

The Nigerian Insurance Industry and Porter's Five Forces
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Abstract

The insurance industry in any economy is a significant catalyst to economic development and growth, primarily through its risk management capabilities and provision of long-term capital. Despite significant regulation and oversight, competition is still an important phenomenon as it enables efficiency and quality service delivery to the consumer. Michael Porter's five forces framework is a well-known model for assessing the state of competition and profitability in an industry. Applying the model along with two tools of competitive measurement - the Herfindahl-Hirschman Index (HHI) and Concentration ratio - to the Nigerian insurance industry provides an insight into the state of rivalry and competition in the industry. Results show the industry is tending towards an oligopoly, with almost half of the market share held by the five top firms as of 2019. With an understanding of the industry's competitive dynamics, identifying opportunities and threats becomes more straightforward.

Keywords: Insurance, Competition, Five Forces, Nigeria, Digitalization

1. Introduction

Competition is the touchstone of a free market economy. It is the natural state of firms in an industry. Each firm seeks to expand its market share and serve customers while achieving as much profit as the market, government policy and regulations permit. Free and fair competition will ensure that all participants in the market are efficient and prices would be as low as possible, allowing for costs and sufficient profits in line with a reasonable rate of return for providers of capital (Klein, 2012). By understanding the key factors that determine the structure of an industry, we can appreciate the drivers of competition in that industry and, consequently, differentials in profitability (Porter, 1998). To understand any industry and ascertain the competitive forces at work, it is necessary to conduct an industry analysis. The industry analysis framework rests on Porter's well-known five forces of competitive advantage. For many years now, the model has been a handy tool for dissecting and understanding the interplay of competitive forces in an industry.

The financial services industry, of which insurance is a key segment, is known for keen and active competition. The genesis of insurance as a specific activity can be traced to China, where around 3,000 BC, groups of traders assembled to "insure" against losses from maritime trading (Vaughan, 1997). Though often repeated, the importance of insurance to any modern economy is a fact that cannot be ignored. The role of insurance as a catalyst for numerous economic activities calls to mind the image of automotive oil, whose absence will lead to a stop and eventual breakdown of a vehicle engine. Insurance is a commoditized risk management solution that meets the needs of the multinational corporation operating in over 100 countries as well as that of the householder who seeks the security of his home against burglary and fire. For various reasons, especially insolvency and consumer protection, there has always been strong and active competition regulation amongst

insurers. Nonetheless, there is still room for competition on price (within regulated bands) and, most important, in the quality of service delivery.

Scholars have not shied away from seeking to understand the competitive features of national insurance markets; many studies have taken place utilizing different competition measures. Abel & Marire (2021) looked at competition in the Zimbabwean insurance market using the Boone indicator; Kasman, Kasman & Gokalp (2020) reviewed the state of stability, competition and concentration in the Turkish insurance industry also using the Boone indicator and Lernex index; Alhasan & Biekpe (2016) studied competition and efficiency in the South African non-life insurance market using Panzar-Rose (P-R) H Statistics. More so, there have been other studies that analyzed insurance industry competition through the prism of Porter's Five Forces, Kenya (*Kisuya et al., 2023*), Japan (Guo, 2018), and Greece (*Yiannakopoulos et al., 2017*). So far, to the best of my knowledge, there are sparse up-to-date studies on the competitive state of the Nigerian insurance industry using the five forces framework.

This paper is a descriptive overview of the level of competition in the Nigerian insurance industry. It is based on the framework of Michael Porter's Industry analysis to understand and describe the structure of competition in the Nigerian insurance industry. Also, the paper seeks to describe the competitive forces that Nigerian insurance companies face and to understand the strength of these forces. The rest of this paper is broken down into four sections. Section two reviews the state of the literature on industry analysis and competitive strategy while also seeking to provide a brief insight into the Nigerian insurance industry. Section three discusses the paper's methodology and an overview of the data. Section Four discusses the results of the descriptive analysis, while Section Five concludes.

2. Literature Review

2.1 Conceptual Framework

This section reviews the literature in respect of industry analysis and the Nigerian insurance industry, as well as the conceptual framework of this paper.

2.1.1 Industry Analysis

Competition can be viewed as the impact the behaviour of rivals (and potential rivals) in the industry have on the behaviour of firms (Scanlon, Chernew, Swaminathan & Lee, 2006). Competition is an important phenomenon as the presence and activity of current and potential participants in the industry determine the impact on market share (and eventually the profitability) of any action (such as an increase in price or change in product quality) that the firm takes. The individual uncoordinated responses of all firms in the industry to real and perceived actions of their fellow competitors result in what serves as the equilibrium position of the market at any one time.

