The Geneva Papers on Risk and Insurance Vol. 24 No. 2 (April 1999) 216–227

Government Ownership of Insurance Companies in Nigeria: A Critique*

by Chibuike Ugochukwu Uche**

1. Introduction

Before Nigeria gained her independence in 1960, the government did not own shares in insurance companies. The reason for this can partly be traced to the origins of insurance in Nigeria. The advent of insurance companies in Nigeria was initially to service the needs of the British commerical enterprises then in existence.[1] Although the first insurance company was established in Lagos in 1921, it was not until 1958 that the first indigenous insurance firm, African Insurance Company Limited, emerged. By 1960, only four of the then 25 firms in existence was indigenous. By 1976 there were far more indigenous companies than foreign companies: of the 70 insurance companies then in existence, only 14 were foreign-owned, 46 were indigenously owned, while 10 were wholly owned either by the various state governments or by the federal government.[2] In real terms, however, the impact of these indigenous firms remained minimal. For instance, while the foreign-owned firms accounted for 53 per cent of the gross premium income of all insurance companies, the indigenous companies accounted for only 17 per cent.[3] It has thus been argued that:

> Inspite of the considerable presence of these indigenous [insurance companies] . . . the bulk of the business went to the foreign owned companies . . . this imbalance was further reinforced by the specific instruction which foreign companies that were operating in Nigeria normally received from their home offices that they should insure only with companies that originate from their home countries. Even where there were no such insurance companies from the foreign companies' home countries, the practice was such that the companies as a matter of policy restrictively insured with any other foreign-

---

* The author is grateful to the two anonymous reviewers for *The Geneva Papers on Risk and Insurance* for their comments on an earlier version of this paper. The usual disclaimer applies.

** Department of Banking and Finance, University of Nigeria, Enugu Campus, Enugu, Nigeria.

[1] The advent of British commercial interests in colonial Nigeria brought about increased activities in shipping and banking. It subsequently became necessary for these companies to handle some aspects of their insurance businesses locally. As a result, trading companies were granted insurance agency licences by UK-based insurance companies. In 1919, for instance, a Royal Exchange Assurance Agency was granted to the Africa and East Trade Companies. This was the first such agency granted in the colony. By 1921, the Royal Exchange Assurance was established as a full insurance company (Osoka (1992), pp. 1–2).

[2] The reasons for the proliferation of indigenous insurance companies, at least when compared with the number of banks at the time include (1) the low minimum share capital requirement for the establishment of such companies; (2) the late advent of government control; and (3) the relatively crisis-free history of the Nigerian insurance (Nwankwo (1980), p. 115).

[3] Uzoaga (1981), p. 240.

Published by Blackwell Publishers, 108 Cowley Road, Oxford OX4 1JF, UK.

owned insurance companies in preference to the indigenous Nigerian insurance companies.[4]

Foreign insurance companies were simply seen as usurpers who were just interested in profits without due regard to African development.[5] It was such general perceptions of foreign enterprises that helped fan nationalist movements and the quest for independence. Post-independence African governments therefore came under great pressure to directly intervene in business including insurance in order to speed up the economic emancipation of the Africans. The appealing argument at the time was that since most Africans did not have the resources to compete in these areas, it was the duty of the government to set up such insurance companies in order to compete with these foreign companies and protect the interest of the indigenous people. The government resisted direct ownership of the insurance companies for some time until it succumbed in 1969 and established the National Insurance Corporation of Nigeria (NICON).

This paper argues that contrary to popular belief, the establishment of NICON had little to do with any government attempt to halt the foreign domination of the insurance industry. Rather, it was in order to eradicate fraud in the insurance of government property. It was only in 1972, with the promulgation of the Nigerian Enterprises Promotions Decree, that the government put in place regulations with the aim of halting the domination of the industry by foreigners. The passage of time has now shown that government ownership and indigenization policy with respect to the insurance industry has achieved little result. Fraud, the reason for initial government intervention in the industry, has persisted in state-owned enterprises. Furthermore, despite government involvement, the insurance industry has achieved little, if any, growth in real terms. The government-owned insurance companies which dominate the market, at least in terms of sheer size and volume of business, have failed to introduce growth and competition into the industry. Although the government has since realized this, its attempt at reversing the status quo has at best been haphazard. Government attempts to encourage foreign capital back into the insurance industry have met with little success.

