of total expenditure for 2023).

N10.49trn
Revenue

Total **revenue** projection for the 2023 budget stood at **N10.49trn**, including the gross revenues of 63 government-owned enterprises estimated at N3.87trn; FGN oil revenue at N2.29trn; non-oil taxes at N2.43trn; Independent revenues at N2.62trn; and other revenue at N762bn. With these, 22% of projected revenue is expected from oil-related activities and 78% from non-oil sources.

N11.34trn
Budget Deficit

The overall **budget deficit** in the 2023 budget stood at **N11.34trn**, representing 5.03% of GDP and 51.95% of the 2023 budget. The deficit is expected to be sourced largely from domestic borrowing.

Source: Budget Office of the Federation, Research

Proshare.

Assumptions& Parameters of the 2023 Budget

Benchmark Oil Price
$75

Oil Production Estimate
1.69 million bpd
(inclusive of Condensates of 300,000 to 400,000 bpd)

Exchange Rate
₦435.57/$

GDP Growth
3.75%

Inflation
17.16%

Alignment of Government's Fiscal Policy

The size of the 2023 budget is only US$30bn, smaller in per capita terms in comparison with comparable countries.

Misalignment between the budget, Medium Term Fiscal Plan, and the country's national development plan (NDP).

Nigeria's 2023 budget parameters mostly deviate from projections in the NDP 2021 – 2025. Although the FG blamed it on changing macroeconomic conditions, it largely reflects the perennial misalignment between our national budgets and our development outlooks.

Debt and Debt Service Cost Outlook

- The slump in crude oil production and revenue combined with rising debt service costs have generated concerns about the fiscal health of the Nigerian government.

- With the national debt profile set to hit N77trn (about US$120bn) in 2023 from N44.1trn in 2022, the country appears to be in a Fiscal Cliffhanger. The FG borrowing has found foreign loans prohibitively expensive.

- It has become a matter of importance for the Federal Government to prioritize domestic borrowing, particularly by way of Treasury Bills and Bond Issuances as well as CBN Ways and Means advances.

- The last time the country accessed the international debt market, in March 2022, its $1.25bn Eurobond issuance had a

Fiscal Solvency Outlook

Two different paths lie ahead:

- One to a scenario of high liquidity which could be called 'Eldorado' and the other to insolvency or gloom. In the **doom and gloom scenario**, the FG could continue to rely on revenue from oil exports, and borrow at higher costs, while increasing taxes.

- In the **Eldorado scenario**, Nigeria opens its foreign investment deal book and aggressively increases its deal count. It can also open equity investment opportunities in government-owned assets and companies through the listing of the same and thereby determining their market values. Whichever path the country chooses the financial sector has challenges to resolve and opportunities to harness.

TWO TRACK PROJECTION OF NIGERIA'S DEBT SUSTAINABILITY

Debt Sustainability Scenerios

Doom & Gloom scenario

Oil Exports and Royalties

To rely on revenue from oil exports and royalties from the National Oil company

IOUs and Promissory notes

To borrow at a higher cost through the issuances of IOUs and Promissory notes

Taxes

To rely on taxes as a means of raising revenue, especially while the businesses and economic units concerned operate in contracting sectors.

Refuse to Issue Licenses

To refuse to issue licenses in growing sectors while failing also to offer equity investment opportunities in government -owned assets and companies to domestic investors

Eldorado

Licenses for Greenfield Investment in Critical Sectors.

FG would substantially increase its Revenues through the issuance of Licenses for greenfield investment in critical sectors.

Open Equity Investment Opportunities

It would open equity investment opportunities in government-owned assets and companies through the listing of the same and thereby determining their market values and subsequently recording portfolio gains

Better Debt Management Strategies

Reduce the cost of borrowing by exploring better debt management strategies namely borrowing against the government's financialized assets rather than borrowing against revenues from crude oil sales that are volatile and declining.

Source: **Proshare** Research

Proshare.

