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Microinsurance, Micro investments and Sustainable Development in Nigeria

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This article attempted to examine the relevance of microinsurance, in promoting micro investments and sustainable development in Nigeria. Specifically, this work sought to assess the nature, characteristics and operations of microinsurance and to establish the link between these elements and the growth of micro investments as well as the variables of sustainable development, such as poverty level in the country. The experimental, pilot and replicative research designs were used. Secondary data sourced from the publications of the National Insurance Commission of Nigeria, reports from Delta State Ministry of Poverty Alleviation, journals, text books and periodicals, among others were analysed qualitatively and descriptively. It was discovered that microinsurance has high potency in promoting micro investments or micro projects in the country based on the experience in Delta State where a lot of micro entrepreneurs, mainly the beneficiaries of the state microcredit scheme and Youth Empowerment Programmes, have been compensated through microinsurance scheme. This has promoted micro entrepreneurship, business growth, stability and continuity leading to poverty alleviation in the State. To this end, it was recommended that other states and relevant agencies should adopt the microinsurance scheme as experimented in Delta State. This is one of strategies for effective financial inclusion required for sustainable development as obtained in other countries of the world.

Keywords: *Microinsurance, Micro Investments, Financial Inclusion, Sustainable Development*

JEL Classification*: N27, N87, O55, Q01, E22, G21*

1. Introduction

Insurance anywhere in the world is seen as the most effective risk management technique. It allows the transfer of risk from one person, called the insured, to another person who specializes in risk management. This risk management expert is known as insurer. The insurer in most cases is usually an insurance company.

The policy holders seek protection from the insurance company against the insured risk by purchasing appropriate insurance policy and payment of prescribed premium. Different policies exist depending on the type of risk the customer is exposed to. The broad categories of insurance policies are life and non-life policies. The economic benefits of insurance are mainly the removal of fears of possible loss of life, income, investment

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assets and other properties and encouragement of the investors to venture into business. This is in the hope of compensation from the insurance company (insurer) in event of the occurrence of the insured risk(s).

As observed in most developing countries including Nigeria, the operation of insurance and insurance products have been quite discriminatory in favor of the rich and business entities in urban centers. The poor and low income earners in the rural areas are being neglected in marketing and consumption of conventional insurance services. Hence, the public perception and acceptance of insurance services remain very low.

In an effort towards effective financial inclusion in Nigeria, the National Insurance Commission (NAICOM, 2013) introduced micro-insurance scheme into the Nigeria financial system. The Scheme which was launched in December 2013 is designed to bring insurance services to the poor, low income earners, rural agriculturists, artisans and micro-entrepreneurs. The experiences in Singapore, Peru, Philippines, Brazil and South Africa where microinsurance scheme has been used to promote micro investment projects and grass root economic development and growth attest to the high potency of this novel insurance scheme in Nigeria in this regard. Although microinsurance scheme is quite new in Nigeria, the need to investigate its relevance in promoting micro investments and sustainable development in the country becomes pertinent in order to evolve effective and efficient strategies of operations of the scheme to realize its potentials in promoting micro investments and sustainable development in the economy.

Following from above, this article is therefore designed to assess the role of micro-insurance scheme in promoting micro investment and sustainable economic development in Nigeria. Primarily, this work seeks to examine the nature, characteristics and operations of micro-insurance and to establish the link between micro-insurance, micro investments and sustainable development in the economy. This work is structured into five sections. Section I is the introduction while section II presents the conceptual and theoretical review. In section III, methodological issues are addresses. The fourth section presents statistical analysis while section five is designed for discussion, recommendations and conclusion.

2. Conceptual and Theoretical Review

2.1. The Concept, Practice and Operations of Insurance

Various efforts have been made to define insurance by many researchers, professionals and experts in the field. For instance, Isimoya (2013, p.17) and Ubom (2010, p.67), among others have explained the concept, theory and practice of insurance with focus on the key elements such as risk, pooling of losses, payments of premium, risk transfer and indemnification.

