

THE CHALLENGE OF DEVELOPING LOCAL CONTENT AND CAPACITY

Presented By

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NIGERIAN CONTENT

➤ Nigerian Content

Quantum value added to or created in the Nigerian Economy through deliberate utilization of indigenous Human and Material resources and Services in Exploration, Development, Exploitation, Transportation, Marketing and Sale of Nigerian Crude Oil and Gas resources without compromising quality, health safety and environmental standard (NCB)

➤ Nigerian Content in Insurance

Aggregate of all Oil and Gas Insurance Business written by all the Insurance Companies in Nigeria (NET RETENTION)

Or

Total Net Retention plus Reinsurance

LEGAL INSTRUMENTS AND GUIDELINES

SECTION 65 (7)

- Assets, Insurable Interest or liability Domiciled in Nigeria shall be insured with local insurers
- When the Local Market capacity is exhausted balance can be placed abroad.

SECTION 72 (1 – 4)

- Certain classes of insurance are domesticated
- Any other insurance and reinsurance business as the Commission may prescribe
- Placement Overseas only when Local Capacity is exhausted
- Approval must be obtained from NAICOM

LOSS ADJUSTERS

SECTION 48 OF INSURANCE ACT 2003

Permits a Foreign Loss Adjuster to work in Nigeria but must collaborate with a Local Loss Adjuster with the permission of NAICOM

PARTICIPATION BY LOCAL INSURANCE BROKERS

NAICOM Guidelines for the Insurance Industry on participation in Oil and Gas Insurance made it compulsory for overseas Insurance Broker to collaborate with a Local Broker.

NIGERIAN CONTENT/DIRECTIVES

45% NIGERIAN CONTENT BY END OF 2006

70% BY END OF 2010

**THE NIGERIAN CONTENT DIVISION OF NNPC SHORT TERM
DIRECTIVE NO. 21**

The directives state as follows:

- Hence forth all projects and operation as relates to the Insurance of Risk in the Oil and Gas industry must involve Nigeria Insurers/Reinsurers/Brokers/Adjusters/Surveyors and demonstrate strict compliance with the provisions in the Insurance Act 2003 as well.

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as the Guidelines for the Insurance of Risk associated with Oil and Gas operations in Nigeria and submit a certificate of compliance issued by NAICOM to NCD as part of the technical evaluation requirements for insurance or reinsurance contracts.

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- In this respect, NAICOM verified gross underwriting capacity of Nigerian Registered Insurance Companies must be fully utilized to the satisfaction of NAICOM to maximize Nigerian Content before ceding risk off shore.

CHALLENGES

- High Value Denominated in Foreign currency
- High EML (Estimated Maximum Loss)
- Risk of Accumulation
- High volatile risk
- One single loss in billions of dollars e.g a blow out
- Claims must be paid promptly

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- Expertise
- High cost of Reinsurance
- Reinsurers in actual sense set the rate that the original insurer will charge
- Captive by major oil companies to maximize retention, profit and reduce cost
- Should not be to the detriment of local companies
- Non involvement of many local Brokers and Loss Adjusters
- Companies should endeavour to submit themselves for rating.

LOW MARKET CAPACITY

- What constitute local market gross capacity
- Capital base
- Highly volatile risks can only be handled well by capitalized entities
- Companies must increase capital base beyond the minimum required by law

PRE-QUALIFICATION AND BIDDING PROCESS

- Current Pre-qualification and Bidding criteria need to be reviewed.
- Clauses that exclude local companies should not be included
- Consortium or Syndicate Bidding should be encouraged. To enable insurance industry take full advantage of – recent increase in Capital Base and the Nigerian Content.

BUILDING CAPACITY

- What constitutes Market Gross Capacity?
- Total Net Retention plus Reinsurance Cover purchased
- How much of CAPITAL can be deployed to Oil and Energy (5 –10)%.

CURRENT SITUATION

- Companies Bid on an individual basis
- Only successful Bidders participate
- Request for approval to place less than 40% in the Local Market still common
- Time to encourage other Models. Without disturbing companies that might decide to go alone as NAICOM will now insist on compliance with the law.

CONSORTIUM OR SYNDICATE MODEL

Following issues must be addressed:

- How many Syndicates
- MOU and agreement among members
- Role of the leader in the bidding process and documentation
- Liability several but not joint
- Purchase of reinsurance by the Leader for and on behalf of members

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- Reinsurance arrangement for the syndicates from (A) rated Reinsurance Companies.

NAICOM to set other criteria on a continuous basis.

CLAIM PROCESSING AND PAYMENT

- Processing by the Leader
- Default in Claim payment by any, member what safety measures?
 - (i) Utilization of Statutory Deposit in CBN (NAICOM)
 - (ii) Suspension of Operating Licence

EXPERTISE

- Adequately compensate staff to attract and retain the best
- Insurance Industry should make a deliberate effort towards development of expertise in Oil and Gas
- Employment of relevant and related discipline in Oil and Gas areas e.g engineers, Geologist e.t.c by Insurance Companies
- There is the need for all Stakeholder to invest in Training and Manpower development

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- Companies or Syndicates need to have a deliberate policy on training – and submit to NAICOM
- Nigerian Content could also extend training opportunities as it is presently doing in other industry to Insurance e.g. Engineering/Fabrication.

CONCLUSSION

COLLABORATION BY STAKE HOLDERS

NAICOM will continue to work with all the Stakeholders to ensure that provisions of 72 (1 – 4), Directive 21 of NCD are fully implemented.

THANK YOU

