The Acquired Immune Deficiency Syndrome (AIDS) and life insurance: The case of Nigeria

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ABSTRACT

This study investigated the impact of HIV/AIDS on life assurance business in Nigeria aimed at understanding how the industry reacted to the HIV/AIDS pandemic. The study employed a combined qualitative approach; hence data was collected via interviews and mystery visits. Alongside interviews, prospects were sent to the selected insurance companies to ask for HIV/AIDS insurance cover in order to know if data obtained from interviews will be in line with the reality on ground. A subtle form of policy-driven discrimination against people living with HIV/AIDS in Nigeria was found to exist in majority of the insurance companies that operate in Nigeria. Practitioners classify HIV-positive status as an extra high risk. With the readily-accessible and easily-available anti-retroviral drugs in the country which ensure HIV patients live normal lives; this study suggests the removal of the discrimination or better still, an innovative life insurance package for people living with HIV as obtained in countries like South Africa and India. This would ensure that people living with HIV/AIDS get access to life insurance just like every other person.

Keywords: HIV, expectancy, claims, death, Nigeria

1. Introduction

The United Nations AIDS estimates that about 35.3 million people are known to have been infected with HIV/AIDS at the end of 2012. Globally it is estimated that between 30 million – 42 million have died and out of this 1.6 million died in 2012 alone (UNAIDS report, 2013). Sub-Saharan Africa is known to have the highest population with about 25 million people living with the scourge and 1.2 million deaths making the region the epicenter of the pandemic (Fortson, 2009). Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS) is a global problem especially in Sub-Saharan Africa. So far the full impact is not known and the all efforts to counter the devastating effect have not resulted in a halt (Barnette and Whiteside, 2006). The continent of Africa as a whole accounts for less than 11% of the world’s population but bears over 70% of the global HIV/AIDS burden. The region is also described as the epicenter of global HIV pandemic (Fortson, 2009).

Nigeria is estimated to have about 170 million people and predicted to be growing at annual rate of 2.5%. The United Nations population believes that the Nigerian population will close up on USA in about 2050 (UN Report, 2013).
With HIV prevalence rate of about 3.7% among the adult population, it is estimated that there are about 3.5 million Nigerians are living with the disease, making the country the second largest in the world where the disease has affected so many people. Unfortunately, only about 2 million have access to treatment (Ogunmade, 2013 and NACA, 2013). The study is aimed at understanding the impact of HIV/AIDS in life assurance underwriting, practice and claims in Nigeria and how the industry reacted to the disease in Nigeria. The researchers believe that this research will also throw more light on plight of people HIV/AIDS and possibly a basis for further research.

In order to do this the researchers narrowed down to two main research question:
- How has HIV/AIDS impacted on the life insurance industry in Nigeria?
- What is the response of insurance companies to the threat of HIV and AIDS?

2. Theoretical framework

2.1 Insurance industry in Nigeria

The Nigerian insurance industry is made up of insurance companies, reinsurance companies, loss adjusters, brokers and registered agents. Registered insurance companies are broadly classified as life insurers, composite insurers and general business (Insurance Act, 2003). Life assurance business comprises of individual life, group life and pension, health insurance and annuities (Owojori and Oluwagbuyi, 2011). Insurance business in Nigeria is less than a century old. It started in 1918 with the establishment of Royal Exchange represented by Barclay’s DCO and it became a full branch in 1921. Expatriate insurance companies continued to dominate the industry in Nigeria until 1958 when the first indigenous insurance company was established (Yusuf and Yusuf, 2010). The Federal Government of Nigeria established NICON insurance as its own company in 1969 and later divested under the privatization and commercialization scheme of 1990. From 1958 when the first insurance company was established to 2005, Nigeria has had 104 insurance companies and four reinsurance companies (Eze and Okoye, 2013). However, the number was reduced to 59 following the recapitalization exercise of 2007(NAICOM, 2014). Government effort to strengthen insurance business in Nigeria has continued over the years. For example: the insurance Act of 1961 aimed at organizing and regulating insurance business, the insurance decree of 1976 aimed at deepening the regulation of the industry (Yusuf and Yusuf, 2010), the establishment of National Insurance Commission in 1997 (NAICOM) and Insurance Act 2003 (Eze and Okoye, 2013). The major regulatory document for insurance in Nigeria today is the insurance Act 2003. Section 86 of the act provided that NAICOM shall be responsible for the regulation and enforcement of the act. The act classified insurance business into four classes: Life, general business, composite and reinsurance (Insurance Act, 2003). Although the Insurance Act 2003 specified the minimum capital requirement for the various classes of insurance but this was raised in 2007 to further strengthen insurance business in Nigeria.

