

# NIGERIA

## INVESTING IN VALUE AND BOOSTING LIFE ASSURANCE IN FAST-GROWING MARKET

The acquisition of African Alliance Insurance Plc by Universal Insurance Plc reflects the momentum of the Nigerian insurance sector

After his successful takeover of African Alliance Insurance Plc, Cyril Ajagu can finally sit back and relax. The portfolio of the company chairman (he is also vice chairman of Universal Insurance Plc) now includes the oldest and largest life insurance firm in West Africa. In 47 years, African Alliance has provided coverage for millions of Nigerians – with just under 140 million inhabitants, Africa's most populous nation. His goal now is to take the insurance sector to the next level.

"It's part of our overarching strategy to transform the insurance sector in Nigeria and bring it up to international standards. We initially acquired 50 percent of African Alliance and it took our board a whole year to decide to take on the remaining 50 per-



**Cyril Ajagu**  
Chairman



**Alphonse Okpor**  
Managing Director

cent at a cost of over \$60 million. We're almost there," says Ajagu.

Universal Insurance is relying on its diversified portfolio of investments, as well as on a capitalization of 5 billion naira (\$42.3 million).

Insurance is an under-developed sector of the economy, standing in high contrast to the needs of Nigeria's growing middle class. According to the IMF, GDP will grow by over 9.0 percent in 2008, with consumer index prices below 8.5 percent this year and in 2009. The current oil boom is a market signal for insurance firms to deepen their role in the economy. They are also aided by IMF-backed structural reforms.

Universal Insurance Plc wants to see globalization deepen the insurance sector and thus create value. The argument is that

Nigeria sells its crude oil to customers worldwide. If it does so, it should also replicate global market trends that will diversify the economic base. If life insurance is seen as a driver for fast-paced economic development in the developed world, why should Nigeria be an exception?

In an address to brokers and shareholders at Universal Insurance's headquarters in Lagos last April, Ajagu pledged to infuse

new life into the insurance sector. Every Nigerian should be encouraged to buy life insurance policies that generate long-term funds. It is not only about transactions; rather it is about tangible satisfaction and future assets. Life insurance is not only about taking out policies that can benefit families on the death of a client. It can be a pragmatic solution for educational goals, home ownership, retirement benefits and effective financial planning.

The acquisition of African Alliance is Ajagu's fourth corporate venture into the insurance market. The other three companies already under Universal Insurance management are African Safety, United Trust and Oriental Insurance. According to Ajagu, all outstanding claims of insurers acquired earlier have been paid off after consummation of the acquisition. "We want to maintain a low claims pro-



New offices will be equipped with state-of-the-art technology to better serve clients

file and make sure we are transparent at all times. This is the only way foreign partners will be interested in taking equity in the business," he says.

Nigerian President Umaru Musa Yar'Adua has vowed to unleash the country's potential as an emerging market by achieving double-digit growth. Ajagu understands this as a reason to expand from the insurance market into related financial services down the road. So far, he is confident that both his sales and IT teams are highly motivated. The Group has been hiring staff through an international HR agency. "We are partnering with a number of foreign consultants to meet needs such as due diligence, developing a product portfolio and devising a more efficient legal structure."

For now, the plan is to use African Alliance to provide a competitive edge to the company. One of the first steps after the acquisition was to develop African Alliance's branch network and equip offices with the latest IT infrastructure. Its staff, business process and execution should conform to the highest standards in the market.

Essentially, only the board at African Alliance has changed hands. The company will

### EXPANSION WILL PUT NEW CAPITAL TO WORK

When Universal Insurance Plc announced it had acquired 100 percent of African Alliance Insurance, something moved in the bedrock of Nigeria's financial establishment. This was not only an acquisition of yet another insurance company – it was an industry development with key ramifications.

New ownership at African Alliance will affect how the company expands its coverage and integrates aspects of innovation that had previously been beyond its reach. According to local media, the capital injection has literally turned around the company's fortunes. At a press conference in April, Managing Director Alphonse Okpor told reporters that the injection also included ambitions in the banking sector.

"The new tempo we are witnessing has transformed our performance and service delivery platforms. The influx of tested professionals, meanwhile, has boosted our product development, asset management, financial advisory and Information and Communication Technology (ICT) departments," Okpor told the *Nigerian Tribune*.

The equity takeover was also good news for products like micro-insurance schemes. Designed for low-income customers, micro-insurance is a low-premium and low-coverage instrument popular in South Africa and Kenya. The risk-pooling concept helps shield communities in the aftermath of natural catastro-

phes. In Nigeria, the formula could prove highly profitable.

