

**WEST AFRICAN INSURANCE COMPANIES ASSOCIATION:**  
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THE PREPAREDNESS OF THE INSURANCE INDUSTRY IN WEST AFRICA TO RESPOND  
TO THE OIL BOOM IN THE SUB REGION

BY  
**OLUSOLA LADIPO-AJAYI ESQ.**

LL.B, BL, M.SC, FCIIN, FCII  
GROUP MANAGING DIRECTOR,  
LASACO ASSURANCE, LAGOS, NIGERIA

# THE ECONOMICS AND POLITICS OF OIL

- ***In a research by the World Bank, the International Monetary Fund, and Christian Aid, underdeveloped countries dependent on oil face four major problems. There are greater incidences of poverty for majority of the population, a higher chance of corruption, more likely to be/ have been in war or faced civil strife. Lastly, the country is most likely to have either a dictatorial or unrepresentative government.***  
***<http://www.christianaid.org.uk/indepth/0305cawreport/cawreport03.pdf>***

- WHY?
- CORRUPTION
- FOCUS ON OIL TO THE DETRIMENT OF OTHER AREAS OF ECONOMIC DEVELOPMENT
- DUTCH DISEASE
- POLITICS OF DEMAND & SUPPLY OF OIL

# POLITICS OF DEMAND AND SUPPLY OF OIL

- 1950s; SEVEN SISTERS – MONOPOLY, CROSS OWNERSHIP, VERTICAL AND LATERAL INTEGRATION
- 1960: ORGANIZATION OF PETROLEUM EXPORTING COMPANIES (OPEC)
- CRISES IN THE MIDDLE EAST AFFECTS OIL SUPPLY – NEED FOR ALTERNATIVES (SOURCES OF OIL AND OTHER FORMS OF ENERGY)

# RENEWABLE ENERGY

- ENERGY GENERATED FROM NATURAL RESOURCES WHICH ARE NATURALLY REPLENISHED –SOLAR,WIND, RAIN, TIDES,GEOHERMAL HEAT etc
- DEMAND ON THE INCREASE :
- (i) 2006 - 18% OF TOTAL GLOBAL ENERGY CONSUMPTION
- (ii) CLIMATE CHANGE CONCERNS & HIGH OIL PRICES
- (iii) GOVERNMENT SUPPORT (LEGISLATION, SPENDING, INCENTIVES) & COMMERCIALISATION
- (iv) SECTOR FARED BETTER THAN MANY OTHERS IN 2009 ECONOMIC CRISES.

## LEGAL FRAMEWORK

- SPECIFICALLY, THE CONCLUSION IS THAT THE LAW NEEDS TO PROTECT INDIGENOUS ENTERPRISE, BECAUSE OF CLEAR DISADVANTAGE IN LEVEL OF DEVELOPMENT IN THE SUB-REGION. MAJOR PLAYERS IN THIS FIELD HAVE OVERWHELMING CAPACITY, WHICH MAKES EVERY FACET OF ENTERPRISE IN THE SUB-REGION UNCOMPETITIVE

# UN RESOLUTIONS

- THE UNITED NATIONS ORGANIZATION SUPPORTS THIS INITIATIVE AND HAD PASSED RESOLUTIONS TO THIS EFFECT. WE SHALL CONSIDER EXCERPTS FROM THE FOLLOWING RESOLUTIONS OF THE GENERAL ASSEMBLY:
- Resolution No. 626 (VII) of 21 December 1952 – Right to Exploit Freely Natural Wealth and Resources
- *The right of peoples freely to use and exploit their natural wealth and resources is inherent in their sovereignty and is in accordance with the Purpose & Principles of the Charter of the United Nations*  
*All member states to refrain from acts, direct or indirect designed to impede the exercise of the sovereignty of any state over its natural resources*

# UN RESOLUTIONS (CONTINUES)

- Resolution 1803 (XVII) of 14 December 1962 and Resolution 2158 (XXI) of 22 November 1966 – Permanent Sovereignty Over Natural Resources
- *The right of peoples and nations to permanent sovereignty over their natural wealth and resources must be exercised in the interests of their national development and of the well-being of the people of the State concerned.*  
(Resolution 1803)
- *Bearing in mind that the natural resources are **LIMITED AND IN MANY CASES EXHAUSTIVE** (emphasis mine)...*  
*Reaffirms the inalienable right of all countries to exercise permanent sovereignty over their natural resources...*  
*Declares therefore that that the UN should undertake a maximum concerted effort to channel its activities so as to enable all countries to exercise that right fully*  
(Resolution 2158)

# UN RESOLUTIONS (CONTINUES)

- Resolution 3281 (XXXIX) of December 12 1974 – Charter of Economic Rights & Duties of States.
- *Article 2*
- *Every State has and shall freely exercise full permanent sovereignty, including possession, use and disposal, over all of its wealth, natural resources and economic activities*
- *Each state has the right to regulate and exercise authority over foreign investment within its national jurisdiction in accordance with its laws and regulations and in conformity with its national objectives and priorities .No state shall be compelled to grant preferential treatment to foreign investment*



## LEGISLATION GOVERNING THE OIL INDUSTRY

- NIGERIA
- **COLONIAL LAWS**
- ***Petroleum Ordinance 1889 & Mineral Regulation (Oil) Ordinance 1907 & Mineral Oils Act cap 135 1948 LFN –***
- Operators under this regime:
- (i) Nigerian Bitumen Company – 1908
- (ii) Shell D'Arcy Petroleum Development Company – 1938 (It had sole concession over the entire land mass of Nigeria i.e. 375,000 sq. miles. Sole concession cancelled in 1962. Shell - BP retained 15,000 km)

# POST INDEPENDENCE LAWS

## **Petroleum Act 1969**

- Provides for the exploration of petroleum from the territorial waters and the continental shelf of Nigeria and to vest the ownership of, and all on-shore and off-shore revenue petroleum resources derivable therefrom in the Federal Government and for all other matters incidental thereto. (As amended 2004)
- Only Nigerian citizens (individual or corporate) may be granted oil exploration or prospecting license and oil mining lease.