Hence, insurance is seen as a social scheme which involves pooling and spreading of risk by and among policy holders. This involves the contribution of accumulated funds through payment of premium by the large number of insured from which the unfortunate few are indemnified. Insurance is therefore the pooling of fortuitous loss by transfer of risks to insurers, who agree to indemnify the insured for such losses, to provide other pecuniary benefits upon their occurrences or to render services connected with the risk. Insurance is a risk management mechanism. As such, it is viewed as the process of transferring risk from individuals, groups or corporate organizations to insurance companies registered to transact such business.

According to Ubom (2010, p.70), the major functions of insurance are risk spreading and compensation of insured if the insured event occurs in order to restore or reinstate the affected person to his or her former economic position prior to the occurrence of the misfortune. Other functions of insurance include loss prevention, loss control, stimulus to business, social benefits and provision of savings and investment vehicles. As observed by Pritchett, Schmit, Doerpinghaus and Athearn (1996, p.53), insurance render two fundamental services:

> *first, by reimbursing insured for the economic aspects of losses, insurance help individuals and organizations prevent financial harm (for example, bankruptcy) when insured events occur. Second, is the reduction of uncertainty and worry about our inability to predict individual future outcomes. These services are provided by spreading the economic burden of losses among members of the group while also improving predictability of average results through pooling of experience.*

As noted by Ubom (2014, p.17), Insurance act 2003, section 2 classifies insurance business into two main groups; namely: life insurance business and general insurance business. Under life insurance business, four basic contracts are obtainable. These include term assurance contract, whole life assurance, endowment and annuities. On the other hand, the general insurance business covers fire insurance, general accident motor vehicle insurance, marine and aviation insurance, oil and gas, engineering insurance, bonds, credit guarantee and suretyship and miscellaneous insurance, among others.

There also exist government insurance programs in Nigeria and in other countries of the world. Government insurance programs are divided into social insurance and other government insurance programs. Social insurance programs are financed entirely or in large part by mandatory contributions from employees and employers or both and not primarily by the general revenues of the government. An example of this is the Contributory Pension Scheme. Other government insurance takes the forms of National Health Insurance Scheme, Deposit Insurance Scheme and Investors Protection Scheme, among others.

In every private insurance scheme; life or non-life, there must be existence of insurable interest and fortuity. With insurable interest, the insured is bound to take due care and diligence in handling the insured property. The loss which occurs must be accidental and not intentional. For instance, a house owner cannot set his house ablaze to claim compensation from insurance company.

In Nigeria, the operation and practice of insurance are supervised, regulated and controlled by the National Insurance Commission (NAICOM, 2013). The commission is responsible for ensuring that the highest standard for the conduct of the business in the country is set. It determines the type of insurance that should be introduced, the rate of premium and commission to be paid for each class of insurance business and regulate insurance transactions between insurers and reinsurers. Recently, the commission had introduced micro-insurance scheme in the country. The nature, characteristics and objectives of micro-insurance form the next focus in this section.

2.2. Nature, Characteristics and Objectives of Micro-insurance

The definition of micro-insurance varies from one person to another depending on the focus, orientation, philosophy, logic and experience of the individual who attempts it. For instance, the International Association of Insurance Supervisors (IAIS-CGAP, 2007) in June 2007 while assessing the issues in regulation and supervision of micro-insurance explains micro-insurance as:

i. Risks pooling instrument for the protection of low income households.
ii. Insurance with small benefits.
iii. Insurance involving low levels of premium.
iv. Insurance for person working in the informal economy, etc.

With the above, the body defines micro-insurance as the insurance that is accessed by low income population, provided by the variety of different entities including communities-based organizations (CBOs) and faith-based organizations (FBOs), among others but run in accordance with generally accepted insurance practices. These include the core insurance principles such as the insurable interest, utmost good faith (uberime fide), indemnity, etc. This implies that the risk insured under a micro-insurance policy is managed based on insurance principles and funded by premiums (IAIS-CGAP, 2007, p.10).