<table>
<thead>
<tr>
<th>Class of Business</th>
<th>Old Capital Requirement(Naira)</th>
<th>New Capital Requirement(Naira)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Business</td>
<td>15 million</td>
<td>2 billion</td>
</tr>
<tr>
<td>General Business</td>
<td>200 million</td>
<td>3 billion</td>
</tr>
<tr>
<td>Composite Insurance</td>
<td>350 million</td>
<td>5 billion</td>
</tr>
<tr>
<td>Reinsurance business</td>
<td>350 million</td>
<td>10 billion</td>
</tr>
</tbody>
</table>

Source: NAICOM.
Generally, insurance sector in Nigeria is far behind when compared to the other Africa countries like Kenya, Tunisia, Morocco, Zimbabwe etc. Insurance penetration which is measured as a gross value of insurance premium as percentage of Gross Domestic Product (GDP) is about 0.6% in Nigeria whereas South Africa is about 14% and the African average is 3.9% (Alabada, 2011 and KPMG, 2013). Insurance market in Nigeria and most African nations is under developed mainly because of poverty (KPMG, 2013). Research suggests that lack of trust due to previous experience, poor public image, in adequate capacity on the part on the part of insurance companies, infrastructure are among the major obstacles confronting insurance industry in Nigeria (Owojori and Oluwagbudy, 2011). In Nigeria, there are sixteen insurance products that have been made compulsory by law but only five can be strictly enforced namely: third-party car insurance, builders’ liability insurance, occupiers’ liability insurance, health care professional indemnity insurance, and statutory group life insurance (KPMG, 2013). In general business category, motor products, oil and gas, marine, workmen compensation, accident and fire are the major classes of business.

2.2 HIV/AIDS and insurance

Insurance is a contract whereby one party (the insurer) agrees to pay the other party (the policy holder or the insured or beneficiary) a claim upon payment of a premium for the occurrence of specified future event (Anderson and Brown, 2005). The principle of insurance is that all participants contribute to the common pool and from the pool those who suffer losses are compensated. However, this principle or assumption does not apply in life assurance or insurance contracts. In non life insurance like marine, fire and theft and other classes of business a claim may or may not occur. A claim in life assurance is bound to occur either by maturity, termination, surrender and death of the policyholder.

Life assurance or insurance as sometimes called has to do with human life. Whether called life assurance or insurance is a question of nomenclature which depends on whether one has a British or American inclination (Agu, 1999). Life assurance in its strictest sense is the assumption by an insuring organization of a risk of death of the policyholder. Individuals buy life insurance policy for different reasons including savings for future projects, protection from untimely death, provision for dependants, etc. “Life insurance protects your financial future. It provides the resources your family or business may need to pay for immediate and continuing expenses when you die” (American Council of Life Insurers). Life business is one of the key classes of business in Nigeria. By law, some firms are specifically established to underwrite only life business unlike any other class of business (Insurance Act, 2003). Life insurance alone accounts for an average of 30% of the total asset of insurance industry in Nigeria between 2007 – 2011 (NAICOM, 2013).

<table>
<thead>
<tr>
<th>Year</th>
<th>Life (In million of Naira)</th>
<th>Non life (In millions of Naira)</th>
<th>Total Asset (In millions of Naira)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>125,234.33</td>
<td>302,262.83</td>
<td>427,497.16</td>
</tr>
<tr>
<td>2008</td>
<td>187,138.06</td>
<td>386,016.40</td>
<td>573,154.46</td>
</tr>
<tr>
<td>2009</td>
<td>198,108.85</td>
<td>388,350.69</td>
<td>586,459.54</td>
</tr>
<tr>
<td>2010</td>
<td>193,274.19</td>
<td>391,741.60</td>
<td>585,015.79</td>
</tr>
<tr>
<td>2011</td>
<td>213,662.92</td>
<td>407,432.22</td>
<td>621,095.14</td>
</tr>
</tbody>
</table>