Bootstrapping Budget 2023: Five Key Areas for Insurers:

1. **Take advantage of uncertainty**. Budget 2023 introduces both fiscal and monetary uncertainties that create opportunities for insurers to create new products and revitalise old ones

2. **Businesses will see greater pressure on turnover in 2023**, insurers could help companies manage their cost of inventory adjusted for insurance premiums, they could also help with goods-in-transit insurance twinning it with warehouse insurance.

3. Uncertainty of incomes caused by policies in the 2023 budget open **opportunities for group life insurance** and temporary cash flow disability insurance.

4. The budget suggests a high deficit leading to the **crowding out of private credit** and higher interest rates. Leasing arrangements are likely to be more important as companies try to manage cash flows. The rise in leasing will increase insurance on equipment and other fixed assets.

5. The budget assumes the securitization of debt and this could lead to a **more active debt market in treasuries in 2023**. Insurers could take advantage of portfolio diversification by improving and derisking their Insurance Investment portfolio at competitive yields.

The Financial Sector:
Challenges and Opportunities.

Challenges and Opportunities of the Financial Sector

Financial system across the world, including the banking system, capital markets, and insurance industry has seen significant changes in the last few decades buoyed by the evolution of financial services and the changing consumer needs.

Nigeria's financial system is highly diverse and innovative. In the most recent years, the financial system of the country has evolved and expanded, driven by a combination of regulations, technological advancements, and growing consumer demand for modern financial services.

Notwithstanding the growth, financial market sustainability has been threatened by a combination of regulatory, governance, and operational issues.

Challenges of the Financial Sector

More specifically, let me highlight the challenges of the industry from analysts' perspectives:

- **Regulatory loopholes:** The most recent policy failure is the naira redesign programme which underpins a ***misalignment between policy action and the financial system***. The outcome is a local black market for the purchase and sale of the local currency and financial instability. For the insurance and capital market, analysts have also fingered competency gaps by the executioners of regulatory actions as major challenges that leave both industries struggling.

Challenges of the Financial Sector

- **Public distrust:** Confidence in the financial system is highly sensitive to financial stability and low-risk level. An offshoot of this is the low level of financial inclusion, with a large proportion of Nigerians still unbanked. ***High and numerous charges, cyber-attacks, poor infrastructure, and unresolved transactions have weakened public confidence*** in the financial institution. Even at the regulatory level, the ambiguity of some transactions like the sales of Polaris Bank, the extended forbearance of some banks, and the continued existence of AMCON has called to question the integrity of the financial regulators. The insurance industry has not been excepted. Unexciting products, low capacity, and the unfair/difficult settlement practices of insurance companies have eroded public confidence in the industry.

Challenges of the Financial Sector

- **Weak digital infrastructure:** Global financial system is in an era of adaptation and innovation towards financial technology (Fintech), insurtech, and decentralized finance (DeFi). However, faced with ***poor, underfunded, and unreliable digital financing*** infrastructures, financial institutions in Nigeria are digitally challenged to meet the growing demand for tech-enabled services with high traffic.

Challenges of the Financial Sector

- **Fraudulent practices:** In between the technological advancement and the unsophisticated nature of many Nigeria lies a technological power play between financial system operators and scammers. Tech has made it possible to commit insurance fraud by exploiting vulnerabilities in digital systems and processes, i.e., the ***use of fake identities and documentation*** to obtain insurance coverage. Great resignation of tech experts and the governance lapses in financial institutions have also exposed the institutions to digital and non-digital attacks. While non-digital attack on the financial system has relatively stabilized in recent times, the expansion in digital technology has necessitated increased cyberattacks. As of 2022, Nigerian businesses suffer 2,308 cyberattacks every week, according to a BusinessDay Report. The laws and infrastructure to combat these phenomena have remained a tough challenge for the industry.

Challenges of the Financial Sector

Ideally, the **financial sector should mirror the progression of the economy**: booming during the boom and recessing during the downturn.

However, growth in the Nigerian economy has been independent of the financial sector.

For instance, **while real GDP growth in the overall economy remained stable at around 1.3% between Q1 2020 and Q3 2022, the financial sector grew by 12.52% during the same period (financial institutions grew by 14.6% while insurance grew by 0.31%).**

This further shows that there is a **disconnect between the financial market and the real sector** In Nigeria.