2. Background to government involvement in insurance

Government involvement in the ownership of insurance companies in Nigeria was influenced more by the rampant fraud prevalent in the insurance of government property in the 1960s. This is contrary to the widespread belief that such involvement was in order to break the dominance of the foreign owned insurance companies.[6] There is no doubt that the perception of foreign insurance companies as usurpers, with little or no interest in the

---

[4] NICON (1994, p. 11).

[5] For instance, it has been suggested that the foreign insurance companies "did not consider it worthwhile to assure the life of Nigerians. They concentrated their attention on expatriate personnel and their families, neglected Nigerian life as being too full of risks, and even in covering accidents, required more stringent conditions for insurance of Nigeria-owned vehicles and property. This large market was thus excluded by definition. And as long as they seemed to prosper, covering their costs several times over at the narrow end of the market, the insurance companies did not seem to care" (Okigbo (1981), pp. 155–56).

[6] A former Managing Director of NICON erroneously noted that the aim of government in establishing NICON "was to break the monopoly enjoyed by foreign insurance companies. Insurance was then considered a special profession because of the level of training required and because of lack of understanding of what it was all about. The government decided to address the problem by establishing its own insurance company to insure government assets and also exercise some form of control and responsibility over other companies" (quoted in *Nigeria Re* (1993), p. 3). See also Uzoaga (1981, p. 241) and NICON (1994, p. xiv).

development of African business, helped fan the pressures on the post-indpendence Nigerian Government to rethink the question of foreign domination.[7] It was, however, not the main cause for such government intervention.

Proponents of government involvement further supported their case with the possible economic implications of foreign dominance in such a strategic industry. It was for instance argued that foreign domination of the insurance industry amounted to a heavy drain on the nation's foreign exchange. The fact that the majority of the insurance business undertaken in Nigeria had to be reinsured abroad further compounded this problem. Again it is unlikely that these were the main reasons for government intervention in the insurance industry by establishing its own company. The following chronology of events will help explain this.

The debate on the implications of foreign ownership of insurance companies for the Nigerian economy started during the colonial era. In 1959, for instance, the importance of the insurance industry in the economic and political life of Nigeria was discussed in the Federal House of Representatives. The consensus of opinion was that the industry could play a vital role in the development process.[8] This was subsequently reflected in the 1962 First National Development Plan. This had as one of its main objectives the need to enable Nigerians to participate to an ever increasing extent in the ownership, direction and management of Nigerian industry and trade including the insurance business.[9]

The government further proposed to set aside £1 million for the establishment of an insurance company which would undertake the insurance of Nigeria's export crops. This stemmed from the need to conserve the country's foreign exchange resources for purposes of development.[10] Mr Rao, an Indian national and a then adviser to the federal government on insurance matters, was subsequently asked to prepare a feasibility study with the view of putting into operation the propositions contained in the first National Development Plan. Mr Rao's report was, however, followed with very little action and the proposed state insurance company did not materialize at the time.

In 1964 the government set up the Obande Comission of Inquiry to investigate insurance practice in Nigeria.[11] Remarkably, the committee was not asked to investigate the domination of the Nigerian insurance market by foreign companies. This was evidence of government reluctance to get directly involved in the ownership of such companies. Furthermore, the committee's recommendation for the setting up of a government-owned motor vehicle insurance office was rejected by the government, on the ground that motor vehicle insurance was already more than adequately provided for in the country.[12]

---

[7] For instance a former Managing Director of Nigeria Reinsurance Corporation (Nigeria Re) once noted that: "We did not have the expertise nor the capital. The only organization that had the resources to set up institutions such as NICON . . . was the government. So we had to bring pressure to bear on government to get interested in insurance. And until the government got involved in insurance we did not make much impact in the business" (quoted in *Nigeria Re* (1993), p. 3).

[8] NICON (1994, p. 11).

[9] National Development Plan (1962, p. 60).

[10] Ibid, p. 64.

