

COVID-19

# COVID-19 and the Nigerian insurance industry

**Meeting needs when it matters**

1 April 2020





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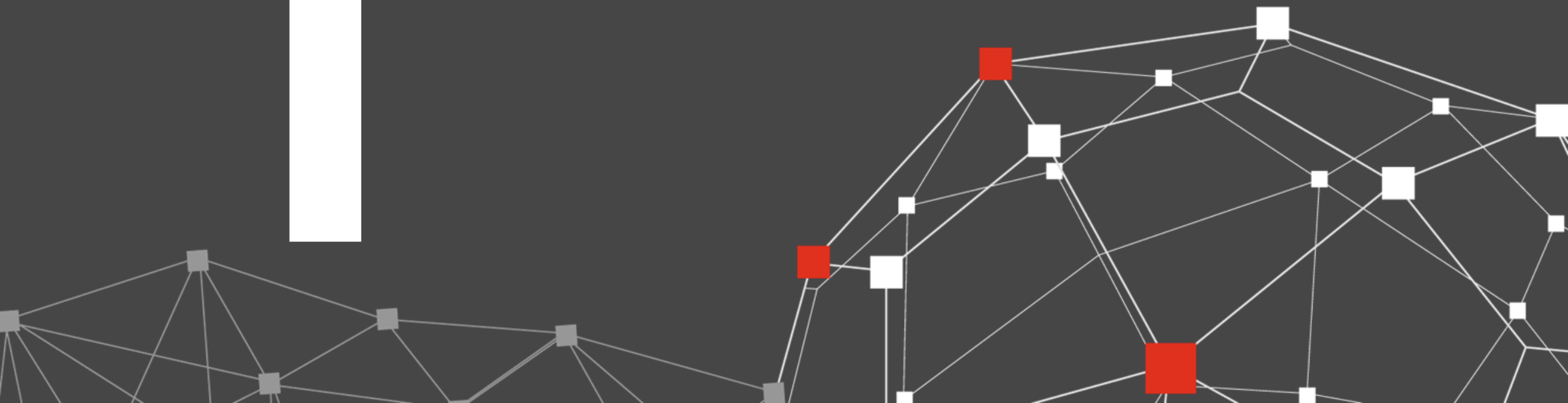
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# 1

## Risks from COVID-19 and impact on the global economy



# COVID-19 pandemic : Global risks and concerns and its impact on the global economy

## Global risks

### Recession and financial crises

Risk of global economic recession and financial crises due to debt overhang.

### Supply chain

Rerouting, delays, disputes and knock-on impact on customers.

### Sales

Decline in sales leading to cash flow and covenant issues.

### Operations

Reduced resilience in key functions, infrastructure and services or locations become unavailable.

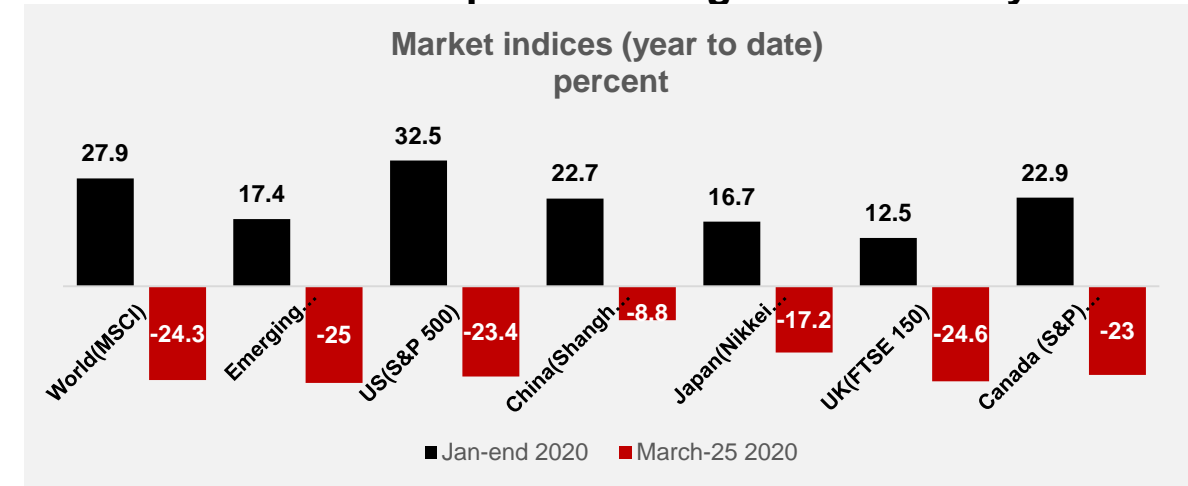
### Travel

Restricted or prohibited travel to some locations impacting business and leisure demand .

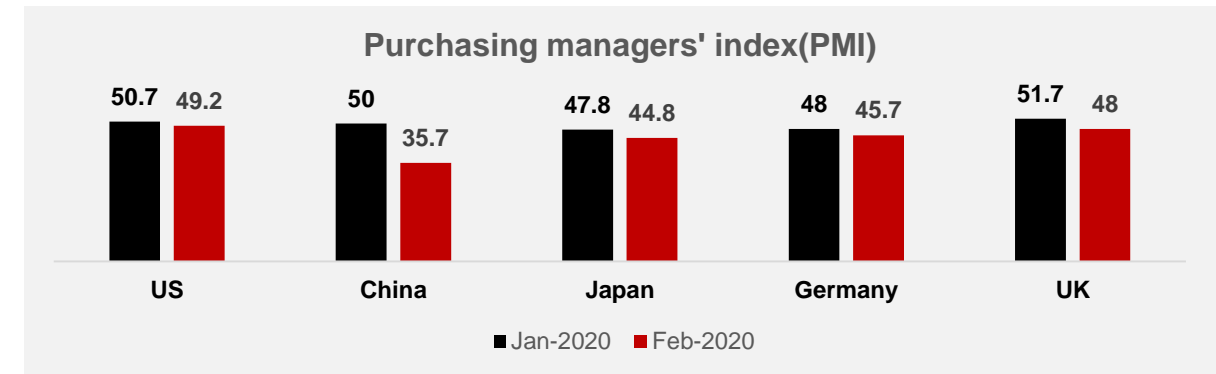
### Regulation

Compliance challenges in certain sectors.