Opportunities of the Financial Sector

Despite the challenges, emerging regulations and initiatives to encourage the use of digital financial services, including mobile banking and other evolving digital services means there are development opportunities in the financial sector.

Notwithstanding the CBN ban on crypto transactions, Nigeria has become one of Africa's largest digital assets users measured in peer-to-peer (P2P) transaction volume, according to Global Crypto Adoption Index. The growing rate of digital asset adoption has been influenced by macroeconomic factors like a fall in the value of the naira, rising inflation rate, distrust in the banking system, high rate of returns, and distrust in the centralized fiscal and monetary policy authorities.

Opportunities of the Financial Sector

That the risks are high and imminent has done little to tame the growing interest in digital assets. The growing interest in these assets suggests that the financial system can develop a regulatory framework around the growth and future of digital assets. For instance, the integration of blockchain technology into the financial system can improve the security of transactions, enable real-time documentation, and streamline the transaction process.

Financial institutions in Nigeria quickly recovered from the COVID-19-induced financial rut. A return to modest growth from -1.92% in 2020 to 3.4% in 2021 and 2.25% in Q3 2022 helped the country's financial lenders to sustain profitability with lower-risk asset defaults. Liquidity has not been a problem for Nigerian banks as the global liquidity glut made modest inroads into the domestic money market.

Opportunities of the Financial Sector

For the capital market, the introduction of new products and infrastructure has sustained interest in the market. Most recently, products such as exchange-traded funds, green bonds, infrastructure bonds, and equity crowdfunding have been introduced to the market. These products offer investors greater choice and diversity in investment options and open up markets for operators.

With apathy, information gap, and high cost of products, Nigeria's insurance industry stagnated in gross premium income between 2020 and 2021, according to the 2022 Insurance Industry Report of Agusto and Co. Aside from the economic case against insurance, most Nigerians would rather be assured by divine power. Yet with no insurance coverage and security nets, most Nigerians are left to fend for themselves. Arguably, a media report suggests that the industry experience growth in 2022 on increased awareness and growth of insurtech, underscoring the prospect of more growth with digital transformation and increase insurance campaigns.

The Insurance Industry

– Frittering Away a Golden Opportunity

To Avoid Frittering Away the Golden Opportunities

Unlike in other advanced and emerging economies, the insurance industry is an underdog of the financial sector in Nigeria.

According to data from the National Association of Insurance Commissioners (NAIC), **the Insurance industry in the United States (US)** accounts for about **7% of the country's GDP** driven by

(i) a long history of insurance regulation, which has helped build trust and confidence in the industry;

(i) highly developed financial sector, with large products offering; and

(i) high level of financial literacy, where many understand the importance of insurance for managing risk.

To Avoid Frittering Away the Golden Opportunities

In Nigeria, data from the National Insurance Commission (NAICOM) suggests that insurance penetration in Nigeria represents less than 1% of the GDP. I believe **two factors** have challenged the Nigerian insurance industry.

First, ***distrust in the system***. I was deliberate to use distrust, because it is a settled belief that the insurance industry cannot be trusted on accumulated frustrations and mistrust in the system, at least across many strata of the country. The only hanging fruit for the industry is the statutory insurance requirements, such as the third party, group life, marine, occupational safety, and health insurance, among others. Unlike in the US, instances of not honouring claims and regulatory ambiguity have weakened the accountability and credibility of the industry.

Second, ***widespread economic poverty*** has the conspiracy that insurance is expensive, complex, and unnecessary in the country. Even the campaign for financial inclusion has not been achieved due to the widespread economic exclusion and the continuous macroeconomic conundrum.

To Avoid Frittering Away the Golden Opportunities

Further, Aside from the benefit of hindsight, my point in the review and comparison is that humans are the same everywhere. What promoted the US insurance industry is what undermined it in Nigeria. Nigeria has a higher propensity of taking up insurance coverage due to its high economic uncertainty and social fragility. But the actions and inactions of insurance operators and regulators have elbowed the industry into a roadblock.