[11] The Committee had the following terms of reference: (a) to inquire into the premiums charged for the insurance of motor vehicles in Nigeria, for both third-party and comprehensive covers, with a view to ascertaining the extent to which rates have increased since 1950, to compare them with rates currently charged in other countries, and to ascertain whether they are proportionate to the actual current costs of meeting claims in Nigeria; (b) to inquire into the practicality of introducing government control for motor vehicle insurance premiums; (c) to inquire whether the rights of the insured against the insurance companies in cases of accident, loss or damage to insured vehicles, are adequately protected; and (d) to make recommendations.

[12] NICON (1994, p. 13).

The shift in the government's reluctance to participate directly in the establishment of insurance companies has its origins in insurance fraud. By the mid-1960s, government was increasingly concerned about the activities of certain insurance brokers and companies with respect to their insurance of government property. In general, the following kinds of allegations were widespread: (a) the withholding of premium by brokers; (b) non-insurance of risks despite collection of premium; (c) inflation of the insured amount in order to enhance the commission of the brokers; and (d) government officials being stakeholders in the companies that insure the parastatals where they work.

One such government corporation that was under investigation at the time was the Nigeria Railway Corporation. A Tribunal of Inquiry was set up by the Federal Government for the Corporation in 1966, and was chaired by Justice Adefarasin. The 1968 government White Paper on the report of the tribunal directed that government properties be insured only by a state-owned insurance company. This was in order to reduce fraud in the insurance of government properties. Interestingly, the fraud was committed by an indigenous insurance company, Messrs African Underwriters Limited, which colluded with the indegenized management of the Nigeria Railway Corporation.[13] Perhaps because of the general distrust of foreign companies at the time, insurance of government corporations by a government-owned insurance company became the obvious option.

This government decision to set up its own insurance company was in line with the 1968 government White Paper on the 1966 report of the working party on statutory corporations and state-owned companies under the chairmanship of Michael Ani.[14] Dr Reichel, a United Nations Consultant on Insurance, was then invited to assist in the establishment of a national insurance company.[15] NICON was subsequently established in 1969.[16]

Not surprisingly, the establishment of NICON weakened the indigenous insurance and brokerage firms more than it did the foreign companies. For instance, Mr Braithwaite, a proprietor of one of the first indigenous brokerage firms, noted that:

---

[13] The inquiry found evidence of the following: (1) that the company was appointed from among the applicant firms without any reasoned comment; (2) that the brokers without any justification or authority improperly increased the value of assets covered and on which premiums were paid; (3) that the company was holding back premium returns due to the corporation from insurance offices; and (4) that the managing director of the insurance company and the then chairman of the corporation were business partners. (Comments of the government on the Tribunal Report (1968), pp. 12–13.)

[14] "[A]lthough not dealt with by the Working Party, the Government is not satisfied with the way in which properties belonging to corporations and state-owned companies are at present insured and it has therefore decided that immediate steps should be taken to form a state-owned insurance company which should be responsible for insuring properties belonging to all statutory corporations and state-owned companies" (quoted in NICON (1994), p. 14).

[15] He was also requested to review the two Insurance Acts of 1961 and 1964 which the first republic parliament had passed but which were yet to be implemented (NICON (1994), p. 17).

[16] Other functions of NICON include: (a) to reinsure with any insurance company, reinsurance company, or association of underwriters, any risk undertaken by the corporation and for that purpose, to enter into reinsurance contracts; (b) to accept on reinsurance, any part of risk undertaken by any other person (being risks such that the Corporation has powers to insure against) and to retrocede any part of such risks; and (c) to act as insurance agent or insurance broker in relation to any insurance, and in particular in relation to the insurance of government assets (section 4(2) of the NICON Decree of 1969). Although NICON was mandated to undertake reinsurance business and was even granted the right for 10 per cent of all insurance business undertaken in Nigeria to be ceded to it (section 8), not much was done in this regard (*Nigeria Re* (1993), p. 5).

> The effect of the creation of NICON on Nigerian brokers was devastating in that NICON was decreed to act for Government parastatals for their insurances. And so with one stroke of the pen, the livelihood of indigenous insurance brokers came to a stop; because at the time, up to 1969, most of the indigenous insurance brokers concentrated on the business of the Federal Government Parastatals.[17]

The indigenous insurance companies could not have fared any better than foreign insurance companies with respect to the establishment of NICON. After all the foreign insurance companies were established mainly to service the needs of the foreign businesses then operating in the territory. They therefore could have coped, at least at the time, without government patronage.