Business in a free market economy can be compared to swimming in shark-infested waters. If you let your guard down for too long, you end up as someone's dinner. In this context, all businesses

need to have a strategy surrounding competition if they are to exist and thrive. While competitive strategy has been variously defined, its essence is the designs and plans a business makes to utilize its areas of innate strength to obtain and retain an edge over its competitors, especially over the long run (*Hitt et al., 2020*). Strategy can be viewed as the constant battle of the firm against competitive forces to attain or retain competitive advantage. Porter (2008) viewed it as either erecting ramparts against the onslaughts of competitive forces or setting out one's stakes in an area of the perceived soft underbelly of the industry structure. The possession of a good competitive strategy is a necessary ingredient to achieving excellent operational performance (Rothaermel, 2017). The successful acquisition and utilization of resources, talent, capital, and market share all hinge on the company's competitive strategy.

According to Porter (2008), the twin goals of successful competition and profitability sit on the foundation of industry structure. The industry, made of its structural features and peculiarities, is of more immediate competitive consequence to the firm than the general external environment (Cookson, 2018). It is, therefore, essential to understand the structure of the firm's industry. One of the frameworks for studying and understanding the structure of an industry is Michael Porter's five forces (*Hitt et al., 2020*). It has the advantage of forcing a firm to look beyond the activities of its immediate direct competitors to other forces operating, which also have a direct bearing on the profitability of the industry. The five forces are important as it helps an industry to understand how much of the economic value it creates, what it can keep and how much it has to give up due to the leverage possessed by suppliers or buyers and the restraint offered by either new entrants or substitute products Porter (2008). It equally ensures that the firm focuses on structural features which are relatively more enduring than changing environmental factors.

2.1.2 The Five forces

One of Michael Porter's enduring contributions to the field of strategic management is the five forces framework (Grundy, 2006; Dobbs, 2014). According to Porter (2008), competition in an industry is not only limited to other firms who produce similar product or service. Competition also includes the pressure and influence brought to bear by buyers of the product/service, suppliers of raw and other materials, the implication of the entrance of new players, and the looming threat of substitute products. In addition to the competitive rivalry amongst current players, these four forces give rise to the "Five Forces" that shape competitive strategy in any industry. While these five forces exist in all industries, the competitive power of each force and the interplay amongst the forces depends upon the industry's nature. Simply put, the profitability of an industry is a function of the strength of each of the five forces operating in that industry.

The entrance of a new player into an industry threatens existing players as it will likely lead to a freeze on potential profitability. The presence of a new entrant in a stable market means that market share will have to be taken from other existing players in that market (MacDonald & Ryall, 2018); this will likely impact prices and the need for additional investment as existing players react, both to defend their market share and to make offensive moves against the new entrant. Whether the threat of a new entrant will become a reality in any industry is a function of how relatively "easy"

it is for new entrants to come into the industry; this is referred to as "barriers to entry" (*Hitt et al., 2020*). The barriers to entry to a new industry usually include any one or a combination of economies of scale, cost or convenience of customers switching to a new supplier, the existence of advantages of incumbency (such as choice locations, lockdown of advantageous distribution or supply arrangements), government policy, usually by way of licensing requirements and guidelines.

The strength of suppliers is another competitive force that can affect an industry's profitability. Where suppliers of materials, labour and other necessary inputs are in a stronger position than the industry they supply to, they are often able to take for themselves profits which would otherwise go to the industry by charging higher prices, restricting suppliers or insisting on disadvantageous conditions (*Reimann & Ketchen, 2017*). Supplier strength is more pertinent if the industry is facing an elastic demand curve and is unable to pass on increased costs via higher prices to consumers. There are many tell-tale signs of powerful suppliers in an industry, these include suppliers who supply to many fragmented buyers, the business of the buyer constitutes a negligible proportion of the supplier's business, and high and inconvenient switching costs to move from one supplier to another.

Another source of competitive pressure in any industry is the presence of influential customers or buyers of the industry's products. Akin to the effect of powerful suppliers, the presence of influential buyers can translate to lower industry profitability as they are able to demand and receive lower prices as well as better, and more advantageous selling terms, and effectively exploit intra-industry rivalry (*Wheelen et al., 2018*). An indication of a powerful buyer in an industry is one who procures a significant proportion of its input from the industry and because of this, is therefore more likely to be more price sensitive than if it procured only a tiny segment of its total input. Additionally, other indications of the strength of the buyer, include the buyer being under pressure to cut its costs for a variety of reasons, the products supplied by the industry either constitute a small proportion, can be easily substituted or do not significantly impact the quality of the end product of the buyer.