In the views of Wiechers (2013, p.5), micro-insurance typically refers to insurance services and policies designed specifically for low-income clients who have no or very little access to mainstream insurance services. Micro-insurance policies provide protection to low-income households against specific risks in exchange for a regular payment of premium calculated proportionally to the likelihood and cost of relevant risk. It should be pointed out here that while the basic features of a micro-insurance policy are not fundamentally different from other types of insurance policies, the design and operation of a micro-insurance policy and scheme are adapted to the specific needs of the target group.

The main difference between micro-insurance and conventional insurance is in terms of its accessibility to the low income earners and simplicity. As outlined in Memorandum Circular No. 9 , of insurance commission in Philippines in 2006, the basic features of Micro-insurance policy are;

a) The amount of premium computed on daily basis does not exceed ten percent (10%) of the current daily minimum wage rate for non-agricultural workers in Metro Manila and
b) The maximum amount of life insurance coverage is not more than five hundred (500) times the daily minimum wage rate for non-agricultural workers in Metro Manila.

Therefore, the terms and conditions of micro-insurance policies are characterized by the following:

i. The contract provisions can be easily understood by the insured as they are written in plain language (in some cases local languages are used).
ii. The document requirements are simple; and
iii. The manner and frequency of premium collections coincide with the cash-flow of, or otherwise not onerous for the insured (Llianto et al., 2007, p.8).

Micro-insurance is inclusive in nature covering low income people, rural farmers, artisans and micro-entrepreneurs as well as the poor who are discriminated by conventional insurance scheme (Ubom, 2014, p.4). Micro-insurance services are provided by specialized and conventional micro-insurers.

In terms of legal status, micro-insurance providers are grouped into three major categories. The first category includes those organizations registered and licensed under insurance law, example commercial insurers and cooperative or mutual insurers. In the second category are those organizations registered, licensed and regulated under laws other than insurance law; e.g. the microfinance banks, cooperatives and funeral societies, among others. In category three, are the informal entities which are entirely unregistered and under no setting. Examples of these are the unregistered death benefit associations, informal group and community and faith based organizations. This last category is not operational in Nigeria as National Insurance Commission (NAICOM) in its guidelines on the operation of micro-insurance emphasizes that all micro-insurance providers be registered (Ubom, 2014, p.4).

The main objective of micro-insurance is to provide access of insurance facilities to the larger segment of people residing in rural areas. This is to assist in alleviating poverty through financial inclusion anchored on the various micro-insurance policies.

2.3. The Concept of Micro Investment

From the perspective of economic theory, micro investment covers all investment assets or the purchase of business investments by the households and corporate entities. These households and business entities constitute the private and/or micro-economic units. As argued by Henderson and Poole (1991, p.801), to understand aggregate investment, the base point is to begin by examining the investment problems faced by the individual households and firms. A firm invests to have the capital stock it needs for its productive activities. The sum total of the investment decisions made by millions of micro entrepreneurs, comprising household individuals and business firms, constitute the aggregate investment needed to achieve and sustain economic development and growth in economy. The household members invest in houses, consumer durables and business investments in plants, equipment and inventory. The level of these investments is influenced by the extent to which the micro entrepreneurs can take risk or manage such risk.

In the context of this article, micro investments are those investment projects, initiatives, business and productive activities excluded from the definition of small, medium and large scale business enterprises with focus on the size of investment and number of employees. Such investment falls under the purview of the informal sector investments comprising the investments by road side mechanics, welders, fabricators, fashion designers, hair dressers, agro allied producers, shoe menders, petty shop keepers and those maintaining kiosks, food vendors, fish smokers, etc. These investments provide the core of industrial development and growth when properly managed. Like other investment projects, the micro investments require mainly core, support and peripheral assets (Patel, 2007, p.187). The core assets such as technology, machineries, etc. are required mainly for modernization, new products development and other such opportunities. They contribute to the attainment of the assigned objectives or the purpose of the investment. On the other hand, supportive and peripheral assets referred to as indirect assets which include items such as shades, generators, stores, water supply facilities etc. Without these indirect assets, the core assets cannot run efficiently. Investment in any of these assets involve risk taking. Unfortunately, the management of such risks requires specialized services offered by insurance and insurance institutions.