By 1970, when the Second National Development Plan came into force, government had become more explicit about its interest in challenging the foreign dominance of commerce and industry, including insurance, in Nigeria. On indigenization, the plan clearly stated that:

> Experience has shown, through history, that political independence without economic independence is but an empty shell. The validity of this statement derives from the fact that the interests of foreign private investors in the Nigerian economy cannot be expected to coincide at all times and in every respect with national aspirations. It would be naive, indeed dangerous to hope that in the process of industrial development, a set of national objectives will automatically be achieved by their mere declaration. A truly independent nation cannot allow its objectives and priorities to be distorted or frustrated by the manipulations of powerful foreign investors. It is vital, therefore, for Government to acquire and control on behalf of the Nigerian Society, the greater proportion of the productive assets of the country.[18]

Government also rejected the idea of selling its interests in the indigenized industries to capable indigenous businessmen when such persons became available. The Government argued that such views:

> . . . flowed from the narrow conception of the role of Government in national development which is not tenable in Nigerian circumstances. The aim of Development Planning in Nigeria is that economic growth should be accompanied by general development. In other words, the benefits of economic advancement should be distributed as widely as possible over the entire society. Government, as the most important single institution for ensuring the translation of growth into development through the provision of economic and social services, must have at its disposal, resources sufficient for achieving these goals of society. Today, industry and mining are the fastest growing sectors of the economy and are therefore likely to be important generators of resources for future development. It follows that Government must play a leading role in these two sectors in order to harness the fruits of economic growth for the overall development of the Nigerian society.[19]

In other words, government saw the profits from state-owned industries, including NICON as a source of finance for economic development. The government was therefore, at least at the

[17] Quoted in *Nigeria Re* (1993, p. 7). The brokerage function of NICON however ended in 1976.
[18] Second National Development Plan (1970, p. 289).
[19] Ibid.

time, not willing to compromise its position. The fact that such government-owned insurance company, with monopoly over the insurance of government assets, stifled the growth and develpment of private indigenous insurance companies did not matter.

In 1972, in line with the Second National Development Plan, the government promulgated the Nigerian Enterprises Promotion Decree ("NEPD"). Although the decree did not alter the ownership structure of these foreign insurance firms, it sent a clear signal to them that it was only a matter of time before such structures would be tampered with.[20] Some of these companies therefore chose to leave voluntarily. One such company was the Yorkshire General Life Assurance Company which has its parent company in the United Kingdom.[21] By 1975, the Federal Government had compulsorily acquired 49 per cent shares in the 14 foreign-owned insurance companies then in existence.[22] The 1977 NEPD decree raised indigenous participation in the ownership of all classes of insurance companies to 60 per cent minimum.[23] It was 1972, therefore, that saw the first direct threat to the existence of foreign-owned insurance companies in Nigeria.

In 1977, the government extended its sphere of influence in the Nigerian insurance industry by establishing the Nigeria Reinsurance Corporation. In order to enable the corporation to survive and compete in a market then dominated by foreign firms, the government included the concept of legal cession in the enabling decree. It made it mandatory for all insurance companies registered in the country to cede 20 per cent of their reinsurance treaties and gross premium to Nigeria Re. The Corporation was also granted the right of first refusal on the remaining 80 per cent.[24] By the late 1980s, following the adoption of the Structural Adjustment Programme ("SAP"), government had realized the difficulties in its ownership of such corporations and thus decided on a change of direction. Commercialization and privatization has now been adopted as the way forward to improve efficiency.

The next section will analyse the various developments in the government ownership of insurance companies that led to a change of government policy with respect to its control. How the new government policy works in practice will also be critically examined.

3. Rethink of government intervention

The origins of the rethink in government ownership and control of insurance companies can be traced to the adoption of the Structural Adjustment Programme ("SAP") in 1986. Prior to the introduction of SAP, the Nigerian economy was characterized by the growing importance of the oil sector, overdependence on imports, and an expanding public sector.[25] At the time, monetary management depended on the use of direct monetary instruments such as credit ceilings, selective credit controls, the administration of interest and exchange rates, and the prescription of cash reserve requirements and special deposits. Furthermore, the use of market-based instruments was hardly feasible, mainly due to the under developed nature of

---

[20] Under the 1972 NEPD, a Nigerian Enterprises Promotions Board was established. The main function of the board was to advise on guidelines for the promotion of Nigerian enterprises (section 1).