## Direct impact on the global economy



Source: *The Economist*, PwC analysis



Source: Trading economics, PwC analysis

### Oil price crash

Oil prices dipped by over 50% to US\$22.74 per barrel for Brent crude as at 31 March 2020 from about US\$62.00 in January 2020.

# COVID-19 Pandemic: Global risks and its impact on the global insurance industry

## Global insurance risks

### Consumers & Companies

Consumers and companies are at risk from the costs of business and social disruptions related to the virus.

### Health Insurance

Health Insurers will be impacted by illness, impairment and disability claims, especially from consumers and their dependents affected by the pandemic.

### Events Insurance

The events industry has been significantly susceptible due to cancellations and postponements. This is one insurance segment liable to suffer losses.

### Travel Insurance

Travel insurance companies will be vulnerable particularly to customers who took out additional disruption cover for their travel insurance.

### Credit Insurance

The biggest potential risk to credit insurers from the pandemic would be from any bankruptcies spurred by the virus's spread.

### Reinsurance

If the death toll rises more than ten times the current levels, the contingency losses for reinsurers would be sizeable.

### Financial Markets

Due to policy holders' investments made by insurers in the financial markets, insurance funds are at risk due to volatility in the global financial markets .

# PwC's COVID-19 CFO Pulse Survey...

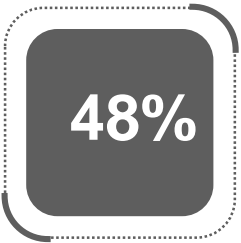
A recent CFO survey highlighted global recession, reducing consumer confidence and consumption as key concerns with respect to COVID-19...



Potential global recession



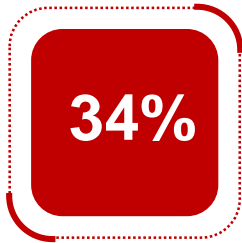
Decrease in consumer confidence, reducing consumption



Financial impact



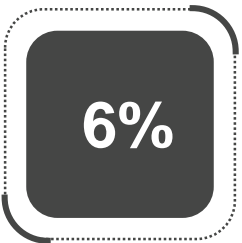
Effects on our workforce/reduction in productivity



Supply chain issues



Not having enough information to make good decisions



Lack of a comprehensive/tested company emergency preparedness plan



Difficulties with funding



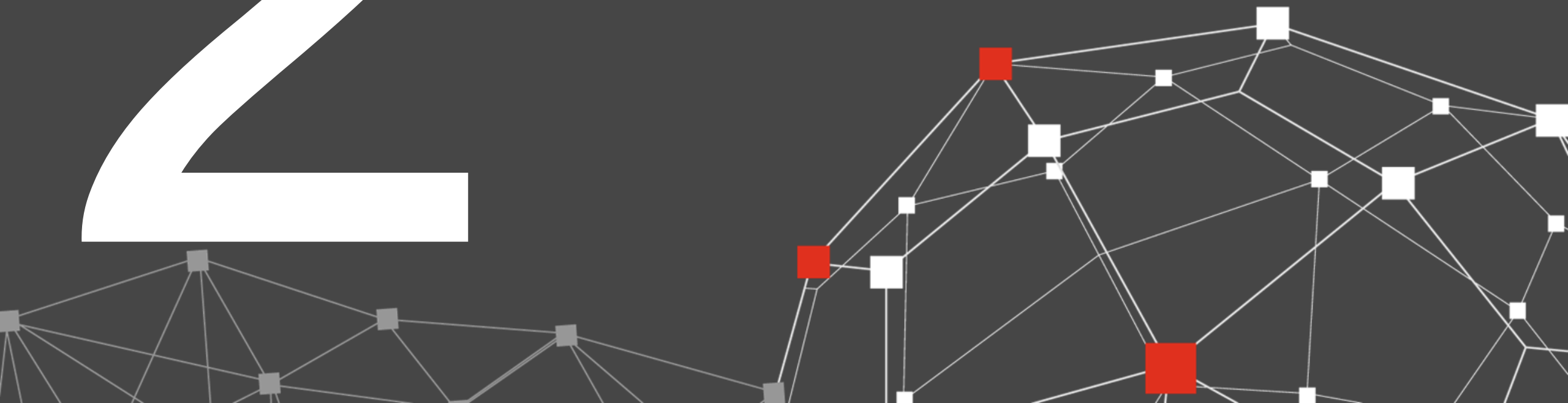
Impacts on tax, trade, or immigration



Financial disclosures

# 2

## Global policy responses to the COVID-19 pandemic





# COVID-19 pandemic: Key policy responses from selected global territories



## United States of America

- Federal funds rate lowered by 150bp to 0-0.25bp.
- Purchase of Treasury and agency securities in the amount as needed.
- Expanded overnight and term repos. Lowered cost of discount window lending. Reduced existing cost of swap lines with major central banks and extended the maturity of FX operations; broadened U.S. dollar swap lines to more central banks.
- Authorized up to USD10 billion from the treasury Exchange Stabilization Fund to ease loan losses; among other key measures.



