

# INSURANCE 101

## FOR BEGINNERS

*Top 15 Insurance Terms Explained in Nigerian Layman's English*

*With Real Nigerian Scenarios & Everyday Examples*

*Because Insurance Should Not Be a Mystery*

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## Welcome

# Insurance Should Not Be a Mystery

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You know that feeling when an insurance agent is talking, and you are nodding your head, but inside you are completely lost? That ends today.

Insurance is one of the most important financial tools available to Nigerians, but for too long, it has been wrapped in complicated English that makes ordinary people feel like outsiders.

The result?

People avoid insurance, delay it, or buy the wrong thing because they did not understand what they were buying.

This e-book breaks down the 15 most important insurance terms in plain, everyday Nigerian English. Each term comes with a real-life scenario using naira amounts and situations you will recognise from your daily life.

By the end of this guide, you will be able to: understand what you are buying when you purchase insurance, ask the right questions to your insurer or broker, avoid common pitfalls that cause claims to be rejected, and make smarter financial decisions for yourself and your family.

***Let us begin.***

## TERM 1: PREMIUM

Plain English: The money you pay to have insurance cover

Think of premium as your 'subscription fee' for insurance protection. Just like you pay your DSTV subscription every month so that you can watch TV, you pay your insurance premium so that the insurance company will be available to help you when something bad happens.

If you stop paying your premium, your insurance stops working, just like your DSTV gets disconnected when your subscription expires.

### NIGERIAN SCENARIO:

*Mama Chidinma buys life insurance for herself. She pays ₦5,000 every month to Leadway Assurance. That ₦5,000 is her PREMIUM. It is not a one-time payment; she must keep paying it every month. If she stops paying for 2 months, her policy lapses, and she no longer has cover.*

### WATCH OUT FOR:

Some people pay annual premiums but forget to renew. Put a reminder in your phone 1 month before your premium renewal date so you never lose your cover accidentally.

## TERM 2: POLICY

Plain English: Your insurance contract, the document that spells out what is covered and what is not

A policy is basically the agreement between you and the insurance company. It is a document (sometimes very long and full of small writing) that says exactly what the insurance will cover, how much they will pay you, what they will NOT cover, and what conditions you must meet.

Think of it like the Terms & Conditions on your phone app, except you absolutely must read this one before signing!

### NIGERIAN SCENARIO:

*Emeka buys car insurance from AXA Mansard. He receives a 15-page POLICY document. The policy says his car is covered for theft, accidents, and fire, but NOT for flooding. When the Lekki floods destroy his car, he is shocked to find out the insurance will not pay. Why? He did not read his policy. The answer was there the whole time.*

### WATCH OUT FOR:

Never sign any insurance policy without asking for a summary of what is NOT covered. The exclusions section is where most claim rejections come from.

## TERM 3: CLAIM

Plain English: Your formal request for the insurance company to pay you after a loss

A claim is simply you telling the insurance company: 'Something bad happened.

You agreed to cover me for this. Please pay me.'

The claim is the process by which you access the money that your insurance promised.

Many people buy insurance but have never made a claim; they do not always know how to do it.

Understanding claims before you need them is very important.

#### **NIGERIAN SCENARIO:**

*Adaeze has health insurance with Hygeia HMO. She gets malaria and is admitted to the hospital. The hospital sends the CLAIM to Hygeia on her behalf, requesting payment for her hospital bill. Hygeia reviews the claim and pays the hospital directly. Adaeze pays nothing from her pocket because she made a claim through her HMO.*

#### **WATCH OUT FOR:**

When making a claim, submit ALL required documents on time. Late or incomplete documents are the number one reason claims are delayed or rejected. Keep all receipts, photos, and reports.

### **TERM 4: EXCESS / DEDUCTIBLE**

**Plain English: The amount YOU must pay first before the insurance pays the rest**

This is the tricky one.

Many people are shocked when they make a claim, and the insurance says, 'You must contribute ₦50,000 before we pay our share.' That ₦50,000 is the excess (also called deductible). Think of it as your own 'participation fee.' The insurance company does this to make sure you do not make small, unnecessary claims and to share the risk with you.

#### **NIGERIAN SCENARIO:**

*Bolu crashes his car. Repairs cost ₦400,000. His motor insurance policy has an EXCESS of ₦50,000. This means: Bolu pays ₦50,000 first. The insurance pays the remaining ₦350,000. Bolu did not expect to pay anything, but the excess was in his policy document (which he did not read carefully).*

#### **WATCH OUT FOR:**

Always check the excess amount when buying insurance. A policy with a lower premium might have a very high excess, meaning you pay more out of pocket when you claim. This might make the 'cheaper' policy more expensive in the long run.