The threat of substitute products replacing the industry's primary product can also significantly impact competition in the industry. A substitute is a product made by another industry which performs the same or similar function to a product of a particular industry (*Hitt et al., 2020*). The presence of close substitutes to the product of an industry is a dampener on the profitability of that industry. For example, if the prices of a company's products rise to a high level, consumers are more likely to shift to substitute products if they are cheaper. The presence of substitutes often requires that an industry distances its products through vigorous marketing from the available substitutes.

Another force of competition is the rivalry amongst existing players, which is often the traditional conceptualization of competition in an industry. Any competitive move, especially a successful one by a player in an industry, will most likely elicit a reaction from other competitors in the industry (*Wheelen et al., 2018*). Such competitive moves include offering price discounts, product enhancements and improvements, intense advertising and marketing campaigns and expanding distribution and branch networks (*Porter, 2008*). There is a direct relationship between the intensity

of rivalry in an industry and the level of profits to be had by the players in that industry (*Hitt et al., 2020*). When the barriers to leaving the industry are high, competitors will have to stay and compete, as they are unable to take their capital elsewhere.

A groundbreaking tool since its introduction in 1979, the five forces has been the subject of numerous debates, critiques and proposals for updates. *Wheelen et al. (2018)* proposed the addition of an omnibus stakeholder category termed "Other Stakeholders," catering to other groups of stakeholders who influence the competitive situation of any interest. Top amongst them are the government (if not already provided elsewhere), creditors and employee unions (if both still need to be captured under suppliers), trade bodies and associations, and local communities. Also included in the "Other stakeholder" heading are complementors, a company or industry whose product complements the industry's products and adds significant value to it. While scholars such as *Wheelen et al. (2018)* agree with the framework and only propose a modification, other scholars have criticized it and pointed out shortcomings; *Narayanan & Fahey (2005)* wonder if it is valid at all; *Grundy (2006)* believe it is no longer useful and has been overtaken by time; *Lee et al. (2012)* doubt its real-life application; while *Bruijl (2018)* believe its relevance is limited to large organizations.

2.1.3 The Nigerian Insurance Industry

Insurance is a composite financial activity comprising several products with different features, regulatory approaches and, therefore, different competitive landscapes. According to *Biggar (1999)*, there is general recognition of four main classes of insurance, i.e. life insurance, health insurance, general insurance (which in many parts of the world is known as property and casualty insurance) and reinsurance. According to the supervisory agency for insurance in Nigeria, the National Insurance Commission (NAICOM) (2023), the Nigerian insurance industry is made up of 54 companies offering different insurance products and services to the economy. The Insurance Act of 2003, the overarching legislation for insurance practice in Nigeria, provides for two main classes of insurance: Life insurance and general insurance. NAICOM licenses insurance companies to provide life, general, and a combination of the two, referred to as "composite" insurance. As part of the drive to deepen penetration of insurance services in the economy, NAICOM has also introduced a form of Islamic insurance known as "Takafaful," as well as micro-insurance, that seeks to use technology to reach the presently uninsured in rural areas.

Insurance penetration in Nigeria, measured as insurance premiums as a percentage of Gross Domestic Product (GDP), was a third of one percent (0.33%) in 2021. This is significantly below the African and global benchmarks of 2.6% and 7.4% respectively for 2021 (*Deloitte Touche Tohmatsu Limited, 2022*). The insurance industry in Nigeria is facing various strategic issues, top of which is a sluggish economy that is slipping in and out of recession, witnessing pressure on effective demand. The industry continues to face resistance to its products and services, a legacy of a poor image regarding claims payment and also indicative of consumers' poor purchasing power. Other challenges facing the industry include poorly designed products, unfriendly claims processes, poor awareness about its products and services and weak regulatory framework (*Okiche et al., 2022; Ezu, 2020; Umoren & Joseph, 2016*).

2.2 Theoretical Framework

Theory of Competition

The collapse of command economies in many countries, one of the defining events of the twentieth century, highlights in bold relief the validity of competition as a necessary feature of an economy. The original concept of competition is that of an active jostle or struggle for space and dominance amongst different actors in a marketplace, with this active struggle never actually evening out but tending towards stability at any point in time (Blaug, 2001). According to Parida and Acharya (2016), economics scholars view competition in two different ways. Some see competition as a process, while others see it as a state of affairs. When it is viewed as a "state," what is important is the nature of the state of rest amongst the involved parties taking part and when it is viewed as a "process," the stability of the state of rest or what the various actors will need to do if the "rest" is disturbed is what is crucial (Blaug, 2001).

The neoclassical theory, or the theory of perfect competition, is one of the earliest and most well-known theories of competition. Perfect competition holds that demand is homogenous, information about goods and services is freely available and costless, all economic agents are driven by utility maximization, every firm has the objective of profit maximization, and resources are homogenous and perfectly mobile, amongst others (Hunt & Morgan, 1995). However, Blaug (2001) holds that the idea of perfect or near-perfect competition does not make much sense.