It is not all gloomy. Looking ahead, I believe three factors should shape the industry and its product offerings:
(i) the re-emerging trend of a universal financial system;
(ii) the growth of insurtech; and
(iii)the fear of an economic downturn.

To Avoid Frittering Away the Golden Opportunities

Aside the macroeconomic and political challenges likely to impede growth and profitability, insurance companies in Nigeria face the threat and opportunities of a universal financial system in the country. Nigeria's financial system is dynamic and constantly evolving, with operators, especially in the banking system using unorthodox means to explore new markets and expand their operations.

This naturally requires that the regulatory framework around the system be innovative and authoritative. On the contrary, regulatory ambiguity provides for the evolution of the holding company model in the financial institution which essentially mirrors the erstwhile **universal banking system**, which allows the integration of different financial services. Such a model has the possibility of undermining competition and promoting regulatory vagueness, making it difficult for insurance companies to operate effectively. Insurance operators and regulators may need to press more for the recapitalization and passage of the **Insurance Amendment bill**. Much more than responding to the requirements of regulators, operators in the industry need to be more forward-looking in market trends and policy expectations. CIIN, as an integral player in the industry, should drive policy advocacy in this area.

Avoid Frittering Away the Golden Opportunities

Necessity should be the mother of invention in the insurance industry. The growth and intense competition from Insurtechs will continue to test the resilience of conventional insurance companies. According to Deloitte's 2023 insurance outlook, insurtechs are already accelerating technology transformation in two fundamental ways. One, Insurtechs design customer-centric products from their launch. Also, insurtechs offer point solutions in underwriting, claims, and online distribution platforms, among other customer-facing functions.

Although there was a slowdown in Insurtech investment in early 2022, they are projected to remain sought-after investment vehicles, partners, acquisitions, and insurers. In Nigeria, between 2021 and mid-2022, five insurtech startups raised nothing less than US$6.7m in pre-seed funding. Insurtech will remain a force in the industry because it can conveniently bridge the two issues that weaken insurance penetration in the country. First, insurtech leverage digital technology to offer affordable and accessible products for average Nigerians. Second, insurtechs can adapt their digital infrastructure with distributed ledger system, which is capable of promoting credibility in service offerings. The time is ripe for insurance companies to fully realize the values and benefits of digital infrastructure and technological innovation which mostly set the phase of changing consumers' needs.

INSURERS' NEW STRATEGIES VERTICALS

Insurance Evolution

Insuretech

- Digital processing of policy assessment and onboarding of new policyholders
- Digital interactivity with insurers, thereby reducing time-to-action intervention.
- Payment/ settlement solutions made easy on mobile devices.

AI/ML Adoption

- Policyholder journey experience shift (AI interactivity)
- Improved self-risk assessment.
- Agile interactive risk assessment.

Policyholder Reality

- Improved service journey experience
- Younger policyholder demography
- Faster claims settlement and risk assessment

Source: **Proshare** Research

Proshare.

To Avoid Frittering Away the Golden Opportunities

- Recent uncertainties have become a stress test for businesses and insurers. While businesses have cause to be apprehensive in an age of volatility, uncertainty, complexity, and ambiguity (VUCA), headwinds present openings for the insurance industry to convert the tailwinds into opportunities for increased business.

The industry could leverage economic downturns to increase insurance coverage by prioritizing certain types of insurance and infrastructure to reach new markets. For instance, life and health insurance may become more attractive to individuals who fill overwhelmed by stress and lacks, and property and casualty insurance may become more important for businesses facing increased risks of uncertain economic times. On the other hand, the widespread poverty incidence should nudge insurers to offer products and services that are affordable, accessible, and meet the needs of consumers and businesses within each stratum.

To Avoid Frittering Away the Golden Opportunities

The insurance industry should be the advocate of digital asset adoption in Nigeria to leverage the inherent risks for wider coverage. Risks in digital assets include data privacy and security risk, money laundering, financial stability risk, financial inclusion risk, and other financial and systemic risks.