### **TERM 5: SUM INSURED**

**Plain English: The maximum amount the insurance will pay you**

The sum insured is the ceiling, the highest amount the insurance company has agreed to pay.

No matter how big your loss is, the insurance will not pay more than the sum insured.

Think of it like a bucket; if your loss is smaller than the bucket, the bucket holds it all. But if your loss is bigger than the bucket, it will overflow, and you are responsible for the extra.

#### **NIGERIAN SCENARIO:**

*Tunde insures his house against fire for ₦15,000,000 (his SUM INSURED). A fire destroys the house, and the full replacement cost is ₦25,000,000. The insurance pays ₦15,000,000 maximum. Tunde must cover the remaining ₦10,000,000 himself. He underinsured his house.*

**WATCH OUT FOR:**

Review your sum insured every year, especially for property and motor insurance. As costs increase with inflation, your sum insured must increase too. Being underinsured means you take a financial hit even with a valid claim.

**TERM 6: BENEFICIARY**

**Plain English: The person who receives the insurance payout when you die**

A beneficiary is the person you name who will receive your life insurance money when you pass away. This is one of the most important decisions you make when buying life insurance. Without a named beneficiary, your insurance payout could be delayed for years in probate or legal processes, while your family struggles financially.

**NIGERIAN SCENARIO:**

*Mrs Okafor buys a life insurance policy with a sum insured of ₦5,000,000. She names her son Emmanuel as the BENEFICIARY. When Mrs Okafor passes away, Emmanuel contacts the insurance company with the death certificate and claim form. The insurance pays Emmanuel directly. No court process, no long waiting. The money gets to the family when they need it most.*

**WATCH OUT FOR:**

Many Nigerians forget to update their beneficiary. If you named an ex-partner or deceased parent as a beneficiary and never updated it, that is who gets the money legally. Update your beneficiary after every major life event: marriage, divorce, childbirth.

**TERM 7: THIRD PARTY**

**Plain English: The other person involved in an accident you cause — not you, and not the insurance company**

In insurance, there are usually three parties: You (First Party), the Insurance Company (Second Party), and the Third Party; anyone else affected by your actions. Third-party motor insurance (which is mandatory by law in Nigeria) only covers damage you cause to other people's vehicles or property. It does not cover damage to your own car.

**NIGERIAN SCENARIO:**

*Seun jumps a traffic light in Lagos and crashes into Kolade's car. Kolade is the THIRD PARTY. Seun has third-party motor insurance. The insurance will pay Kolade for the damage to his car (up to the policy limit). But Seun's own car is not covered because third-party insurance does not cover the policyholder; only other people.*

**WATCH OUT FOR:**

Third-party insurance is the legal minimum in Nigeria, but it does not protect your own car. Comprehensive insurance covers both your car and third parties. If your car has significant value, buy comprehensive, not just third-party.

## TERM 8: UNDERWRITING

**Plain English:** The process the insurance company uses to decide whether to cover you and how much to charge

Before any insurance company agrees to insure you, they investigate how risky you are. This investigation is called underwriting.

They look at your age, health history (for health or life insurance), driving record (for motor insurance), location (for property insurance), and other factors.

Based on this assessment, they decide: (1) whether to insure you, (2) what conditions to attach, and (3) what premium to charge.

### NIGERIAN SCENARIO:

*Alhaji Musa, 62 years old, applies for health insurance. The insurance company's UNDERWRITER reviews his age, medical history (he has diabetes and hypertension), and occupation. Based on this assessment, the underwriter offers him a policy at a premium of ₦180,000 per year (higher than a healthy 35-year-old would pay at ₦60,000) and excludes pre-existing conditions for the first year.*

### WATCH OUT FOR:

Be honest during underwriting. If you hide a medical condition or a previous accident to get a lower premium, the insurance company can reject your claim later, and they WILL find out.

Full disclosure protects you.

## TERM 9: EXCLUSION

**Plain English:** What the insurance will NOT cover — the list of situations where they will not pay

Exclusions are the insurance company's list of 'we will not help you with this.'

Every policy has exclusions. Common exclusions include pre-existing medical conditions (in health insurance), acts of God / natural disasters (in some property policies), deliberate self-harm (in life insurance), mechanical breakdown vs accident (in motor insurance), and war or terrorism.