# EXISTING LAWS IN NIGERIA

- Various laws directly regulate the Nigerian oil industry and are listed as follow:
- The Petroleum Profit Tax Act 2004
- The Petroleum Act 2004
- The Petroleum Technology Development Act 1973
- The Associated Gas Re-injection Act
- The Petroleum Equalization Fund Act 1989
- The Oil Pipelines Act 1990
- The Nigerian National Petroleum Corporate Act 1997
- The Petroleum Products Pricing Regulatory Agency Act 2003
- Oil Terminal Dues Act
- Oil in Navigable Waters Act.

PRESENT LEGISLATIVE & ADMINISTRATIVE EFFORTS IN NIGERIA:  
THE PETROLEUM INDUSTRY BILL

- *Over the years, the laws regulating this very important industry have not been comprehensively reviewed.....practically every other law regulating the industry, needed to be holistically updated to reflect changing dynamics of the oil and gas industry worldwide...The PIB combines 16 different Nigerian Petroleum laws in a single transparent and coherent document*  
*- Dr.Rilwan Lukman (Minister of Petroleum Resources, NIGERIA)*

## NIGERIAN CONTENT: SECTION 8 PETROLEUM INDUSTRY BILL

- (i) The Federal Govt. of Nigeria shall at all times promote the involvement of indigenous companies and manpower and use of locally produced (goods) and services in all areas of the petroleum industry in accordance with existing laws and policies
- (ii) Where any contract for work or services is considered to be within the capability of Nigerian companies, in accordance with any law relating to the Nigerian Content, the tender shall be restricted to Nigerian companies.
- (iii) All companies involved in any area of upstream or downstream petroleum industry shall, as a condition of their license, lease, contract or permit, as the case may be, comply with the terms and conditions of any law relating to the Nigerian content law in force at that time.
- (iv) Failure to comply with the terms of any local content law as determined by the Inspectorate shall be a ground for revocation of license.....

# NIGERIAN CONTENTS: WHAT IS IT ABOUT?

- It is designed to domicile activities in Nigeria, but not an indigenization policy.
  - Benchmarks – Nigerian contents in goods & services supplied to the oil industry should be :
    - Initially between 10% & 20%
    - From 2006 minimum content was 45%
    - From 2010 the target is a minimum of 70%
- It is not designed to compromise standards – quality, health, safety and environment

# CHALLENGES OF LEGISLATIVE ADVANTAGE

- High Values – this is the main cause of skepticism of IOC
- Volatility of Risks
- International Best Practices especially in the area of Premium and Claims .
- High cost & limited reinsurance programs currently available
- Captive Companies of IOC
- The CAPACITY issues:
  - Financial Capacity
  - Technical Capacity

# RECOMMENDATIONS

- (a) Bidding Process for oil and gas insurance contracts must be specifically provided for in law or Government Regulations:

*Henceforth, all projects & operations as relates to the Insurance of Risks in the Oil & Gas industry must involve Nigerian Insurers/Reinsurers/Brokers/Adjusters/Surveyors and demonstrate strict compliance with the provisions of the Insurance Act 2003 as well as the Guidelines for Insurance of Risks Associated with Oil & Gas operations in Nigeria and submit a certificate of compliance issued by National Insurance Commission (NAICOM) to Nigerian Contents Department (NCD) [of Nigerian National Petroleum Corporation (NNPC)] as part of technical evaluation requirements for Insurance or Reinsurance contracts.*

*In this report, NAICOM verified gross underwriting capacity of Nigerian registered Insurance Companies must be fully utilized to the satisfaction of NAICOM to maximize Nigerian Content before ceding risk off shore –*

**NIGERIAN CONTENT DEPT. SHORT TERM DIRECTIVE NO. 21 (13/10/06)**



## RECOMMENDATIONS (Continues)

- (b) Clear definition of Market Capacity is essential
- (c) Cooperation and Collaboration in Competition (The analogy of brooms and snakes). Let us pool our resources
- (d) Local expertise: Train – Retrain and Retain.  
Remember KOFI ANAN, EMEKA ANYAOKU, WOLE SOYINKA, GEORGE WEAH, ABEDI PELE, RASHIDI YEKINNI, AZUMAH NELSON etc. Are they no more West Africans?  
Exposure makes a difference, expose your staff.

# OSIBISA

WE ARE GO-ING, HEAVENS KNOW WHERE WE ARE GO-ING

WE KNOW WE WILL;

WE WILL GET THERE, HEAVENS KNOW HOW WE WILL GET THERE,

WE KNOW WE WILL;

IT MAY BE LONG WE KNOW & THE ROAD MAY BE THORNY &  
ROUGH BUT,

WE 'LL GET THERE, HEAVENS KNOW HOW WE WILL GET THERE,

# WE KNOW WE WILL!

# THE END

- THIS PRESENTATION IS DEDICATED TO:
  - (i) THE NIGERIAN CONTENTS DEPT. OF NNPC
  - (ii) ZAKI IZEGEN & MUSA LAWAN OF INSURANCE DIVISION, NAPIMS

• **THANK YOU**