The apparent shortcomings of the theory of perfect competition led to development of the Structure Conduct Performance (SCP) framework. Developed by Mason (1939), SCP looks at the structure of an industry to develop a theory about the behaviour of firms within the market as well as the performance of the market (Arintoko, Ahmad & Habibah, 2021). The approach sought to assume the level of competition and the behaviour of firms in the industry from how the industry is structured (*Murat et al., 2002*). The theory says that there is a link between the discernible features of an industry and the behaviour or conduct of participants within the market. At the onset, structural features were taken to mean the number of market participants; conduct was understood to mean collusion, while market performance was shorthand for profits (Parida & Acharya, 2016). The prevailing logic at the time was that few firms meant a relatively more straightforward opportunity to collude to earn huge profits. The closeness between SCP and the theory of perfect competition (*Lipczynski et al., 2009*) is reflected in the four types of market structure put forward under SCP: perfect competition, monopoly, monopolistic competition and oligopoly (Salvatore, 2019). SCP has been criticized for being one-dimensional, focusing only on market structure and ignoring the interaction between the structure of the market, the conduct of participants and market performance (Parida & Acharya, 2016).

Brought forward by Boone (2008), the Boone indicator is a model that seeks to measure industry competition by testing the link between efficiency and competition. It assumes that if a firm has a lower marginal cost than its rivals, it is more efficient and will ultimately gain a more significant market share (Abel & Marire, 2021). This is applicable where the market is highly competitive. It takes a cross-sectional view of the link between firm profits and marginal costs as a measure of

the level of competition (Van Leuvensteijn, 2014). The Boone indicator is premised on the belief that efficient firms thrive in a competitive environment while inefficient firms are endangered by competition (Tan, 2018). The Boone indicator has excellent theoretical grounding as it draws a direct connection between firm performance and changes in efficiency through the medium of marginal cost (Diallo, 2015); it has, however, been found to be less equivocal than other measures when taking a longitudinal view of competition (Guevara & Maudos, 2017).

According to *Scanlon et al. (2006)*, either of the two measures of market structure is usually resorted to when conducting an empirical study of competition. They are the Herfindahl-Hirschman Index (HHI) and the number of companies in the industry as a shorthand for competition. The HHI is equivalent to adding squared market shares of all market participants. It is the primary screening tool of US officials to ascertain if a proposed merger of two or more firms will be anti-competitive. Both measures of market competition are considered significantly beneficial, as regulators can affect the number and size of market participants to achieve desired policy objectives. The computation of the Herfindahl-Hirschman Index considers the number and size of firms in an industry (Rhoades, 1995). HHI, when calculated, ranges from 0 to 10,000. An HHI value of less than 1,000 indicates that the concentration of market power in that industry is low, while an HHI value between 1,000 to 1,800 translates to moderate concentration. A high concentration can be found whenever the HHI value is above 1,800, while an index figure of 10,000 indicates an entirely concentrated market (Jaloudi, 2019).

The measure of concentration indicates the proportion of market share controlled by a few players in the industry (*Serban et al., 2021*). The Concentration Ratio (CR) is a unitary index useful for comparison and analysis. It measures the extent to which a few firms dominate the industry (Jaloudi, 2019). It is calculated by summing up the market shares of the few firms being considered and comparing this sub-total market share with the market share of the remaining other firms in the industry. Both HHI and CR are very popular measures owing to the low data requirement and ease of computation; there is a view that having large market shares as a result of efficient operations does not necessarily provide much insight into the level of competition in the industry (Okolelova & Bikker, 2022) hence a search for non-structural measurement methods.

2.3 Empirical Review

Competition in the Insurance Industry

Arintoko et al. (2021) utilized the Structure Conduct Performance (SCP) framework to analyze the insurance industry in Indonesia. The SCP paradigm was utilized to determine the effect of crucial market and operating ratios on the profitability of insurance companies as measured by Return on Assets (ROA). Using panel data from eleven Indonesian insurance companies over five years, from 2014 to 2018, the authors applied regression analysis to establish the prevailing market structure in the Indonesian insurance industry. The study assessed that the insurance industry is a "tight oligopoly" with a high proportion of industry assets concentrated in the hands of a few firms; the study also concluded that profitability is not driven by asset size but rather by the efficiency with which assets are utilized. The outcome of the empirical study does not, however, support the

validity of the SCP framework in the Indonesian insurance industry; instead, the industry lends more towards the efficient structure hypothesis. The study did not utilize Porter's Five Forces. Instead, it adopted the SCP framework to examine Indonesian insurance companies giving it a different focus from that of this paper.