Source: NAICOM
Human immunodeficiency virus (HIV) is the primary cause of AIDS. When it attacks the body it destroys the immune system as CD4 cells are compromised thereby exposing the body to opportunistic infections that may not be pathogenic in people with intact immune system. Acquired Immune Deficiency Syndrome is therefore the last stage of HIV (Dozie, 1998 and Land, 2003). HIV/AIDS was initially thought to be a health problem but now a serious economic problem especially in developing countries in Africa (Dozie, 1998). HIV/AIDS has two characteristics across Africa: it is an immediate crisis that demands an urgent attention and a systematic condition that requires strategic planning; it also presents a critical challenge to the health care system of many Sub-Saharan African nations both on the supply and demand side (Case and Paxson, 2011).

It has impacted heavily on the productive population of the African economies (CHGA, 2001) thereby depleting labor force and discouraging foreign direct investment. When labor supply, its quality and potential productivity are diminished as a result of HIV/AIDS, these trends act to discourage foreign direct investment that is essential for economic development (ILO, 2005). Research suggests that HIV/AIDS is known to increase both mortality and morbidity because of the ability of the scourge to compromise the immune systems of an infected individual. It has impacted on virtually all major aspects of life; households and families, firms, agriculture, health care and education, population distribution etc (UNAIDS Report, 2013 and Juhn et al., 2013). Because the pandemic is mainly transmitted through sex; “young adults are being affected disproportionately, tearing at the very fabrics of African societies by decimating ranks of workers, including teachers, laborers, engineers, doctors and nurses” (Cotton, 2011:265). These young adults are the major potential target of life insurance marketing because of their productive capacity and economic purchasing power.

Life assurance companies rely on mortality table in calculation of premiums and project when a claim will occur as a result of death. Between 1950 – 1960, life expectancy in Sub-Saharan Africa was on the rise but rapidly reversed as a result of HIV/AIDS pandemic (Cotton, 2011 and Dorling et al., 2006). Research suggests that in some South African countries, life expectancy could drop as low as 40 years as against 60 without HIV/AIDS (CHGA). Life expectancy is the average length of time people are expected to live if the prevailing pattern of mortality at the time of birth is same throughout the individual’s life. It is a reflection of socio-economic factors, healthcare, disease control, immunization, nutrition and overall living condition.

HIV/AIDS has seriously impacted on the health care system in most African countries. In a study by (Tawfik and Kinoti, 2003), they found that in 7 out of 16 countries studied in Africa, 2% out of 3.5% of their GDP was spent on AIDS alone. Most Africa countries are already strained due to the demand for their meager resources by other sectors of the economy that also need urgent attention like infrastructure, education, security, unemployment. It also means that if more of these resources are committed to HIV/AIDS, same cannot be available for other sectors (Tawfik and Kinoti, 2003). For example, it was estimated that one- fifth of health care workers in South Africa are likely to be lost within several years to HIV/AIDS either through infection or through life styles (World Bank Report, 1999). Already, the hospitals in Africa are not enough and inadequately equipped, an additional burden from HIV/AIDS due to opportunistic infections and other diseases will mean a lot for African countries in terms of cost and personnel (Clearly et al., 2008). Research suggests that a one percentage increase in HIV/AIDS will reduce the real GDP of Nigeria by 2.19% (Maijama and Mohammed, 2013). Since HIV/AIDS is still a major problem in Nigeria, the chances that insurance companies will have HIV+ people on their books are high (Ramsay, 1989). Life assurance and health insurance are at a risk of being overrun if HIV/AIDS related claims...
become so high. One major problem of HIV is the problem of valuation for actuaries in pricing and reserve standard which could not have been anticipated at the time the policy was issued (Ramsay, 1989). HIV/AIDS claims have the tendency to affect investment portfolio of life assurance companies since projected investments will be reduced. Ordinarily, if the life assurance underwriter relies on medical reports, or, medical questionnaires to reject HIV+ applicants, how then can they deal with those who get infected after taking the policy, or, those whose infection were so early as to be detected by medical examination?