Concluding Thoughts.

Concluding thoughts...

Nigeria's 2023 national budget does not carry the same promise for the insurance industry, unlike other environments where regulation, taxation, infrastructure, and social welfare programs all have a significant impact on the insurance sector.

Budgetary arrangements for NAICOM would not be advantageous to the sector. Contrarily, the financial conundrum suggests that NAICOM will be more motivated by revenue generation than by the profitability and competitiveness of the operators, increasing taxes, fines, and levies in the industry as other agencies do.

Concluding thoughts...

The National Health Insurance Scheme (NHIS) for military retirees and corp members may enter the market. Whether or not the insurance sector in Nigeria can be reshaped will depend on how actively associations like the CIIN push for **industry-specific policy advocacy**, encourage technological adoption and take advantage of the current economic unpredictability to create products that meet shifting consumer demands.

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Thank You.

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Thank you

2023 NATIONAL BUDGET AS IT RELATES TO THE FINANCIAL SECTOR

Being a paper delivered by Prof. Godwin Emmanuel Oyedokun, at the 2023 Business Outlook Conference by the Chartered Institute of Insurance of Nigeria (CIIN) held on February 22, 2023, at the Lagos Continental Hotel, Victoria Island, Lagos

CHARTERED INSURANCE INSTITUTE OF NIGERIA

KNOWLEDGE TRUST & EFFICIENCY

2023 National Budget as it relates to the Financial Sector

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2023 National Budget as it relates to the Financial Sector

Introduction

- The “Budget of Fiscal Consolidation and Transmission” is the eight and final budget signed 3rd January 2023 by President Muhammadu Buhari
- The National Assembly increased the budget from N20.5 trillion to N21.8 trillion (N21,827,188,747,391)
- This shows an increase of over N1.3 trillion
- The lawmakers increased the Oil Benchmark Price from $70 to $75 to reflect the current market values of the oil barrel in the international market
- The principal thrust of the 2023 budget is to maintain fiscal viability and ensure smooth transition to the incoming administration

Parameters and Fiscal Assumptions in 2023 Budget

Breakdown of Nigerian 2023 Budget

Statutory transfer

- N967,486,010,536

Debt service

- N6,557,597,611,797

Recurrent (non-debt) expenditure

- N8,329,370,195,637

Capital expenditure

- N5,972,734,929,421

Key highlights of the 2023 Budget

Revenue

Total revenue N10.49 trillion

- **FGN Oil revenue** share is projected at **N2.29 trillion**, Non-oil taxes are estimated at N2.43 trillion, and FGN Independent revenues are projected to be **N2.62 trillion**
- Other revenues total N762 billion
- In aggregate, 22% of projected revenues is expected from oil-related sources, while 78% is to be earned from non-oil source

Key highlights of the 2023 Budget

Expenditures

- The 2023 Aggregate FGN expenditure (inclusive of GOEs and project-tied Loans) is projected to be N21.83tn, which is 20% higher than the amended 2022 Budget
- **Recurrent (non-debt)** spending is estimated to amount to **N8.33tn, inclusive of N200 billion** in social investment programme
- **Aggregate Capital Expenditure** of **N6.46tn is 30% of total expenditure;** and 3.5% lower than the 2022 Budget (inclusive of the Capital component of Statutory Transfers, GOEs, Capital & Project-tied loans expenditures)
- **Debt service** is budgeted at N6.31 trillion, which is 29% of total expenditure. This is 71% higher than the 2022 estimate as it includes an interest payment of N1.2 trillion for Ways & Means

Key highlights of the 2023 Budget

Expenditure

The 2023 aggregate FGN expenditure is projected to be N21.83tn, which is 20% higher than the amended 2022 budget

Recurrent (non-debt) spending, estimated to amount to N8.33tn, inclusive of N200bn social investment programme

Aggregate Capital Expenditure of N6.46tn is 30% of total expenditure; and 3.5% lower than the 2022 budget

At N6.31tn, debt service is 29% of total expenditure. This is 71% higher than 2022 estimate as it includes interest payment of N1.2tn for Ways and Means