## United Kingdom

- Reduced Bank Rate by 65 basis points to 0.1%
- Expanded the central bank's holding of UK government bonds and non-financial corporate bonds by GBP200 billion.
- Launched the joint HM Treasury–Bank of England COVID-19 Corporate Financing Facility, which together with the Coronavirus Business Loans Interruption Scheme, makes GBP330 billion of loans and guarantees available to businesses (15% of GDP); among other key measures.



## European Union

- Establishing a Corona Response Investment Initiative to support public investment for hospitals, SMEs, etc., and stressed regions, with a view to mobilising if needed for the hardest-hit EU member states (up to EUR800 million is available in 2020).
- Redirecting EUR1 billion from the EU Budget as a guarantee to the European Investment Fund to incentivise banks to provide liquidity to hit SMEs and mid-caps, among other key measures.



## China

- An estimated RMB1.3 trillion (or 1.2% of GDP) in fiscal measures have been approved and are being implemented.
- Liquidity injection into the banking system, including RMB3 trillion in the first half of February.
- Expansion of relending by RMB800 billion to support manufacturers of medical supplies and daily necessities (RMB300 billion) as well as MSME firms (RMB300 billion) and the agricultural sector (RMB100 billion) at low interest rates, among other key measures.



## India

- An additional INR150 billion (about 0.1 percent of GDP) will be devoted to health infrastructure, including for COVID-19 testing facilities, personal protective equipment, isolation beds, ICU beds and ventilators.
- Some stimulus measures have been announced at the state level, the largest being an INR200 billion package in Kerala (2.5% of state GDP; 0.1% of India-wide GDP), which includes some direct transfers to poor households, among other key measures.



# COVID-19 pandemic: Key policy responses from selected sub-Saharan African territories



## Kenya

- Offered 100% tax relief to persons earning less than KES24,000; Income tax down from 30% to 25%.
- The central bank lowered its policy rate by 100 bps to 7.25%; lowered banks' cash reserve ratio by 100 bps to 4.25%; increased the maximum tenor of repurchase agreements from 28 to 91 days; and announced flexibility to banks regarding loan classification and provisioning for loans that were performing on March 2, 2020, but were restructured due to the pandemic, among other key policy measures
- .



## Ghana

- Committed USD100 million to support preparedness and response. Additional funds have been earmarked to address availability of test kits, pharmaceuticals, equipment and bed capacity.
- The Monetary Policy Committee cut the policy rate by 150 basis points to 14.5 percent on 18 March.
- Reduced primary reserve requirement from 10% to 8%
- Reduced capital conservation buffer from 3% to 1.5%, revising provisioning and classification rules for specific loan categories, among other key policy measures.



## South Africa

- The government will assist companies facing distress through the Unemployment Insurance Fund and special programmes from the Industrial Development Corporation.
- Within the realm of the budget, workers with an income below a certain threshold will receive a small monthly payment during the next four months.
- Funds will be available to assist SMEs under stress, mainly in the tourism and hospitality sectors.
- The Central bank reduced the policy rate by 100 bps to 5.25% on 19 March 2020, among other key policy measures.



## SSA

- The African Export-Import Bank (Afreximbank) has announced a USD3-billion facility, named the Pandemic Trade Impact Mitigation Facility (PATIMFA), to help African countries deal with the economic/health impacts of the pandemic.
- The World Bank has also suspended debt repayments for Nigeria and other countries.
- International Finance Corporation and World Bank will increase COVID-19 related financing availability to USD8 billion as part of the USD14 billion package, up from an earlier USD6 billion, to support private companies and employees hurt by the economic downturn caused by COVID-19.

# COVID-19 pandemic: Some policy measures taken by the Nigerian government

Monetary policy	Fiscal policy
<p>The Central Bank of Nigeria (CBN) maintained the current monetary policy rate in March, but introduced additional measures, including:</p> <ul style="list-style-type: none"> <li>Reducing interest rates on all applicable CBN interventions from 9 to 5 percent and introducing a one-year moratorium on CBN intervention facilities.</li> <li>Creating a NGN50 billion (USD139 million) targeted credit facility, and liquidity injection of NGN3.6 trillion (stimulus package in the form of loans) (2.4% of GDP) into the banking system.</li> <li>NGN100 billion to support the health sector, NGN2 trillion to the manufacturing sector, and NGN1.5 trillion to impacted industries in the real sector.</li> <li>NGN50 billion targeted credit facility through NIRSAL Microfinance Bank for households and MSMEs.</li> </ul> <p>Regulatory forbearance was also introduced to restructure loans in impacted sectors.</p>	<ul style="list-style-type: none"> <li>Contingency funds of NGN984 million (USD2.7 million) were released to Nigeria's Centre for Disease Control, and an additional NGN6.5 billion (USD18 million) is planned.</li> <li>The government is reviewing its 2020 budget and, given the expected large fall in oil revenues, announced plans to cut/delay non-essential capital spending by NGN1.5 trillion (close to 1% of GDP).</li> <li>Three-month repayment moratorium for all TraderMoni, MarketMoni and FarmerMoni loans with immediate effect. Similar moratorium to be given to all Federal Government-funded loans issued by the Bank of Industry, Bank of Agriculture and the Nigerian Export Import Bank</li> <li>NGN15 billion grant from Federal Government to Lagos State Government</li> <li>Conditional cash transfers for the next two months to be paid immediately to the most vulnerable at Internally-displaced persons camps</li> </ul>
<p>The CBN intends to strengthen and support its loan-to-deposit ratio (LDR) to further support lending to individuals, household and businesses.</p>	<ul style="list-style-type: none"> <li>Also, due to the reduction in global oil prices, the government reduced the petrol pump price from NGN145 per litre to NGN123.59 per litre on 1 April 2020.</li> </ul>

# COVID-19 pandemic: Some policy measures by the Nigerian government

## Exchange rate

Sale of foreign currency to members of the Association of Bureau De Change Operators of Nigeria (ABCON) suspended.