[21] NICON (1974, p. 74).

[22] *Nigeria Re* (1993, p. 2).

[23] The decree was however backdated to take effect from 1976 in order to reflect the actual year than the 60 per cent acquisition became effective.

[24] Section 7 of the Nigeria Reinsurance Corporation Decree of 1977.

[25] CBN briefs (95/03, p. 3).

the financial markets. Also the rapid monetization of foreign exchange during the oil boom era resulted in large increases in government expenditure.[26]

By the early 1980s, the economy had begun to falter, firstly due to the fact that government expenditure expanded more than its revenue. Also, the oil market began to falter too. Oil receipts became inadequate to meet the increasing levels of demand. Government, instead of rationalizing, resorted to borrowing, from both internal and external sources, to finance huge deficits. A consequence of this strategy was the divergence of the managed exchange rate system from the forces of demand and supply. This culminated in the emergence of a parallel exchange rate market (the black market). Though outlawed by statute, demand and supply ensured its survival. The declining fortunes of oil increased the pressures on the operators of the managed exchange rate system.

After several years of import control regulations and import licensing, the Babangida Administration, under pressure from the International Monetary Fund and the World Bank, launched the Structural Adjustment Programme in July 1986. It was designed to achieve balance of payment viability by altering and restructuring the production and consumption patterns of the economy, eliminating price distortions, reducing the heavy dependence on consumer goods imports and crude oil exports, and enhancing the non-oil export base, and to rationalize the role of the public sector, accelerate the growth potential of the private sector and achieve sustainable growth.[27]

To achieve the above objectives, the main strategies of the programme were the adoption of a market-determined exchange rate for the Naira, the deregulation of external trade and payments arrangements, reductions in price and administrative controls, more reliance on market forces as a major determinant of economic activity, and the divestment of government control or ownership of several industries including insurance.

Even after government agreed to change direction it was reluctant to exit the scene or at least ensure the establishment of a free market environment which would help ensure that the goals of SAP were achieved. In the case of the insurance industry, the government decided to sell off its shares (privatization) in the 14 companies where it had compulsorily acquired 60 per cent shares in 1976. Government however decided to commercialize the two main companies it established (NICON and Nigeria Re). The difference between commericalization and privatization was then explained by the Chairman of the Technical Committee on Privatization and Commercialization ("TCPC") as follows:

> While privatization entails alienation of government interest in affected enterprises, commercialization, whether full or partial, will not entail any divestment but will characteristically entail dismantling of all forms of government non-tariff protection of any preferential treatment or insulation of our parastatals against domestic and foreign competitors.[28]

In practice, commercialization, at least as practised in Nigeria, is no more than passing the inefficiency costs of such parastatals to the public. This is made possible by the sheer size, operational advantages and near dominance of the entire insurance market by the government-owned companies. For instance, NICON still has the monopoly in insuring all government assets while Nigeria Re retains the right to reinsure 20 per cent of all the insurance

[26] CBN Briefs, 95/03, p. 4.
[27] Ibid.
[28] Quoted in *Nigeria Re* (1993, p. 88).

business undertaken by all registered insurance companies in Nigeria. It also receives 20 per cent of the total gross premium of such insurance companies. Furthermore, it retains the right of first refusal for the remaining 80 per cent.

The above preferential treatment for government-owned insurance companies run contrary to the current position of the United Nations Committee on Trade and Development ("UNCTAD"). UNCTAD currently encourages a gradual movement towards a free market environment for insurance practices in developing countries. Its 1993 report on insurance asserted that:

> Reinsurance companies which receive compulsory cessions should realize that, while such arrangements were necessary in the formative years of their operations, dependence on them has to be scaled down and alternative sources of business developed.[29]

Some reinsurance companies in developing countries are already in compliance with the above advice. For instance, Tunis Re now operates without any compulsory legal cessions. Also it is prepared to phase out compulsory cessions to Korea Re over a ten-year period. Unfortunately, there have been no such moves in Nigeria.[30]

With all their government protection, it is not surprising that NICON and Nigeria Re should have controlled 57.7 per cent and 65.6 per cent respectively, of the total gross premium income of all insurance and reinsurance undertaken in Nigeria in 1995.[31] The initial promise by the TCPC to dismantle all forms of non-tariff protection for commercialized firms has been abandoned.