Furthermore, Abel and Marire (2021) assessed the state of competition in the insurance industry in Zimbabwe using the Boone indicator. The Boone Indicator measures competition in an industry based on the relative profits made by the participants (Boone, 2001). The study reviews competition in the insurance industry based on a sample of 19 life insurance companies from 2010 to 2017, with a particular focus on the period of hyperinflation in Zimbabwe. The Boone method assumes that efficient firms in an industry not only make more profits but ultimately gain more market share. The number of industry participants fluctuated throughout the study from 91 in 2012 to 88 in 2018, with the industry dominated by non-life insurance firms and insurance brokers. According to the authors, competition in the insurance industry is moderate. The study found no significant difference in the level of competition amongst insurance companies between 2010 – 2012 and 2013 – 2017. While there was a loss of confidence during the period of hyperinflation (2010 – 2012), this did not significantly affect competition, as many of the insurance firms recovered and increased capital while others entered new lines of business. The paper used the Boone Indicator as the gauge of competition and focused on the insurance industry in Zimbabwe. Its conclusions can, therefore, not be applied wholesale to a study of Nigerian insurance companies using Porter's five forces.

Kasman et al., (2020) examined competition and concentration in the Turkish insurance industry and found that insurance companies in the non-life segment are more stable as they operate in a less competitive and highly concentrated market. At the same time, life insurance companies also enjoy a stable market but from lower market power and increased competition (*Kasman et al., 2020*). Using the GMM (Generalized Method of Moments) methodology, the paper examines the relationship between competition in the industry and stability. The article is based on data from the annual reports of 20 life and 42 non-life insurance companies in Turkey from 2002 – 2014. Measures of competition utilized are the Lernex index and Boone indicator, while the z-score was used to establish stability. The paper proposed consolidation of small and medium-scale non-life insurers to increase their chance of survival and examined the relationship between competition and industry in Turkey using GMM methodology. Therefore, the method and context are different from this paper which describes the competitive landscape of the Nigerian insurance industry using Porter's five forces.

By the same token, Guo (2018) combined Porter's Five Forces and the PEST (Political, Economic, Socio-cultural & Technological factors) model to analyze the Japanese insurance industry. Using both tools, the author sought to ascertain the competitive environment in which Japanese insurance companies operate. This analysis was conducted on two levels, what the author described as "microenvironmental analysis." that involved the examination of the insurance industry through the prism of each of Porter's five forces, while "macro environmental analysis" entailed the application of the PEST framework to the industry. The paper concluded that the insurance industry is currently experiencing volatility. At the same time, the non-life segment of the market

is doing fine, while the life business was struggling under the burden of negative interest rates and recent natural disasters experienced in Japan. On the competitive state of the insurance industry, the paper established that because of the relatively high barriers to entry to the industry, poor availability of substitutes and poor leverage of buyers, the level of competition is moderate, with most of the competitive activity a result of actions of rivalry amongst existing industry players. The treatment of the five forces by Guo was superficial, as it failed to discuss the features of the five forces before applying them to the Japanese insurance industry, also, no critique of the five forces model was provided. These gaps highlighted were closed in this paper.

3. Methodology

This paper adopts a qualitative and literature review approach to the competition in the Nigerian insurance industry through the prism of Michael Porter's well-known Five Forces model. The paper has relied on multiple data sources, including peer reviewed academic journal articles, and latest publicly available market data from the National Insurance Commission (NAICOM), the industry regulator and the Nigerian Insurance Association (NIA), the umbrella body of insurance companies in Nigeria. The paper has also utilized reports from consultants, accountants and other publicly available sources of information on the state of competition in Africa and the Nigerian insurance industry. To assess the competitive rivalry in the Nigerian insurance industry, the paper has adopted the Herfindahl-Hirschman Index (HHI) and Concentration Ratio (CR) to determine the market structure and the type of competition that exists (*Arintoko et al., 2021; Serban et al., 2021; Jaloudi, 2019; Parida & Acharya, 2016*). Drawing from an analysis of the available data we arrive at conclusions about the state of competition in the insurance industry in Nigeria.

4. Industry Analysis of the Nigerian Insurance Industry

4.1 *Competitive Rivalry within the Nigerian Insurance Industry*

The state of competition in any industry plays a critical role in strategies for pricing and marketing. Traditionally, any insurance industry competes with government insurance schemes, risk retention groups and large corporate entities that engage in one form of self-insurance or the other (Kulkarni, 2020). According to Hyun and Kang (2015), where rivals are offering products which are essentially homogenous, such as financial services, they tend to compete on price, which in the case of insurance, is also regulated. Nonetheless, competition tends to be fierce for customer retention and to poach customers from other players in the industry.