In real practice, the conventional insurance schemes have very little or no room for micro entrepreneurs and their investment as outlined above, either as a result of regulatory restrictions, unattractive return potentials of such investments, locational disadvantage among other challenges. It is from this angle that the microinsurance scheme fits in to accommodate these categories of investors and their investments. By providing coverage to these informal sector investments, the microinsurance scheme has remove worries and fears from these classes of investors and has given them the confidence to venture into different areas of investments with high profit potentials. The realization of the profitability, safety, growth and survival of investments are key ingredients of sustainable development.

As stated by Ubom and Ubom (2008, p.195), the idea of sustainable development grew from numerous environmental movements in the early decades. For instance, the summits such as the Earth summit in Rio, Brazil in 1992 were major international meetings to bring sustainable development to the mainstream. In 1987, the World Commission on Environment and Development (WCED, 1987) defined sustainable development as, "development that meets the present without comprising the ability of the future generations to meet their own needs. This definition was amplified by UNESCO in 2005 when sustainable development was viewed as:

> *the will to follow a rational approach to economic administration and the creation of economic policies to manage public matters efficiently and profitably, to show respect for future generations by integration of a concern for environmental protection into decision making and moving progressively*

towards democracy with full participation of all concerned actors while taking into consideration specific local circumstances.

In the case of Nigeria, specific local circumstances include economic inequality, poverty and financial exclusion. Hence, to ensure sustainable development, appropriate measures of poverty alleviation and financial inclusion must be developed and implemented. Microinsurance scheme is one of the key elements in the attainment of sustainable development objective.

3. Methodology Aspects

3.1. Research Design

This work anchored on three important approaches. These include the experiment, pilot and replicative methods. The practical results of the microinsurance experiment in Delta State considered as pilot or landmark achievements in this direction form the basis of empirical data used in the work.

Equally, the operational philosophies and ideologies as obtainable in Philippine, Peru and other countries are replicated in this work for the purpose of discussions, and inference on the relevance of microinsurance in promoting micro investments and sustainable development in Nigeria in the light of high poverty level and financial exclusion.

3.2. Variables Identification

The major variables used in this article were the minimum capital base for different categories of micro insurers in Nigeria, the investment made in Delta State in Microinsurance Scheme and the poverty index across the geopolitical zones in Nigeria.

3.3. Types, Sources and Methods of Data Analysis

Secondary data were used in this work. These data came from the guidelines on microinsurance released by the National Insurance Commission (NAICOM) in December, 2013, the reports from Delta State Ministry of Poverty Alleviation (UNDP, 2015) as well as internet based sources which provided the needed access to data and literature from those countries that have operated microinsurance scheme for some times now. The data obtained were analyzed descriptively as below.

4. Statistical Details and Analysis

The focus of this article is on investigation of the role of microinsurance in promoting micro investments and stimulating sustainable economic development in Nigeria. The strength of any business and its contributions to the economy depend to a large extent on capital base and the operational activities of such a business. Hence, the data presented below are those on the minimum capital base, pilot transactions of microinsurance and micro investments or enterprises development and growth in Nigeria. Poverty is a socioeconomic variable which has direct link with sustainable development.

Table 1. *Minimum Capital Base of Micro insurers Compared with Conventional Insurers*

No.	Types of Insurance business	Micro insurer	Conventional Insurer
1	General insurance	₦ 200 Million	₦3 Billion
2	Life insurance	₦ 150 Million	₦2 Billion
3	Composite insurance	₦350 Million*	₦5 Billion
4	Reinsurance	₦700 Million*	₦10 Billion

Note;* Deductive Estimate based on the trend in Conventional insurers. Sources: (i) NAICOM Guidelines for Microinsurance Operation in Nigeria, 2013. (ii) NAICOM Regulations, 2007 (iii) Authors Deductive Estimates