Perhaps one of the attractions to government for maintaining its ownership of these companies lies in its ability to appoint its board of directors and also appoint to top management positions. This is no doubt a useful avenue for political patronage. Merit and competence have unfortunately, not always been the prime consideration in such appointments. Also, the ever changing political climate in the country ensures regular changes in both the boards and top management of government-owned corporations. This hardly augurs well for continuation and sustainable development. Even under the so-called commercialization regime, the government has continued to show, beyond reasonable doubt, that it is still in charge and remains willing to intervene. For instance, in 1993, the government without warning swapped the managing directors of NICON and Nigeria Re. Also commercialization has not prevented the moving of the head offices of these two government parastatals to Abuja, a purely administrative town and the new capital of Nigeria. Although it would make commercial sense for these companies to be headquartered in Lagos, they have, at great cost and with little planning, been coerced into moving to Abuja. This would have been unlikely in a private enterprise.

Another problem with continued government ownership of the leading insurance industries is that it weakens the industry's ability to police the government should the actions of the government go contrary to the interest of the industry. Take, for instance, the issue of inflation. Despite the adoption of SAP, government refused to adhere to any form of fiscal discipline. This led to the promulgation of the Banks and Other Financial Institutions Decree ("BOFID") and the Central Bank of Nigeria ("CBN") Decree of 1991. The decrees were

---

[29] Quoted in *Daily Champion* (10 June 1997, p. 11).
[30] Ibid.
[31] *Nigerian Insurance Yearbook* (1996).

promulgated to help tackle the rising level of fiscal deficits and to synchronize the government's fiscal and monetary policies. The CBN Decree, for instance, enhanced the bank's powers and discretion in the design and conduct of monetary policy, but stopped short of granting it autonomy. The 1991 CBN Decree also contains some provisions which, if adhered to, will help ensure the attainment of the policy objective of monetary stability. For instance, section 33 of the decree asserts that:

> . . . the Bank may grant temporary advances to the Federal Government in respect of temporary deficiency of budget revenue at such rate of interest as the bank may determine . . . The total amount of such advances outstanding shall not at any time exceed twelve and a half per cent of the estimated recurrent budget revenue of the Federal Government for the year in which the advances are granted . . . All advances made pursuant to this section shall be repaid as soon as possible and shall in any event be repayable by the end of the Federal Government financial year in which they are granted . . . if such advances remain unpaid at the end of the year, the power of the Bank to grant such further advances in any subsequent year shall not be exercisable, unless and until the outstanding advances have been repaid.

In practice, however, these new initiatives had little effect as the government consistently failed to adhere to any form of fiscal discipline. Despite the provisions of section 33 of the CBN decree, the CBN has continued to fund the government fiscal deficits and has had no inhibitions in advancing more than 50 per cent of the budgeted revenue in some years.[32] This has rendered fruitless all attempts to harmonize fiscal and monetary policies with the aim of achieving monetary stability.[33]

Insurance companies, by their very nature are, however, usually sensitive to inflation. The long-term nature of some forms of insurance business is perhaps responsible for this. Take, for instance, a life insurance policy which can be used as a savings device in order to help provide for future needs. Inflation will have the effect of reducing the real value of the savings at maturity. There is therefore little incentive for persons to undertake such insurance policies during an inflationary period. Investments in fixed assets will seem rather more appropriate.

It therefore becomes difficult for the board of, say, Nigeria Re, which is appointed by the government, to be harsh in its criticisms of the government's inflationary policies. The fact that the board may, at the same time, be asking government not to review the 20 per cent legal cession it has on all the insurance business and the right of first refusal for the remaining 80 per cent, further compromises its position. The fact that government-owned companies are the main players in the insurance industry further diminishes the ability of the industry to influence government actions and decisions.

Government corporations, including NICON and Nigeria Re, are also not immune to corruption and fraud, which are currently widespread in Nigerian society.[34] In 1992, for instance, the then managing director of Nigeria Re was removed amidst allegations of fraud.

---

[32] *Newswatch*, 24 October 1994, at 32.