Table 1: Gross Premium Written in Nigerian Insurance Industry 2017 – 2019

	NAME OF COMPANY	GROSS PREMIUM 2017 '000	GROSS PREMIUM 2018 '000	GROSS PREMIUM 2019 RANKED '000	% MARKET SHARE 2019	% INCREASE/ DECREASE 2018-2019
1	Leadway Assurance co. Ltd.	84,189,079	87,519,720	90,596,192	18.50	3.52
2	AIICO Ins. Plc.	30,407,396	37,002,279	49,440,231	10.10	33.61
3	FBN Ins. Ltd.	19,580,871	25,976,164	37,625,631	7.68	44.85
4	AXA Mansard Insurance Plc.	20,602,218	23,026,817	28,014,854	5.72	21.66
5	Custodian & Allied Ins. Ltd.	20,064,233	23,811,985	25,651,020	5.24	7.72
6	Custodian Life Assurance Ltd.	12,161,883	13,679,683	22,189,831	4.53	62.21
7	NEM Ins. Plc.	13,416,270	15,049,453	19,759,872	4.04	31.30
8	Zenith General Insurance Co. Ltd.	10,152,454	10,968,133	12,959,084	2.65	18.15
9	Allianz Nigeria Insurance Plc.	7,667,258	10,007,524	12,747,048	2.60	27.37
10	Cornerstone Ins. Plc.	7,900,401	10,493,063	11,820,052	2.41	12.65
11	Others	138,553,959	154,956,428	178,833,052	36.53	15.41
	Total	364,696,022	412,491,249	489,636,867	100.00	18.70

Source: Nigeria Insurance Association, 2019

The top ten insurance companies by Gross Premium written (in 2019) control approximately two-thirds of the market in Nigeria, while the top five control almost half (47%) of the market. With fifty-one conventional insurance companies operating and most of the business in the hands of a few firms, the market structure can be considered unbalanced and tends towards an oligopoly (Mehjabeen, 2018). The prominent players in the Nigerian insurance market in order of 2020 market share size are AIICO Insurance plc. (11.92%), Leadway Assurance (10.43%), FBN Insurance Ltd. (7.59%), Custodian & Allied Insurance Ltd. (6.14%) and AXA Mansard Insurance plc (5.35%) (NAICOM, 2023).

Table 2: Nigerian Insurance Industry Gross Premium & Total Assets (Top Five) 2020

N'Millions	Gross Premium Written	% of Industry Total	Total Assets	% of Industry Total
Industry Totals (NAICOM)	514,587.85		2,052,223.00	
Company Annual Reports:				
AIICO Insurance Plc.	61,318.00	11.92%	196,335.00	9.57%
LEADWAY Assurance Co. Ltd.	53,654.00	10.43%	523,194.00	25.49%
FBN Insurance Ltd (Sanlam Insurance Nig. Ltd)	39,063.00	7.59%	159,140.00	7.75%
Custodian & Allied Insurance Ltd.	31,588.00	6.14%	37,819.00	1.84%
AXA Mansard Insurance Plc	27,547.00	5.35%	69,026.00	3.36%

Source: NAICOM 2020 Insurance Market Performance Report & Company Annual Reports

The industry witnessed a 5.3% growth from 2019 to 2020, which is a positive development, especially in light of the significant decline in economic activity owing to the Covid-19 pandemic

that took place during much of 2020. According to McKinsey (2020) commercial insurance which comes under General insurance (i.e. non-life insurance) had good performance with oil and gas insurance and marine insurance growing by 9% and 10% respectively between 2014 and 2018.

Table 3: Concentration Ration of the Five Largest Firms in the Nigerian Insurance Industry (2017 – 2020)

% Market Share	AIICO Ins. Plc.	Leadway Assurance Co. Ltd.	FBN Ins. Ltd.	Custodian & Allied Ins. Ltd.	AXA Mansard Ins. Plc.	Others	CR5	HI
2020	11.92	10.43	7.59	6.14	5.35	58.57	5:41%	nd
2019	10.10	18.50	7.68	5.72	5.24	52.76	5:47%	671.68
2018	8.97	21.22	6.30	5.58	5.77	52.16	5:48%	733.18
2017	8.34	23.08	5.37	5.50	5.65	52.06	5:48%	788.72

Source: NAICOM 2020 Insurance Market Performance Report & NIA Annual Insurance Digest

Table 3 above indicates the concentration of market power in the Nigerian insurance industry. Five firms have consistently controlled an average of 46% of the total market share in the four years with available data. According to *Arintoko et al. (2021)*, a Concentration Ratio (CR) of between 40% and 60% indicates that the market structure is that of monopolistic competition or loose oligopoly.