But in the long-term, Cyril Ajagu is interested in the larger yields of cross-selling services and investment-linked premiums. Part of his interest in African Alliance is to sell the services of the insurer to Universal Insurance's corporate clients. He sees African Alliance moving into asset management and low-risk investments in the hospitality industry, for example. That is what he calls putting capital to work.

"It's an integral part of our re-engineering strategy. All the company employees we serve are part of Nigeria's emerging middle class. They need superior types of insurance products. African Alliance will be able to meet these needs and this new demand," says Ajagu.

Another upshot for Nigeria's financial sector is the creation of a one-stop financial outfit able to compete with banking institutions. Universal Insurance already bought stakes in a micro-finance bank earlier in 2008. It is on the lookout for equity in a commercial bank.

As for investment-linked premiums, it is largely a matter of educating the public. Four years ago, few understood the complexities of an insurance premium, so Ajagu came up with the winning formula of investing premiums in low-risk, high-yielding assets.

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**Solid gold:** the banking and insurance sectors of Nigeria are thriving

otherwise run independently. One issue to surface post-acquisition was the new priority on claims payments. The objective here is to emphasize that it should be standard practice to make prompt claims payments. African Alliance will not only strengthen its position in the Nigerian market, but also attain global standing.

Ajagu and his team are planning ahead for their next venture. Recently they acquired 70% in Ghana Life, the leading life insurer in Ghana, and are planning further expansion and acquisitions in the region. So far, they are allocating resources to high-performing sectors of the economy by looking at recent history and trying to make sense of where markets can go in 10 to 20 years. That is where future value calculation comes in. "Although we're not strictly a private equity fund, investing in value is at the core of our business," explains Ajagu. ■

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## AMALGAMATION OF COMPANIES PLACES NIGERIAN INSURANCE SECTOR AT CENTER OF ATTENTION

Why is the acquisition of African Alliance by Universal Insurance so important for Nigeria? It may have to do with the emergence of an entirely new sector of the economy that had previously held a low profile. With the current boom in commodity prices, however, Nigeria is poised to become an emerging market capable of causing change in the rest of Africa. This means that any large acquisition signals a long-term trend. And the trend in the insurance sector is expansion, both domestic and global.

According to Oladipo Bailey, a former Nigerian commissioner for insurance, the merger has set the stage for more strategic alliances that are taking advantage of opportunities in the marketplace. For Bailey, mergers and acquisitions act as spark plugs for sectors like insurance, otherwise low in glamour. The surprise factor is that insurance is no longer a behind-the-scenes actor, but one that can bring local businesses in line with international standards. So far, the National Insurance Commission (NAICOM) is encouraging the wave of mergers and acquisitions.

"The move by Universal Insurance is quite commendable and is in the right direction. I was looking forward to a day when two big insurance companies here in Nigeria would come together to form a major company as we have seen repeatedly in the US, UK and other European countries," Bailey told the *Nigerian Tribune* recently. On an African scale, such moves not only build robust capital, but also attract key human resources to an erstwhile little-known sector of the economy.

Partnering with foreign insurance specialists is part of Cyril Ajagu's expansion dream. As the new Chairman at African Alliance, he is targeting companies with a low-claims track record and strong business ethics. It should also be an entity that is open to diversification of its own portfolio, such as the emerging markets in Africa. With its strong position in West Africa, Ajagu thinks African Alliance is ready for association with a leading global brand.

"Our board is very strong and has a global vision and

mindset, so we would want any partner we associate with to have a similar approach. We have the oldest insurance business from western Nigeria and the oldest business from the eastern part of the country. We won't be happy with anything less than one-third of the insurance market share in Nigeria. That is our target," says Ajagu.

To fund long-term growth, African Alliance will be putting its profits to work. Proceeds from February's private placement will be used to expand the company and develop its operational infrastructure, particularly IT. According to Ajagu, organic growth will be more sustainable with the right people in place. Input from new faces will help prepare African Alliance for the challenge of a global insurance market.

There is a whole universe of instruments that can be developed to meet all the new requirements in the market. Life insurance, after all, is a very particular business with long trajectories. "We need to expand our product portfolio. It has to be a portfolio that accompanies clients from one to 80 or more years. The portfolio must be structured in such a way that, at any point in time, a client can make a justifiable claim and be reimbursed," asserts Ajagu.



Long-term growth of the insurance industry benefits workers



# Your partner *for life*

**African Alliance Insurance** provides conventional, convertible and unlimited premium whole life insurance policies for individuals, companies and groups of people. Nigeria's premium life insurance specialists also offer Takaful insurance for adherents of Islam in addition to endowment, investment, education and mortgage protection products that meet the strictest international standards and offer the broadest cover available in Africa's most populous country.

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