Adoption of uniform/single exchange rate for official transactions, Bureaux De Change as well as for importers & exporters of goods and services, among others.

Official rate pegged at NGN360/US\$ and NGN380 at the Investors and Exporters (I&E) window.

## Emergency Economic Stimulus Bill 2020

Nigeria's House of Representatives introduced and passed for third reading a bill that seeks to provide a stimulus for the Nigerian economy. Some of the measures in the bill are expected to protect jobs and alleviate the financial burden on citizens in response to the economic downturn occasioned by the outbreak of COVID-19 disease. Below are some of the key elements contained in the Bill:

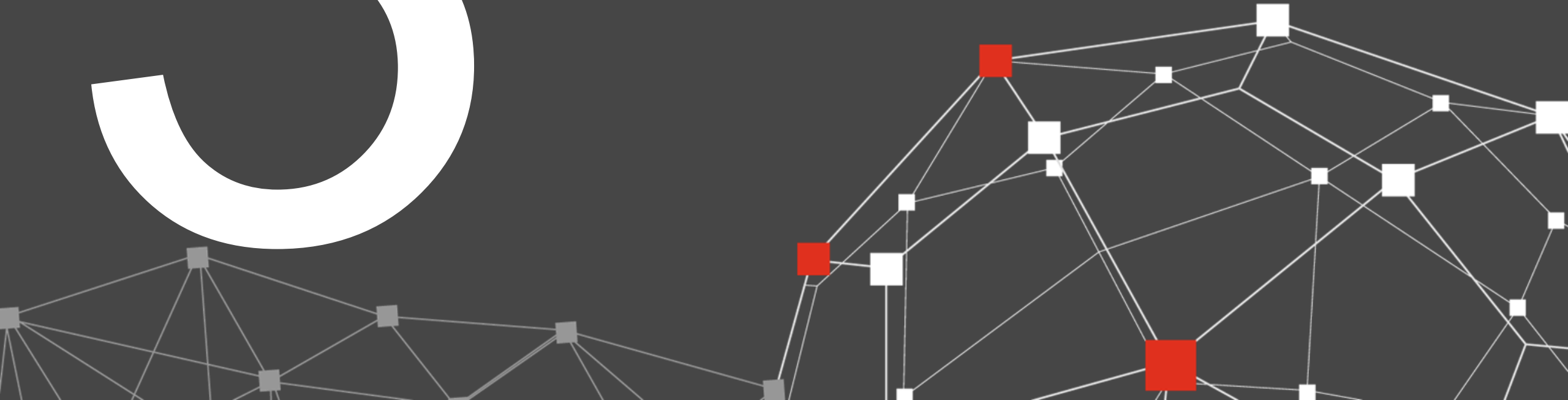
All payment of mortgage obligations on residential properties obtained by individuals will be deferred for a period of 180 days from 1 March 2020.

From 1 March to 31 December 2020, there will be a waiver of import duty on medical equipment, personal protection and other medical necessities.

Any employer duly registered under the Companies and Allied Matters Act (CAMA) which maintains the same employees' status without retrenching their staff as at 1 March 2020 till 31 December 2020 shall be entitled to 50% income tax rebate on the total amount due or paid as PAYE under the Personal Income Tax Act.