4.2 Buyers' Bargaining Power

Agents and brokers have been one of the leading suppliers to the insurance industry as they facilitate insurance transactions by pointing the customer to the insurer or the insurer to the customer (Ganapathy, 2020). Insurance agents and brokers are the most prominent channel of distribution of insurance products in Nigeria (McKinsey, 2020). There are 460 registered insurance brokers and 15,000 insurance agents in Nigeria (Nigeria Insurance Association, 2023). According to the Nigeria Insurance Association, the umbrella trade association for Nigerian insurance companies, brokers control about 90% of the premium income in the industry (NIA, 2023). The ability of agents and brokers to be a serious competitive force in the Nigerian insurance industry is undermined by various dishonest and unprofessional practices, such as failure to remit insurance premiums collected.

4.3 Suppliers' Bargaining Power

Regarding the supply chain, the insurance industry differs from traditional manufacturing industries (Guo, 2018). By providing financial capacity to insurers to handle unexpected losses, reinsurers act as suppliers to the insurance industry. Without reinsurance, many insurance firms cannot provide insurance services (Rejda & McNamara, 2017). While there are only three registered reinsurance companies in Nigeria (NAICOM, 2023), many insurance companies can place reinsurance business with international reinsurers.

Another vital supplier segment with significant competitive ramifications is technical manpower. Every insurance company requires the service of actuaries who are trained professionals that can

analyze risk and probability of events. Also, they can assess the insurance company's ability to break even on the premiums charged. There is a need for more qualified and experienced actuaries operating in the Nigerian insurance industry, as only a few firms have in-house actuaries. To overcome this shortage, the National Insurance Commission is investing in training more actuaries, so that their services can be more readily available to the industry (Adeyemi, 2021). An insurance company without access to the services of an actuary will be hamstrung and is likely to make the wrong professional decisions as well as lack the ability to comply with specific regulatory requirements.

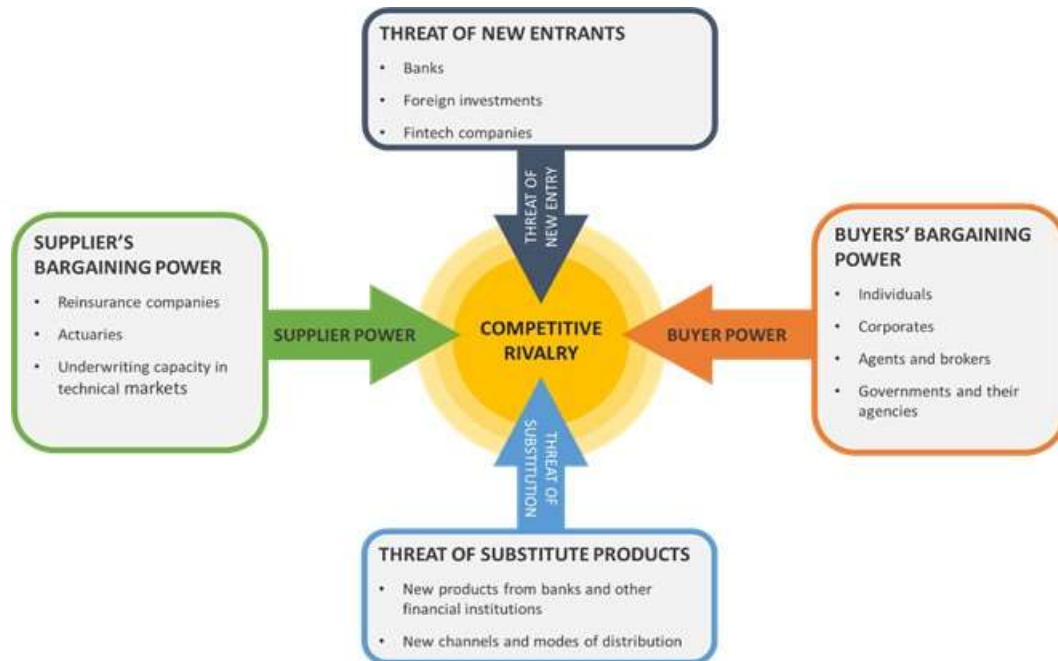
4.4 Threat of New Entrants

Every industry must deal with the probability of new entrants, and the attendant "disruption" to market share, marketing strategies and pricing. The barriers to entry in the insurance industry include the requirement for licensing by the government and the necessity for economies of scale (Du, 2020), as well as the difficulty in taking on established players with distribution networks, market loyalty and goodwill