[33] Admittedly, the government has started to curb its fiscal indiscipline and tackle inflation. In 1996, for instance, the government recorded an impressive N37 billion budget surplus. Inflation was reduced from 73 per cent in December 1995 to 28 per cent in December 1996. Only time will tell whether this trend will continue (Uche, forthcoming).

[34] A recent survey by Transparency International, a German-based international group that interviewed business people worldwide, listed Nigeria as the most corrupt country in the world.

The insurance of Nigerian National Petroleum Corporation ("NNPC") assets is currently a matter of controversy. It has been claimed that a consortium of insurance companies, with the support of the Ministry of Petroleum, recently negotiated the renewal of NNPC insurance in the overseas market at US$22.4 million, as opposed to US $45 million allegedly quoted by NICON.[35] The government, through the National Insurance Commission, has however made it clear that the insurance of all government assets is, at least for now, the responsibility of NICON.[36]

The main victims of continued government refusal to allow a free market environment for the practice of insurance are the indigenous insurance companies. An unhealthy business climate, mainly perpetrated by the government, has made it difficult for the indigenous companies to survive and grow, at least in real terms. For instance, while the premium income for all insurance companies operating in Nigeria jumped from N1.068 billion in 1987 to N 2.736 billion in 1991, an increase of about 156 per cent, the rate of inflation within the same period stood at well above 2000 per cent.[37]

Although the indigenization decrease was aimed at promoting the interests of indigenous business, this has not happened in practice. In fact the current crisis in the insurance industry is partly attributable to the unhealthy macro-economic environment.[38] The relatively poor capitalization of indigenous insurance companies, at least when compared with foreign and state-owned companies, makes them more vulnerable to macro-economic instability.

Despite government reluctance to ensure a free market environment for the practice of insurance, its poor inflation record and its past indigenization record, the government still believes it can entice foreigners to invest in the Nigerian insurance industry. The insurance industry has recently been removed from the list of companies requiring compulsory indigenous participation in ownership. In other words, foreigners are now allowed to own 100 per cent of the equity in insurance companies. It is however unlikely that many investors will take advantage of this new regulation. The recurrent political crisis, especially since the annulment of the 1993 presidential election, does not help matters.

4. Conclusion

This paper has argued that the main reason why the federal government decided to establish its first fully owned insurance company, NICON, was because of the rampant fraud then prevalent in the insurance of government assets. This goes contrary to the widespread

---

[35] *Daily Champion*, 25 November, p. 17. Under the Insurance Decree of 1997, the responsibility of insuring all government properties lies with NICON (section 93 (1)). Section 93 (2) however provides that government property may, with the approval in writing of the Head of State, be insured with any other insurer. The petroleum ministry claimed they had the approval of the Head of State.

[36] In a recent newspaper advertisement, the commission claimed that the "Guidelines for consideration of other insurance companies to enable them to participate in underwriting Government Properties, are being prepared by the Commissioner of Insurance for the approval of the Head of State . . . Until the Guidelines are approved and become operational, no insurance underwriter is allowed to participate in the insurance of Government Assets and properties except NICON" (*The Guardian*, 28 October 1997, p. 47).

[37] *Nigerian Insurance Yearbook* (1992, p. 142).

[38] In the first quarter of 1996, for instance, three insurance companies had their licences revoked (Agusto and Co., 1996, p. 7). Furthermore, the Nigeria Insurance Association ("NIA"), in its 1996/97 Annual Report, asserted that between 1994 and March 1997, even whilst the membership of NIA was mandatory by law, the Association, as at 31 March 1997, had deregistered 22 companies (p. 9). Most of the affected companies are indigenous companies.

belief that it was in order to check the domination of the Nigerian market by foreign-owned insurance companies. Insurance fraud was, in the main, committed by indigenous insurance firms in collaboration with the Nigerian management staff of government-owned parastatals. This perhaps partly explains government reluctance to leave the industry wholly to private indigenous firms. Another possible explanation for this is that government, at least initially, saw such investments as a useful source of funds for the financing of economic devlopment. Such companies also serve as avenues for political patronage.