As indicated in table 1 above, the minimum share capital for Micro insurers transacting general microinsurance is ₦200 million compared with the ₦3 billion fixed for conventional insurance companies carrying on general insurance business. For life insurance business, the microinsurance companies are required to have ₦150 million capital base while conventional insurance firms need to have ₦2 billion as the minimum share capital. For composite and reinsurance business, the capital base is ₦5 billion and ₦10 billion respectively for conventional insurers. Although, no provision is made in these two areas of operations for microinsurance scheme, it is expected that as the microinsurance business grows in the country, some micro insurers will be licensed to carry on the composite and reinsurance businesses. Hence, the trend of their capital base will follow the ones for conventional insurance firms in these lines of businesses. Based on this, ₦350 million and ₦700 million were deductively estimated for micro insurers that will be interested in them.

The capital base fixed for the various forms of microinsurance companies is based on the grass root nature of their operations and the scope of risks coverage. In the real sense, the major consideration in this aspect is to encourage the providers of microinsurance services to venture into the business and to ensure adequate coverage, stability and sustenance in their operations. So far, the pilot operation of microinsurance scheme in Nigeria has provided stimulus and strength to micro entrepreneurs in the country as shown in table 2 below.

Table 2. *Pilot Operations of Microinsurance Scheme in Nigeria- Delta State Microinsurance Scheme (DMIS)*

No.	Partners	Beneficiaries	Premium	Claims
1	Mutual Benefits Assurance, Lagos	Fish Farmers	₦6.5m (by Delta Govt.)	₦80 million paid by NAIC to Savannah Sugar Company aside from the amount paid to reinstate the Fish farmers who lost their investments as a result of flood and fire outbreak.
2	National Agricultural Insurance Corporation (NAIC)	Micro credit Scheme Beneficiaries		
3	Association of Farmers in Nigeria (AFAN)	Beneficiaries of Youth Empowerment Scheme		

As indicated in table 2 above, the pilot operations of microinsurance scheme kick started by Delta state government in the first quarter of this year has promoted and engendered micro entrepreneurs in different sectors of the state economy. For instance, the government of the state in partnership with Mutual Benefits Assurance, National Agricultural Insurance Cooperation (NAIC) and Association of Farmers in Nigeria (AFAN) insured and indemnified fish farmers and entrepreneurs who were the beneficiaries of the Delta State Micro Credit Scheme and Youth Empowerment Scheme. With the premium of ₦6.5m paid by the government of the state in partnership with mutual benefits assurance for a group of small investors. These entrepreneurs are being protected against losses. This has solved the problem of how to continue in business which is the greatest challenge facing both the urban and rural entrepreneurs in Nigeria. For example, through the microinsurance scheme, the fish farmers that suffered losses as a result of flood and fire outbreak in the year 2011 in Delta State were compensated and restored. In addition, ₦80million was paid by NAIC to savanna Sugar Company when the firm experienced fire outbreak and flood.

Through this financial inclusion dynamics, micro entrepreneurship is being sustained. The resultant effect of this is promotion of micro investments, reduction in poverty and sustainable development. Table 3 below shows poverty level in Nigeria between 1980 and 2010.

Table 3. *Poverty trend in Nigeria 1980-2010(%)*

Level	1980	1985	1992	1996	2004	2010
National	28.1	46.3	42.7	65.6	54.4	69.0
Sector:						
Urban	17.2	37.8	37.5	58.2	43.2	61.8
Rural	28.3	61.4	66.0	69.3	63.3	73.2
Geopolitical zone:						
South south	13.2	45.7	40.8	58.2	35.1	63.8
South east	12.9	30.4	41.0	53.5	26.7	67.0
South west	13.4	38.6	43.1	60.9	43.0	59.1
North central	32.2	50.8	46.0	64.7	67.0	67.5
North east	35.6	54.9	54.0	70.1	72.2	76.3
North west	37.7	52.1	36.5	77.2	71.2	77.7

Source: NBS, 2006 and 2011

As reflected on table 3 above, poverty level in Nigeria has been on increase from 1980 to 2010 and beyond with prominence in the rural areas. For instance in 1980 when the national poverty level stood at

28.1%, the rural sector recorded 28.3% which increased to 61.4% in 1985 when 46.3% was recorded at the national level. In 1996, and 2010, the national poverty level stood at 65.6% and 69.0% respectively while 69.3% and 73.3% were recorded for the rural sector accordingly for these two years.