Nigerian insurance companies have made strenuous efforts to adopt innovative and technologically driven methods to reach their customers. Owing to the ever evolving fintech (otherwise known as "Insurtechs") ecosystem that has ushered non-traditional insurance players into the industry, a digital business strategy is an essential requirement if any insurance firm is to survive and thrive in the industry (*Hakizimana et al., 2023*). Technology has facilitated the quick growth of non-insurance fintech firms to offer insurance services to existing customers of insurance firms as well as those who have not previously utilized insurance (Cheston & Rhyne, 2016). The non-traditional players come to the competitive field with a few significant advantages, they have low production and transaction costs, obvious ICT edge and increased absorptive capacity, translating into improved efficiency and financial performance (*"Bryan" Jean et al., 2008*). Using latest Customer Relationship Management technology, fintech firms are able to utilize data from Bank Verification Numbers (BVN) and National Identification Number (NIN) to reach more Nigerians and improve existing customer experience (Deloitte Touche Tohmatsu Limited, 2022).

There have been several innovations in product design and distribution channels, with traditional insurers going into partnership with online platforms and digital service providers (McKinsey, 2020). Prudential Zenith Life Insurance Limited got together with MTN Communications Limited to issue a USSD (Unstructured Supplementary Service Data) service, through which people can sign up for insurance products from the comfort of their phones. GT Bank plc also unveiled Beta Health, a health insurance service targeted at the low-income market. Piggyvest, a micro-savings and micro-investment platform that facilitates targeted savings, partnered with Avon HMO (Health Management Organisation) and deployed an insurance feature on its app. Aella Credit, a digital lender, worked with Hygeia HMO to deploy health insurance offerings on its lending app, AellaCare. Premium is set as low as N2,000 per month. Carbon, another digital lending firm in Nigeria, joined hands with Axa Mansard Insurance plc. to provide some insurance services on its app (Idris, 2020).

While these new product offerings and distribution channels might be viewed as a competitive threat to traditional insurance firms, they are also essential to reach out to the increasing population of tech-savvy young Nigerians who inhabit urban areas.



Source: The author

Figure 2: Porter's Five Forces (Nigerian Insurance Industry)

4.5 Threat of Substitute Products

As a major instrument of risk management, insurance faces serious and significant competition from the religious and fatalistic inclinations of many Nigerians. For some Nigerians, spending money on insurance products is more or less an invitation to the occurrence of the perils insured against, they would therefore rather be more insistent in their faith to ward off the perils than purchase insurance products. Additionally, some fervently believe that the perils would not happen to them or they adopt a "head in the sand approach". There are also those who believe that adoption of insurance is expressly against their faith (Ayuba *et al.*, 2020; Maiyaki & Ayuba, 2015; Ifejiyonu & Emmanuel, 2014). These are clear indications that some Nigerians have substitutes to the purchase of insurance, this continues to undermine insurance penetration, especially amongst the illiterate and barely educated. Even as a means of investment of surplus funds, insurance faces direct competition, at least in the minds of many Nigerians, with investment in the stock market or purchase of landed property. Thus the stock market and life insurance market have themselves to be substitutes or direct competitors for investment funds instead of complements (Yinusa & Akinlo, 2013).

According to Muriu (2017) mobile devices, especially smartphones, are the main factors behind the transformation of the financial and purchasing habits of people, as well as their expectation of

service delivery. Technology and new product distribution models are areas from which substitute products can come into the industry; some new players may not necessarily have the NAICOM insurance licence but can take away customers who would otherwise have gone to the traditional insurance companies. The essential risk management feature of the insurance product has been one that has been difficult to substitute over time. However, today, there is a growing trend for the digitization of financial services, including "on-demand and usage-based insurance products" (Kulkarni, 2020). Like the increased digitalization of banking and payment services, it is possible to offer insurance products much faster and cheaper (Idris, 2020).

5.0 Conclusion

A limitation of this study is the lack of up-to-date industry data from both the regulator and the industry trade association. Complete Industry data, at the time of writing this paper, was only available up to 2019, with data available in patches for other years. The study is also hampered by the dearth of literature on competition in the Nigerian insurance industry, especially utilizing Porter's five forces framework. This has forced reliance on non-peer-reviewed sources, especially in analyzing the various competitive forces.

The market structure of the Nigerian insurance industry tends towards oligopoly, with almost half of the market share in the hands of the top five firms. While competition is fierce, the top leaders in the industry have been able to corner a sizeable market share. Owing to the absence of perfect substitutes and the moderate to low bargaining power of buyers and suppliers, the industry is settled. It does not have many competitive concerns on the whole. Barriers to entry remain high with the significant capital requirement and the economies of scale required to impact the market.

Looking ahead, there is much room for further research in this field, especially using empirical and up-to-date data. A complete understanding of the industry's competitive landscape is essential for both participants, regulators and would-be investors.

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