Despite government involvement, the insurance industry has achieved little, if any, growth in real terms. The government-owned insurance companies which dominate the market, at least in terms of sheer size and volume of business, have failed to induce growth and competition into the industry. Although the government has since realized this, its attempt at reversing the status quo has at best been haphazard. Government attempts to encourage foreign capital back into the insurance industry have met with little success. In order to ensure growth and stability in the insurance industry, the government should (1) consistently adopt and adhere to anti-inflationary policies; (2) promote a free market environment for the practice of insurance – the first step in this direction will be the abolition of compulsory legal cessions and the monopoly of government businesses by Nigeria Re and NICON respectively; and (3) focus on establishing a sound regulatory structure in order to ensure compliance with market rules. If the above policies can be sustanied over a number of years, then the industry will be in a position to achieve real growth and attract foreign capital.

REFERENCES

AGUSTO and CO., 1996, *1996 Insurance Industry Survey*, Agusto and Co., Lagos.
ADEYEMI, F., 1997, "A Review of the Insurance Decree (No. 2) of 1997", *The Nigerian Insurer*, July, pp. 78–91.
Banks and other Financial Institutions Decree of 1991.
CENTRAL BANK OF NIGERIA, *Monetary policy in Nigeria* (CBN Briefs, Research Department Series No. 95/03).
Central Bank of Nigeria Ordinance of 1958.
Central Bank of Nigeria Decree of 1991.
Comments of the Federal Government on the Report of the Tribunal of Inquiry into the Affairs of the Nigerian Railway.
Corporation for the Period 1 October 1960 to 31 December 1965 (Lagos, Federal Ministry of Information, 1968).
Companies Ordinance (Nigeria) of 1922.
Fourth National Development Plan 1981–1985, National Planning Office, Lagos.
Insurance Companies Act (Nigeria) of 1961.
Insurance Companies Regulations (Nigeria) of 1968.
Insurance Decree (Nigeria) of 1976.
Insurance Decree (Nigeria) of 1991.
Insurance Decree Number 2 (Nigeria) of 1997.
IRUKWU, J.O., 1974, *Accident and Motor Insurance in West Africa (Law and Practice)*, Caxton Press, Ibadan.
IRUKWU, J.O., 1981, *Insurance Law and Practice in Nigeria*, Caxton Press, Ibadan.
National Development Plan 1962–1968, Federal Ministry of Economic Development, Lagos.
National Insurance Commission Decree Number 1 (Nigeria) of 1997.
National Insurance Corporation of Nigeria Decree 1969.
Newspapers (various).
NICON INSURANCE PLC, 1994, *NICON at 25 (1969–1994)*, NICON Insurance PLC, Lagos.
Nigeria Re News (Newsletter of the Nigeria Reinsurance Corporation (various)).
Nigeria Reinsurance Corporation Decree of 1977.
NIGERIA REINSURANCE CORPORATION PLC (1993), *Insurance and Development in Nigeria*, Nigeria Reinsurance Corporation, Lagos.
Nigerian Enterprises Promotion Decree 1972.
Nigerian Enterprises Promotion Decree 1977.
Nigerian Insurance Yearbook (various), Nigeria Reinsurance Corporation, Lagos.

NIGERIAN INSURERS ASSOCIATION, 1996, *Nigeria Insurance Digest: A Statistical Journal of the Nigeria Insurers Association*, Nigeria Insurers Association, Lagos.

Nigerian Insurers Association Annual Reports (various).

NWANKWO, G.O., 1980, *The Nigerian Financial System*, Macmillan, London.

OKIGBO, N.C., 1981, *The Nigerian Financial System: Structure and Growth*, Longmans, London.

OSOKA, O., 1992, *Insurance and the Nigerian Economy*, Abiola Press Limited, Lagos.

PAWLEY, M., WINSTONE, D. and BANTLEY, P., 1991, *UK Financial Institutions and Markets*, Macmillan, London.

Second National Development Plan 1970–1974, Federal Government Printers, Lagos.

UCHE, C.U., 1996, "The Nigerian Failed Banks Decree: A Critique", *Journal of International Banking Law* 10, pp. 436–41.

UCHE, C.U., 1997, "Bank of England vs. the IBRD: Did the Nigerian Colony Deserve a Central Bank?" *Explorations in Economic History* 34, pp. 220–41.

UCHE, C.U. (forthcoming), "Does Nigeria Need an Independent Central Bank?", *African Review of Money, Finance and Banking*.

UZOAGA, W.O., 1981, *Money and Banking in Nigeria*, Fourth Dimension Publishing, Enugu.