Insurance coverage for people living with HIV/AIDS in Nigeria is approached from the angel or dimension of no cover to a policy-driven discrimination. Life insurance companies have been warned to be wary of granting cover to this category of customers by NAICOM (nigeriahivinfo.com, 2013). Unlike in South Africa and Zimbabwe where some companies have taken the initiative to provide cover for such people. At the onset, South African companies used HIV/AIDS exclusion clauses as a response to the pandemic. An example of such includes death, critical illness or disability directly associated with HIV/AIDS or accelerated by HIV/AIDS. The efficacy of this approach remained a debated issue because at the stage claims are made, it is not always easy to establish if death is linked to HIV/AIDS (Land, 2003).

3. Research methodology

The population for this study comprised of the life assurance companies operating in Nigeria insurance industry. It covered life insurance operators who were licensed to underwrite life business including composite insurers. In all there are 16 life insurance companies and 13 composite insurance companies in Nigeria today. However, a sample six randomly selected companies based on accessibility for interviews and mystery visits were selected for the study. The researchers adopted combined qualitative methods using interviews and mystery shopping approach. Data for the study was generated via primary and secondary sources. The primary data was generated through interviews with life underwriters, claims managers and insurance brokers alongside feedback from 18 mystery shoppers while secondary data was based on publications of NAICOM. The mystery shoppers were sent to the selected insurance companies to ask for HIV/AIDS insurance cover. A total of eight in depth interviews were done to understand the perspective of each insurance company.

4. Findings and discussion

The researchers discovered that there has been mixed reactions to HIV/AIDS by the industry. Although there is no outright cover or policy strictly developed for people living with HIV/AIDS in Nigeria by any insurance company. The policy-driven discrimination earlier advocated by the National Insurance Commission is still in practice and remains the main thrust of the industry’s response to the scourge. The main objective is to completely eliminate HIV/AIDS related risk through underwriting measures and product exclusions. It was discovered that insurance companies were unwilling to grant cover to individuals that are living with HIV/AIDS. However, under the compulsory group life scheme, HIV/AIDS patients are usually covered with or without higher premium in almost all the companies while for the individual category, the cover depends on the insurance company approached but majority of the companies do decline cover.

Some practitioners view HIV/AIDS as death-bound and therefore it is pointless to grant them cover since their days are numbered while other were of the view more stringent underwriting
measures should be adopted. This is in spite of the fact that anti-retroviral drugs are more readily available and accessible now, and people living with HIV/AIDS can live normal lives as has seen in other emerging markets like South Africa and India where people living with HIV/AIDS are granted cover but on a higher premium. It also shows that insurance companies in Nigeria are not innovative enough to design suitable products for this class of applicants.

Our finding also re-affirmed an already known fact that insurance is still not very popular among Nigerians and therefore the chance of having a HIV+ policy holder is very little. Although most of the companies studied claim not to have recorded any HIV/AIDS-related claim but there has been recorded few isolated cases. The researchers do not have substantial evidence to support this view. The claims procedure does not provide any form of autopsy to confirm the cause of the death. Therefore, even when a claim is as result of HIV/AIDS, the insurance companies may not be aware of that since beneficiary of the deceased can compromise the death certificate due to fear of the stigma associated with HIV/AIDS.

This study also found that most of the policies offered by insurance companies are modifications of traditional polices like whole life and term life. These new set of policies are savings and investment-linked and are targeted at cash accumulation for a specified period or project. Majority of the applicants in Nigeria are buying mainly investment linked products, whose life covers are small or are proportionate to the premium paid and are almost over-paid for by the allocations done on the premiums. They do not necessarily have the core life assurance element of relying on life expectancy. Those policies are considered too long in Nigeria and very unpopular among the few that patronize insurance.

5. Conclusion

Considering the findings of this research, it can be concluded that HIV/AIDS has not directly impacted on the claims experience of life insurance companies since the companies have taken measures to exclude those living with HIV/AIDS. However, it has had an indirect impact on the industry since potential customers are prevented from enrolling through imposition of stringent measure like premium loading. The researchers recommend that life insurance industry in Nigeria be more innovative by developing products and adapting existing ones to accommodate those living with HIV/AIDS as an opportunity to have a new line of business. There should be a stakeholder awareness aimed at ensuring equal access and equal benefits for people living with HIV/AIDS in Nigeria. If such policies worked in places like South Africa and Zimbabwe, there is no reason why such policies cannot work in Nigeria. South Africa as a successful example is a model begging for adoption by Nigerian life insurance companies.

6. References