Key highlights of the 2023 Budget

Fiscal Deficits Financing

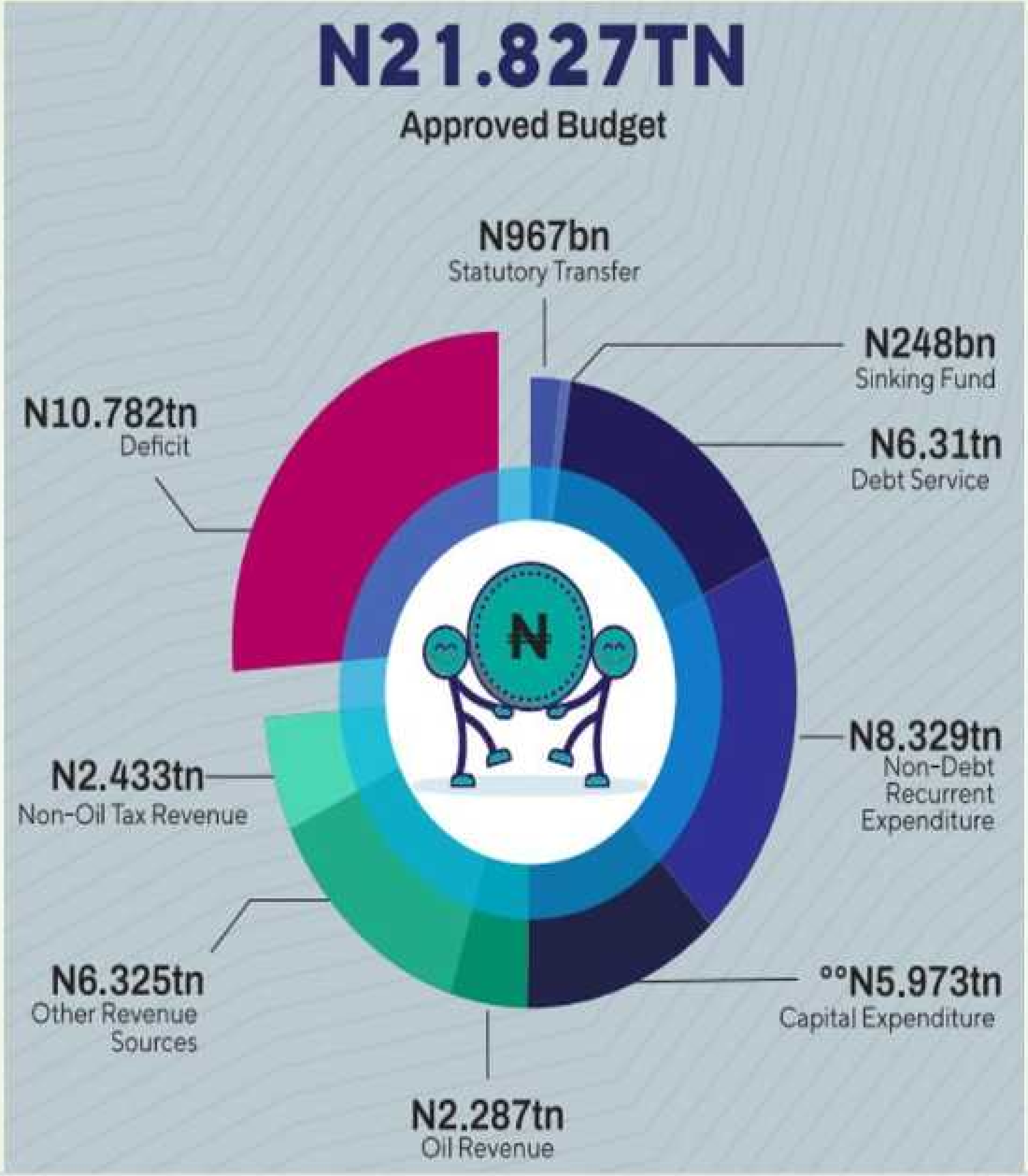
The overall budget deficit is **N11.34 trillion** for 2023 representing 5.03% of GDP