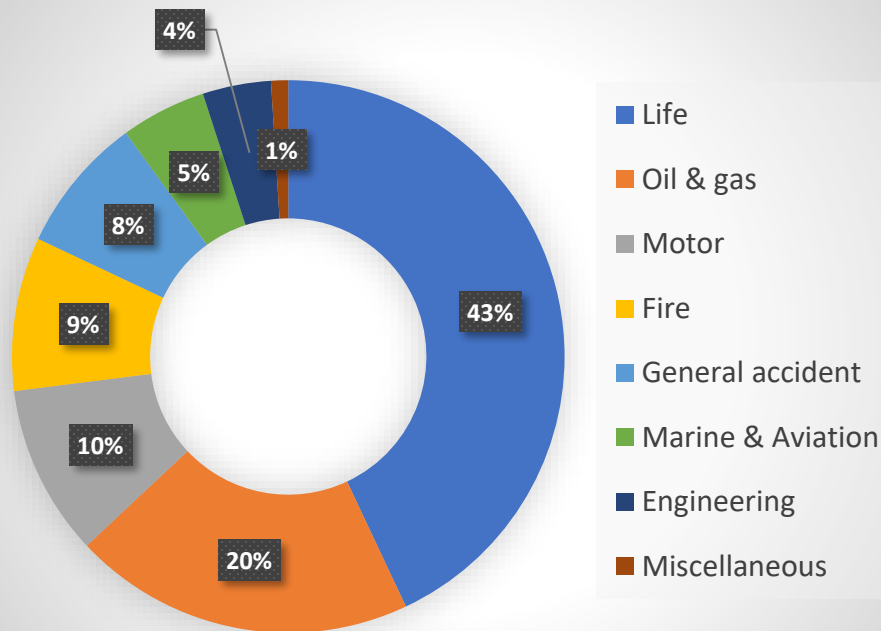
# 3

Impact on the  
Nigerian insurance  
industry



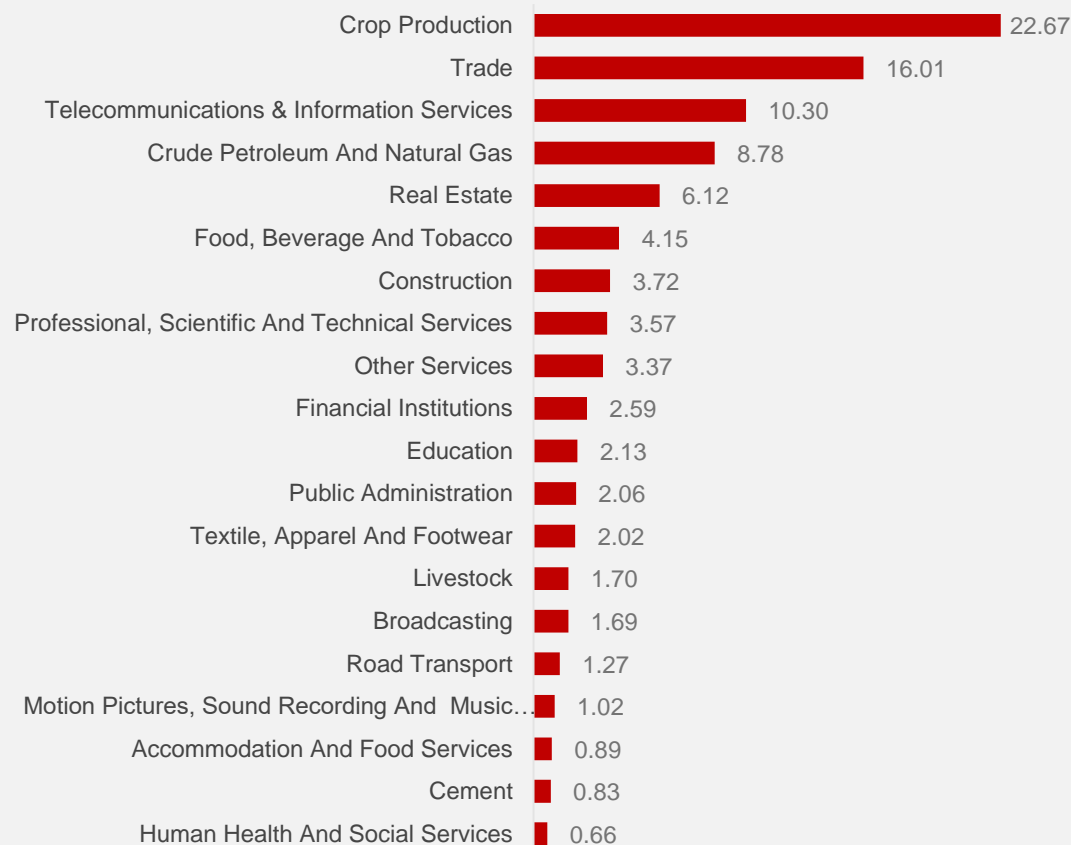
# Risks and Challenges for the Insurance sector (1 of 2)

2018 Gross Premium by Class of Business



Source: 2018 Nigeria Insurance Digest, PwC analysis

Top 20 contributors to Real GDP by sectors



Source: NBS, PwC analysis

## Most vulnerable sectors

- Trade and commerce
- Hospitality/Leisure
- Construction and Real estate
- Textile, Apparel and Footwear
- Oil and Gas sector
- Education
- Transport incl. aviation
- Fast food & Restaurants
- Non-food Manufacturing

# Risks, Challenges and Implications for the insurance sector (2 of 2)

With most businesses in uncharted territories, there is a heightened risk of :



A surge in health, travel and business interruptions, supply chain and event cancellation claims.



Pressure on sales from reduced business activity.



Less use of face-to-face channels. Web and phone traffic may surge, creating operational constraints or disruptions.



IT and other support services may deteriorate because of internal challenges or vendor problems.

Implications for the insurance sector



Driving interest rates even lower.



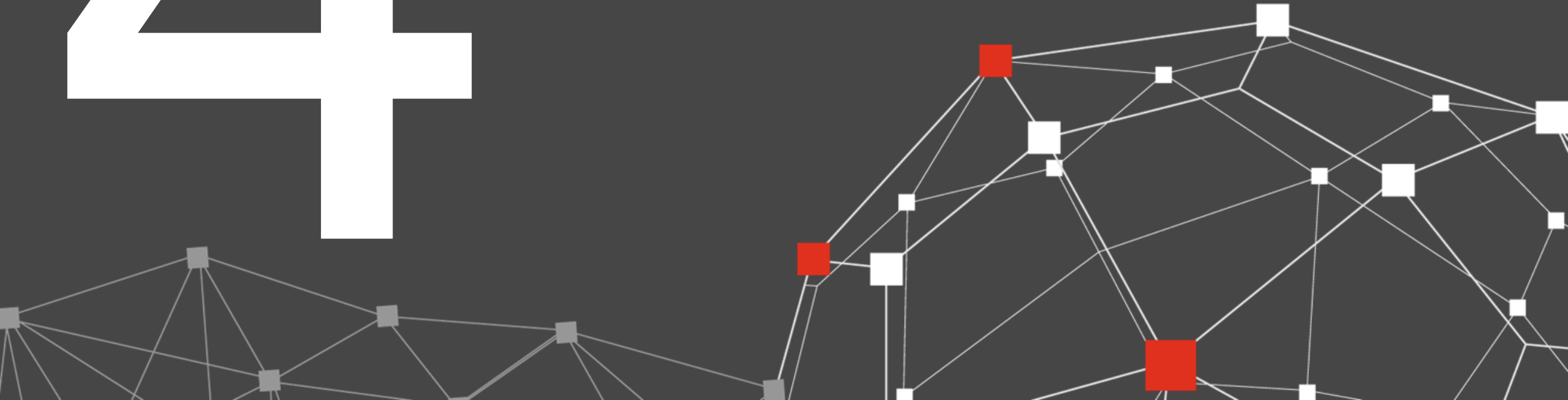
Increasing credit risk exposures from businesses facing possible default.