In terms of geopolitical zones, the North-West had experience the highest level of poverty with a poverty level ranging from 37.2% to 77.7% between 1980 and 2010. In contrast, the south West geopolitical zone had experienced the lowest level of poverty with an average poverty level of 43.02% from 1980 to 2010. However, on aggregate there is a high level of poverty in Nigeria. The actual poverty rating in the country as at now is not less than 72.3%. This is a serious threat to sustainable development in the economy.

5. Discussion, Recommendations and Conclusion

5.1. Discussion

The issue of sustainable development has presented a serious challenge to less developed and developing countries of the world, including Nigeria. As noted earlier this issue has captured global attention as it is being discussed in many international conferences and submits. For instance, in 1992, it was a prominent issue discussed at the Earth Summit in Rio, Brazil where efforts were made at that meeting to bring sustainable development to the main stream. In terms of it definition, sustainable development was define in 1987 by the World Commission on Environment and Development (WCED) as a “development that meets the present without compromising the ability of the future generations to meet their own needs” (Ubom and Ubom, 2008, p.195).

During the World Summit on sustainable development held in Johannesburg, South Africa in 2002, explicit efforts were made to identify the strategic approaches to successful achievement of sustainable development. One of these approaches anchored on poverty eradication and access to socio-economic amenities. Hence, poverty level is seen in this work as a major variable or indicator of sustainable development. As reported in many researches and literature on development management and socio-economic development, poverty is a serious threat to the human race. In the observation made by Moruku and Nzelibe (2012), poverty fuels socio-political conflicts and creates a dynamics of its own, which leads to or aggravates other problems.

Although series of measures including the introduction of Family Support Programme (FSP), Family Economic Advancement Programme (FEAP), Graduate Skill Acquisition Scheme (GSAS), Youth Enterprise with Innovation in Nigeria (YouWIN), Various Microcredit Schemes as well as the establishment of microfinance Banks have been initiated to alleviate poverty. These measures have not really yielded the desired results of alleviating poverty to its barest minimum to guarantee sustainable development in the foreseeable future in the country. The introduction of microinsurance scheme has paved the way to promote micro entrepreneurship and micro projects in the country rural areas by providing insurance facilities to the microbusinesses against insured risk at affordable premium rates and flexibility of operations. This tends to encourage micro investors to take more risk and risk and venture into businesses with broad-based focus with the potency to create more employment opportunities, produced more products and make the products available at affordable prices to the consumers. These asides it opens up markets for micro entrepreneurs in the rural sectors of the economy. These key elements attribute are the needed ingredients for sustainable development as obtainable in other developing countries of the world.

5.2. Recommendations

In view of the potency of microinsurance scheme to drive the growth of micro investments, poverty alleviation, and sustainable development, it becomes necessary to recommend its adoption as experimented in Delta State by other States in the Federation. Proper orientation at the grass roots through town hall meetings, ward-to-ward mobilization and sensitization be carried out to create the needed awareness and ginger the interest of people to take microinsurance policies. The State Governments in Nigeria should play pioneering role by taking the responsibility of paying premium unbehalf the insured at the initial stage. This is one of strategies for effective financial inclusion required for sustainable development as obtained in other countries of the world.

5.3. Conclusion

Microinsurance scheme is a novel strategy of financial inclusion in Nigeria designed to solve the problem of poverty and promote sustainable development in the country. With objective implementation of the recommendations made above, it is expected that micro investments will be promoted over time to a level capable of enhancing sustainable development in Nigeria as recorded in China, Peru, Brazil and Philippine, among others. This is one of strategies for effective financial inclusion required for sustainable development as obtained in other countries of the world.

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