The budget deficit is to be financed mainly by borrowings made up of domestic sources of **N7.04tn**, foreign sources of **N1.76trillion**, Multi-lateral/bi-lateral loan drawdowns of N1.77billion, and Privatisation Proceeds: **N206.18 billion**

The gap between the revenue + additional financing and total expenditure, amounting to **N553.46 billion** is expected to be financed by additional revenue from Spectrum fees and tax on the Maritime sector

Key highlights of the 2023 Budget

- The budget expenditure of N20.51tn represents the highest in Nigeria's history, and is to be (partly) funded by expected revenue of N9.73tn
- The budget deficit exceeds the expected revenue of N9.73tn by about 11%
- The non-debt recurrent expenditure (NDRE) of N8.27trn remains the largest expense in the budget (about 40%), and is 16% higher than the 2022 revised budget of N7.11tn
- The second largest expense, debt service expenditure estimated at N6.31tn grew by 71% from 2022, it represents 31% of the estimated budget expenditure for 2023
- Capital expenditure (excluding statutory transfer component) of N4.93tn represents about a quarter of the 2023 budget expenditure, and decreased by 8.88% from 2022
- 2023 estimated revenue of N9.7tn is lower than the 2022 revised budget amount of N9.9tn, representing a 2.4% decline


N21.827TN
Approved Budget
N967bn
Statutory Transfer
N248bn
Sinking Fund
N10.782tn
Deficit
N6.31tn
Debt Service
N8.329tn
Non-Debt
Recurrent
Expenditure
N2.433tn
Non-Oil Tax Revenue
N6.325tn
Other Revenue
Sources
°°N5.973tn
Capital Expenditure
N2.287tn
Oil Revenue

Finance Bill, 2022: Key Policy Focus Area

Benefits of Budgeting to Insurance Companies

- Budgeting makes it easier for insurance companies to plan, save, track and to control expenses in order to improve their financial situation
- Budgeting can help insurance company avoid debt and improve premium from policy holders
- Helps insurance companies to achieve their long-term financial goals and objectives
- Budgeting helps insurance companies build decision making skills
- Budget put a business to stronger financial footing for both the day-to-day and long term activities

Benefits of 2023 Budget to Insurance Industry

Increase Aggregate Expenditure will be beneficial to the Insurance Industry considering the following:

Household	• Its affects disposable income to purchase assets resulting into payment of insurance premium
Investor	• Create opportunities (fund) for investment which must be insured (according to the law) in order to reduce the investment risk and boost insurance income

Benefits of 2023 Budget to Insurance Industry

- The current budget spells prosperity for the insurance industry as more people are likely to acquire properties and buy insurance policy
- Increase in 2023 budget expenditure will make it easier for insurance company to meet their risk obligation at the time of indemnifying loss
- The budget will provide avenue for insurance industry actors to explore other opportunities towards revenue generation
- This budget will also assist the insurance companies to achieving some organizational goals; financial or otherwise
- The current budget will open new business opportunities in the insurance sector

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Thank you

NIGERIA 2023 BUDGET AND ITS IMPACT ON THE INSURANCE SECTOR

Being a paper delivered by Babatunde Daramola, FCA, FIIN, at the 2023 Business Outlook Conference by the Chartered Institute of Insurance of Nigeria (CIIN) held on February 22, 2023, at the Lagos Continental Hotel, Victoria Island, Lagos

NIGERIA 2023 BUDGETAND ITS IMPACT ON THE INSURANCE SECTOR

Babatunde Daramola FCA, FIIN

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Overview:

- Brief summary of Nigeria 2023 Budget
- Key challenges of the Nigeria Insurance Sector
- Recommendation for the Nigeria Insurance Sector