Possibility of regulators asking for extraordinary solvency tests to ensure insurers can withstand the immediate and knock-on impacts.

# 4

Coming through  
when it matters most











# COVID-19 could be a turning point for the insurance industry by enabling insurers to demonstrate their higher purpose and value to society

## Overview of how the industry has responded across geographies

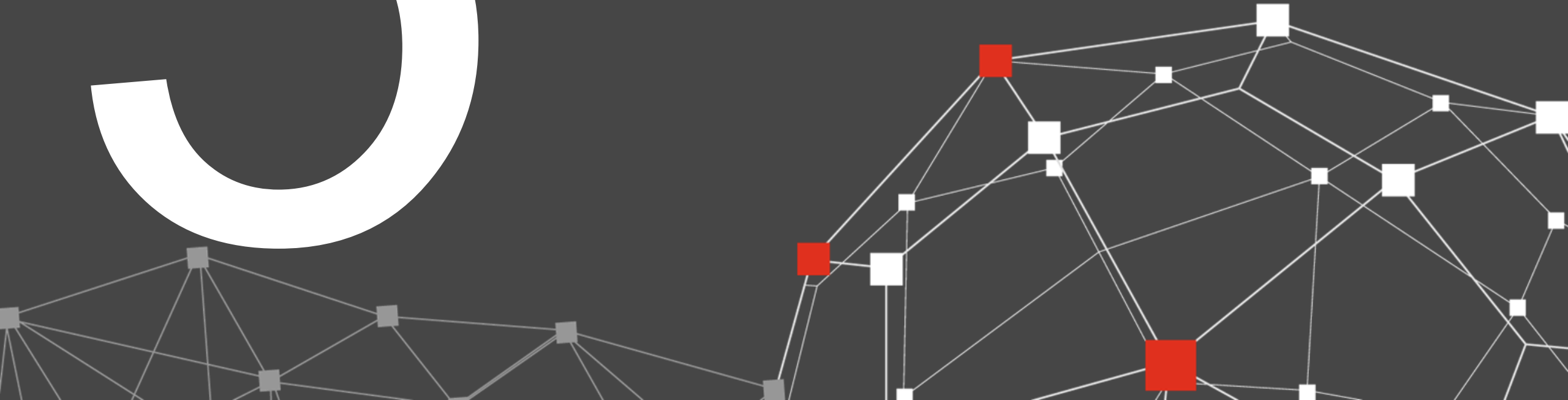
We have seen in previous crises such as the Japanese tsunami in 2011, this kind of positive and decisive response from insurers can permanently reshape perceptions, cement customer loyalty and renew trust within society as a whole.

 China	 Singapore	 USA	 South Africa	 Kenya	 Nigeria
<ul style="list-style-type: none"><li>• A leading insurer has set up an emergency fund to help tackle the outbreak.</li><li>• Further steps include an easier and fast-tracked claims process.</li><li>• Insurer also extended assessment of inability to work, to include medical isolation, or advice of a doctor or government authority, in response to direct or probable contact with COVID-19.</li></ul>	<ul style="list-style-type: none"><li>• A leading insurer has doubled the benefits for frontline healthcare workers who are hospitalised due to COVID-19, in recognition of their selfless contribution to patients.</li></ul>	<ul style="list-style-type: none"><li>• An insurer's announcement that its customers will have access to medically advised coronavirus testing.</li><li>• intends to waive co-pays and other forms of cost sharing.</li></ul>	<ul style="list-style-type: none"><li>• A leading insurer is providing cover for any illness, impairment or disability where these conditions are caused as a result of complications linked to infection by any bacteria or virus. The virus can be COVID-19 or another virus.</li><li>• This includes claims for temporary or permanent inability to work, severe illness or even death.</li><li>• A fast track claims process and waiver for any deductibles.</li></ul>	<ul style="list-style-type: none"><li>• The insurance industry association has said that its members will cover coronavirus-related conditions though pandemics are usually exempted from cover.</li></ul>	<ul style="list-style-type: none"><li>• The Nigerian Insurers Association said it will support in the fight against Coronavirus through the provision of kits and insurance cover for all medical personnel and allied workers involved in giving care to COVID-19 patients.</li></ul>

Insurers are also bringing their technological expertise to bear, including the development by one of a smart image-reading system to help speed up diagnosis of suspected cases of COVID-19

