Best's Country Risk Report

Nigeria

CRT-5

August 22, 2018

Region: Sub-Saharan Africa

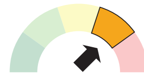
Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Nigeria, a CRT-5 country, has high economic risk and very high political and financial system risk. The country came out of an economic contraction in 2017, recording GDP growth of 0.8%. Economic growth over the medium term in expected to be 2.0%-2.5%.
- Policy missteps and corruption weigh heavily on the country's ability to grow and to increase the wealth and well-being of the population. Its GDP per capita is lower than the Sub-Saharan 2017 regional average of approximately USD4,000. Nigeria's GDP per capita in 2017 was approximately USD2,000.
- The majority of countries in Sub-Saharan Africa are categorized as CRT-5, the exceptions being Mauritius at a CRT-3, and South Africa at a CRT-4.

Vital Statistics 2017		
Nominal GDP	USD bn	376.28
Population	mil	188.7
GDP Per Capita	USD	1,994
Real GDP Growth	%	0.8
Inflation Rate	%	16.5
United Nations Estimates		
Literacy Rate	%	59.6
Urbanization	%	49.4
Dependency Ratio	%	88.2
Life Expectancy	Years	53.8
Median Age	Years	18.4
Insurance Statistics		
Insurance Regulator	National Insurance Commission	
Premiums Written (Life)	USD mil	274
Premiums Written (Non-Life)	USD mil	628
Premiums Growth (2016 - 2017)	%	-10.5
Regional Comparison		
	Country Risk Tier	
Nigeria	CRT-5	
Ghana	CRT-5	
Kenya	CRT-5	
Morocco	CRT-4	
South Africa	CRT-4	
Tunisia	CRT-4	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Risk

Political Risk

Financial System Risk

Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk

Country Risk Tier 2 (CRT-2) Low Level of Country Risk

Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk

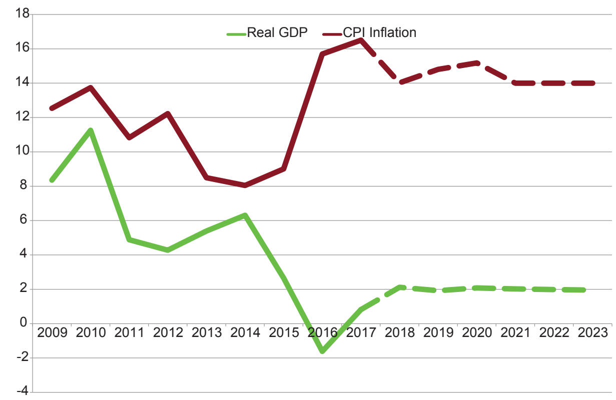
Country Risk Tier 4 (CRT-4) High Level of Country Risk

Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Sub-Saharan Africa

- Africa's growth prospects are expected to improve slightly on rising domestic demand, stronger global growth, a recovery in agricultural production, and modestly increasing commodity prices. However, economic growth continues to lag population growth, making any significant progress towards human development goals difficult.
- The region faces several headwinds that limit potential, including political uncertainty, challenging business environments that erode investor confidence, fiscal pressures, high debt, poverty, growing numbers of refugees, corruption, inadequate infrastructure, and an unstable security environment.
- The IMF estimates that about 40% of the region's low-income countries have a high risk of debt distress or are already in debt distress. A large share of the region's sovereign debt is denominated in foreign currency, and an appreciating dollar/euro would lead to larger debt burdens.
- Inflationary pressures have subsided owing to monetary policy, increasing foreign exchange reserves, and growing exchange rate flexibility.

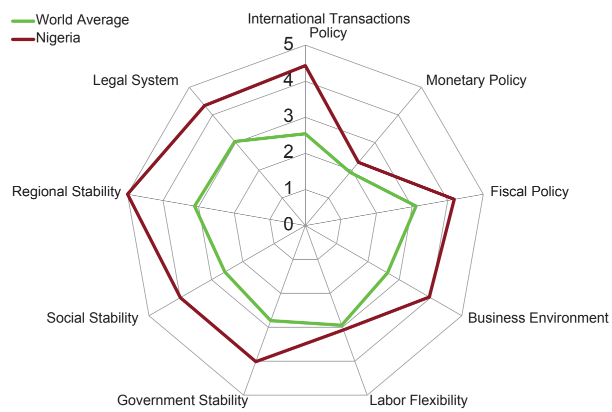
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

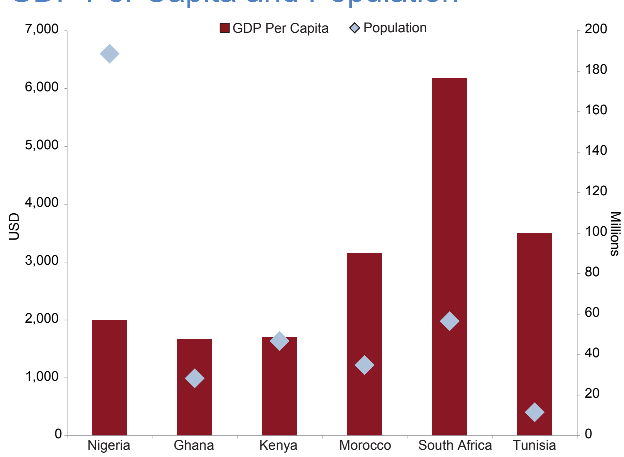
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Nigeria relies highly on oil as one of its main sources of government revenue and foreign exchange earnings. Hydrocarbons account for approximately 90% of exports and 50% of fiscal revenues.
- Recovering oil prices and stabilizing oil production are expected to continue to aid Nigeria's economic recovery in 2018. However, non-oil growth, with the exception of agriculture, will likely continue to lag.
- The country continues to suffer from high unemployment, inadequate infrastructure, currency weakness, income inequality, slow policy implementation, rising levels of government debt, and a rising interest rate burden.
- Foreign direct investment, outside of the energy sector, will likely be limited owing to high levels of corruption and the potential for political instability.

Political Risk: Very High

- President Muhammadu Buhari took office in May 2015 on a platform of lowering corruption, increasing economic diversification, creating jobs, improving income inequality, and reducing terrorism.
- Presidential elections are scheduled for March 2019. Despite concerns about his health and questions about his job performance, Buhari appears to be on track to win a second term. However, ongoing questions about his health add to political uncertainty and potential instability should he be incapacitated.
- Security risks remain elevated due to active terrorist groups, including Boko Haram and the Niger Delta Avengers, as well as the escalating farmer-herdsman violence that has led to curfews in some states.
- Despite a major crackdown, corruption remains a deep-rooted and endemic issue in all levels of business and government dealings.

Financial System Risk: Very High

- The National Insurance Commission (NIC) regulates the country's insurance industry. However, there is currently a proposal that a new regulator be put in place to oversee all Nigerian financial-sector regulation.
- The IMF has noted that vulnerabilities in the banking sector are becoming more pronounced. Non-performing loans have increased, from 5% of total loans in June 2015 to over 15% in October 2017.
- New exchange rate measures, known as the New Investors and Exporters Foreign Exchange Window, have contributed to better foreign exchange availability, with external reserves at a four-year high. Nevertheless, the foreign exchange market remains segmented. Implementation of a unified and market determined exchange rate and the removal foreign exchange restrictions have been recommended.