SUMMARY/GREY AREAS OF NIGERIA 2023 BUDGET

- President Muhammadu Buhari on the 3rd of January signed the N21.83 trillion 2023 appropriation bill as well as the 2022 supplementary appropriation bill into law, the last of such assignments as Nigeria's president.
- A breakdown of the budget indicates an allocation of N967.5 billion for statutory transfers, N6.6 trillion for debt servicing, N8.3 trillion for recurrent expenditure, and N5.9 trillion for capital expenditure.
- The President in October 2022 presented N20.51 trillion budget for 2023 but the lawmakers passed N21.83 trillion, an increase of N1.32 trillion over the initial Executive Proposal after they raised the oil price assumption to $75 a barrel from $70. The president will need to sign the revised budget for it to become law.
- Some key capital allocations include the N285 billion to the Federal Ministry of Defence, N134.9 billion to the Federal Ministry of Health, N195.5 billion to the Federal Ministry of Power, and N153.7 billion to the Federal Ministry of Education.
- At N6.6 trillion, debt service is 29% of total expenditure, this is 71% higher than the 2022 estimate.

SUMMARY/GREY AREAS OF NIGERIA 2023 BUDGET

- The baseline assumptions in the 2023 budget are based on the benchmark price of $75 per barrel of crude oil and an estimated production capacity of 1.69 million barrel per day. Given that global forecasts for oil price in 2023 currently range between $85 and $100 per barrel, the approved benchmark price could be considered conservative. But this potential upside may be dampened by the fact that over the last few years actual production volumes have undershot budget figures with a negative impact not just on government revenues but foreign exchange supply.
- With the total planned expenditure of N21.8 trillion for 2023 more than double the projected revenues of N10.5 trillion, the federal government is planning a budget deficit that far exceeds expected income. Yet, despite this huge funding gap, it allocates a scandalous amount of money to subsidize petrol consumption.
- The federal government envisages spending N3.4 trillion up to mid-2023. Annualizing the figure, that would be N6.8 trillion. When pro-rated, for the first six months of the year, the federal government is planning to spend 124% of its total expected revenue on fuel subsidy and debt service alone.

- Based on data from the National Bureau of Statistics (NBS), the Nigerian insurance sector grew by 28.26 per cent year-on-year in Q3. 2022
- The growth was propelled majorly by the depreciation of the naira against the US Dollar, providing higher translation value of the dollar premium of the industry, growth in annuity from life companies due to increasing number of retirees from pension scheme.
- In terms of market size, the sector recorded an increased growth rate of about 11.9 percent quarter on quarter with a total asset of about N2.3 trillion.
- Insurance industry in Nigeria, still faces challenges bordering on financial capacity, organizational capabilities and public confidence; issues that need to be strategically addressed.

Major challenges that will affect the sector in 2023

- High inflation and the consequent cost-of-living crisis will be the greatest challenge to be faced by the insurance industry in 2023.
- Public confidence issues.
- Migration of skilled personnel.
- Rising cost of Operations.
- Multiplicity of taxes, fees, levies.
- Delay in the signing of the Insurance Amendments Bill into law

High inflation	Public confidence issues
Migration of Skilled personnels	Rising cost of operations
Multiplicity of taxes, fees, levis	Delay in signing of insurance amendment bill

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Budget 2023: Insurance Industry impact

- Inflation and asset replacement cost/impact on claims
- Interest rate: two sided impact (investment income vs borrowing cost)
- Infrastructural development/Impact on Productivity
- Exchange rate impact on Import/Export
- MDAs generate more revenue/self sustaining: NAICOM will continue to ask for more money. Need to develop/deepen the market.
- Change in government/Implementation concerns by another administration
- Insurance Premium rate review/Impact on the consumers; Value for money.
- Public Sector Group Life Premium a boost
- Increased Domestic borrowing: opportunity for investment returns

Suggested Focus Areas For The Industry in 2023

- Long term approach required for market penetration; set aside funds to make insurance work at the grassroot.
- Human Capital Development and Retention in the midst of the JAPA Syndrome (accelerated training and retention strategy required: CIFM should be busier)
- Insuretech and traditional insurance model must run pari-passu
- IFRS 17 is data driven and will bring some logic to premium pricing
- ESG agenda should get industry attention: Social impact needed beyond profit

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