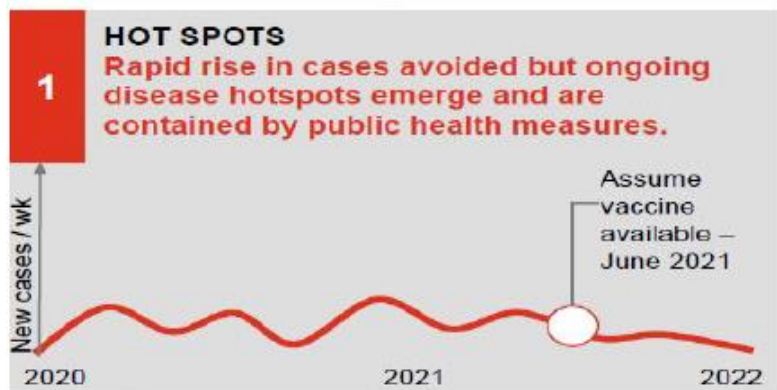
# 5

Immediate priorities  
for insurers



# The immediate crisis management challenges for all businesses include dealing with the impact on the workforce and business continuity management

PwC epidemiologists and economists have worked together to form coherent scenarios based on fact-driven assumptions.

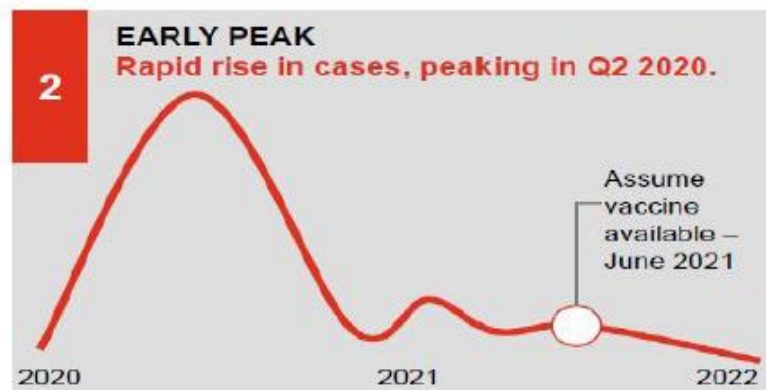


## Assumptions:

- Not all cases are detected, allowing spread at a reduced frequency.
- Successful contact tracing and quarantine around emerging cases prevents a rapid increase in cases.

## Impact:

- **Workforce:** Home working and travel restrictions in existing and newly-affected countries
- **Supply chain:** Reduced output from affected countries impacts supply chain.
- **Economy:** Ongoing uncertainty has longer-term impact on markets. Affected countries are more significantly impacted.
- **Time-frame:** 12 to 18 months.

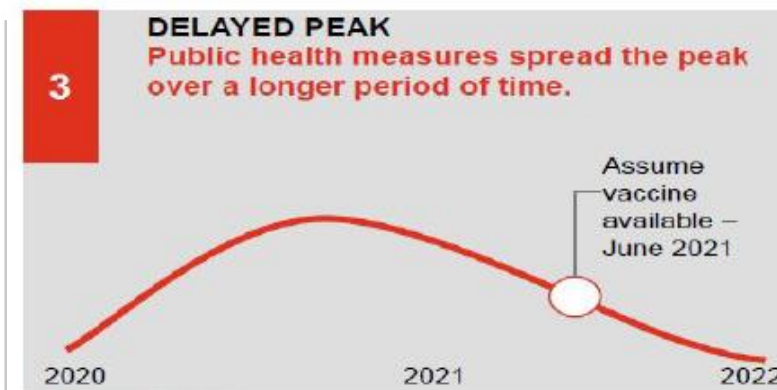


## Assumptions:

- Contact tracing and population distancing controls fail to prevent a rapid growth in cases.
- Cases peak in mid 2020, with a decline as population immunity levels increase.
- Potential for further peaks depending on the seasonality of the virus.

## Impact:

- **Workforce:** Major global disruption, including home working, travel restrictions and morbidity and mortality in the workforce. Significant impact on health systems.
- **Supply chain:** Global shortage of some goods due to production slowdown.
- **Economy:** Increased risk of global recession dependent on the severity of the pandemic
- **Time-frame:** 12 to 18 months, peak within 3 months.



## Assumptions:

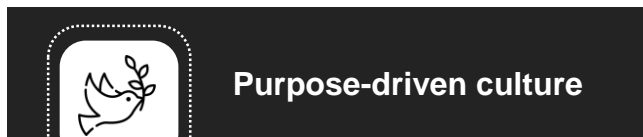
- Contact tracing and population distancing controls have some effect, spreading the impact of disease over a longer period of time.

## Impact:

- **Workforce:** Major global disruption, including home working, travel restrictions and morbidity and mortality in the workforce. Impact on health systems somewhat reduced compared to early peak scenario.
- **Supply chain:** Global shortage of some goods due to production slowdown.
- **Economy:** Increased risk of global recession dependent on the severity of the pandemic and longer period of uncertainty than with an early peak.
- **Time-frame:** 12 to 18 months, peak in 6 to 9 months

# Leveraging insight from the PwC network, we have identified immediate priorities for insurers..

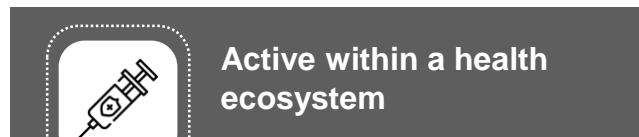
## Setting up your COVID-19 response: considerations (1 of 2)



**The true purpose of an insurer in times of crisis and stress is to provide peace of mind.**

Being there when it matters most for the Insured requires Insurers to devise strategies for handling this crisis from a customer and wider stakeholder perspective.

From waivers of deductibles to pre-approval of claims or setting up funds for frontline employers, insurers are demonstrating their empathy.



**Online health platforms can provide veritable support**

While life insurance sales are down, insurers with a broader engagement in the healthcare ecosystem in areas such as online health platforms are attracting new customers. Prominent examples include Ping An and Prudential plc with their online health consultation services in Asia.

Notwithstanding the current crisis, life insurers with a well-executed health ecosystem strategy will win the long game.



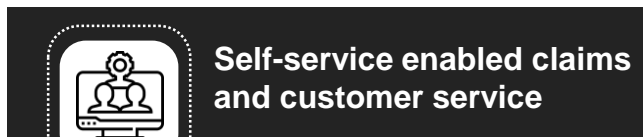
**Digital customer engagement has become the new normal**

While face-to-face interaction has been limited by social distancing, insurers who have built digitally assisted distribution and sales capabilities are still able to engage with customers and service their needs.

This crisis may prove to be a catalyst for product simplification and accelerating the development of direct digital channels.

# Leveraging insight from the PwC network, we have identified immediate priorities for insurers..

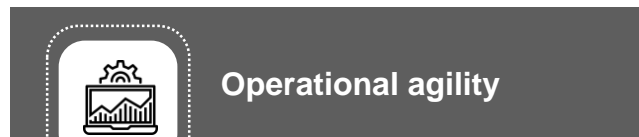
## Setting up your COVID-19 response: Considerations (2 of 2)



**Digital channels may improve the customer experience and speed to serve**

As the number of enquiries and claims increase, insurers need a cost-effective yet customer-friendly way to handle these requests.

Directing customers to self-service channels and the automated processing of straightforward claims are proving effective.



**Digital capabilities and maturity are evident in the ability of teams to still deliver on their mandate**

Whether working remotely, managing workforce demand dynamically or bringing new products to markets quickly, a crisis like this is a good test of organisational agility.

Insurers that have invested in the development of a connected digital enterprise will most readily be able to adapt, flex and execute.



**Proactive scenario analysis will reduce unpleasant surprises and mitigate risks**

A sharp economic downturn could have serious implications for solvency ratios. Insurers' ability to handle the impact will depend, to a large extent, on advance systematic scenario planning and capital management capabilities.

In addition, there is a need to assess asset impairment and expected credit losses and loss recognition testing models to include current market data and best-estimate assumptions.

Also, it will be expedient to reach out to regulators to flag problems and risks, and proactively shape any regulatory guidance.

# How PwC can help

## We can work alongside you to tackle the challenges you face in responding to COVID-19

<b>Crisis response and management</b>	<ul style="list-style-type: none"> <li>Establish a crisis response structure with established work streams, clear responsibilities and accountabilities.</li> <li>Develop likely, reasonable and worst case scenarios and evaluate their potential impact, to support crisis and response planning.</li> </ul>		
<b>Workforce</b>	<ul style="list-style-type: none"> <li>Assess potential impact and develop options to identify and move labour with the key skills to support the P&amp;L of the organisation.</li> <li>Proactively manage where, when and how disruption will impact the availability and effective utilisation of skills in the business.</li> </ul>	<b>Operations and supply chain</b>	<ul style="list-style-type: none"> <li>Perform an operational risk assessment, consider and plan for the impact of disruption on critical business functions.</li> <li>Understand your COVID-19 supply chain risks and impacts, including third-party suppliers.</li> </ul>
<b>Communication strategy</b>	<ul style="list-style-type: none"> <li>Develop a rapid communications plan and approach to build and maintain trust and reputation during the crisis for key stakeholders.</li> <li>Tailor best practice templates and communications materials such as emails, FAQs and intranet.</li> </ul>	<b>Focus on data</b>	<ul style="list-style-type: none"> <li>Identify data needs and develop protocols for data extraction, preparation and analysis.</li> <li>Model the impact of scenarios on industry sector or business-level commercial performance and stress test commercial revenues against downside economic scenarios.</li> </ul>
<b>Customers and revenue</b>	<ul style="list-style-type: none"> <li>Revise your sales strategy to deal with evolving customer behaviour and competitive environment (risks and opportunities).</li> <li>Prioritise actions to protect customer relationships and commercial interests.</li> <li>Model customer behavioural change.</li> </ul>	<b>Head office functions</b>	<ul style="list-style-type: none"> <li>Legal, IT, Commercial and Insurance: Review existing insurance coverage, IT infrastructure and resilience, force majeure, contract clauses.</li> <li>Finance, Treasury and Tax: Financing (private or government), restructuring and cash-flow.</li> <li>Investor Relations: Market disclosure.</li> </ul>



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PwC Insurance and COVID-19: What it takes to deliver in a moment that really matters

PwC Nigeria tax blog

[https://pwcnigeria.typepad.com/tax\\_matters\\_nigeria/2020/03/nigerian-lawmakers-propose-emergency-economic-stimulus-bill-2020-to-fight-COVID-19.html](https://pwcnigeria.typepad.com/tax_matters_nigeria/2020/03/nigerian-lawmakers-propose-emergency-economic-stimulus-bill-2020-to-fight-COVID-19.html)

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## Key Contacts

### **Andrew S. Nevin, Ph.D.**

Partner - West Africa

Financial Services Leader & Chief Economist

[andrew.x.nevin@pwc.com](mailto:andrew.x.nevin@pwc.com)

### **Adedoyin Amosun**

Associate Director, FS Advisory

[adedoyin.amosun@pwc.com](mailto:adedoyin.amosun@pwc.com)

## Contributors

### **Omomia Omosomi**

Economist/Manager

[omomia.omosomi@pwc.com](mailto:omomia.omosomi@pwc.com)

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