Exclusions are why it is critical to read your policy document.

### NIGERIAN SCENARIO:

*Funmi buys travel insurance before going to London. Her policy has an EXCLUSION for pre-existing conditions. She has asthma (which she did not disclose). She has a severe asthma attack in London and is hospitalised. The insurance company investigates, finds out about her asthma, and rejects her claim. The medical bill of £3,500 (about ₦5,000,000) comes out of her pocket.*

### WATCH OUT FOR:

Ask your insurer or broker to explain all exclusions in simple English before you sign.

The most important question you can ask is: 'What exactly will NOT be covered under this policy?'

## TERM 10: INDEMNITY

**Plain English:** The principle that insurance should put you back exactly where you were before the loss, not make you richer

Insurance is not a lottery.

It is not designed to help you profit from a loss. The principle of indemnity means the insurance company will restore you to the financial position you were in just before the loss, nothing more, nothing less.

This is why they pay market value, not sentimental value, for items lost.

### NIGERIAN SCENARIO:

*Kunle's 3-year-old iPhone 13 (originally bought for ₦350,000) was stolen from his car. He makes a claim under his home insurance.*

*The insurance company offers ₦180,000, the current market value of a 3-year-old used iPhone 13. Kunle argues: 'But I paid ₦350,000!'*

*The insurance company says: 'We follow INDEMNITY, we pay what it is worth now, not what you paid.'*

*Kunle does not profit from the theft; he is restored to his prior position.*

### WATCH OUT FOR:

This is why 'new for old' cover is important for expensive electronics and home contents. It costs more in premium but guarantees a new replacement instead of a depreciated value.

## TERM 11: GRACE PERIOD

**Plain English:** Extra time you get to pay your premium after the due date without losing your cover

Life happens.

Sometimes the 1st of the month arrives, and you do not have money to pay your insurance premium. The grace period is the insurance company's allowance, a buffer time (usually 15–30 days, depending on the policy) during which your cover continues even though you have not paid. After the grace period, if you still have not paid, your policy lapses.

### NIGERIAN SCENARIO:

*Ngozi's life insurance premium of ₦8,500 is due on the 1st of every month. On January 1st, she forgets to pay. She suffered an accident on January 20th. Fortunately, her policy has a 30-day GRACE PERIOD.*

*Since it is still within 30 days of the due date, she is still covered and can make a claim. If the accident had been on February 5th (past the 30-day grace period), her claim would have been rejected.*

### WATCH OUT FOR:

Do not rely on the grace period as your normal payment schedule.

If you die or have an accident during the grace period, the insurance company may deduct your unpaid premium from the payout, reducing the amount your family receives.

## TERM 12: LAPSE

Plain English: When your insurance policy becomes inactive because you stopped paying

When you stop paying your premium and the grace period expires, your policy lapses. This means it is no longer active; you have no coverage and no protection.

A lapsed policy is especially dangerous for life insurance because you may have been paying for years, and once it lapses, all that money and coverage disappear.

### NIGERIAN SCENARIO:

*Brother Paul has been paying his life insurance premium of ₦12,000/month for 4 years. He loses his job in December and misses 3 consecutive premium payments.*

*The grace period expires.*

*His policy LAPSES.*

*He now has zero coverage despite paying ₦576,000 over 4 years. When he finds work in March and wants to reinstate his policy, he must pay all back premiums plus interest and may need to undergo medical underwriting again.*

### WATCH OUT FOR:

If you cannot pay your premium for a period, contact your insurer BEFORE it lapses. Most insurers offer a 'premium holiday' or 'reduced paid-up' option that pauses payments without losing all your accumulated benefits.

## TERM 13: REINSURANCE

Plain English: Insurance for insurance companies — when insurers share risk with other insurers

Think about this: what happens when an earthquake destroys an entire city? The insurance company would have to pay millions of claims at once, more than they can afford.

Reinsurance solves this problem.

It is when your insurance company buys its own insurance from a bigger company (called a reinsurer).

The Nigerian insurance company takes 30% of the risk; the global reinsurer takes 70%.

As a customer, you deal with your local insurer, but reinsurance is working quietly behind the scenes to protect you.

### NIGERIAN SCENARIO:

*Zenith Insurance insures a major Nigerian oil refinery for ₦50 billion. This is too much risk for one company to hold. Zenith Insurance uses REINSURANCE, which transfers 80% of the risk to a global reinsurer like Munich Re or Swiss Re.*

*If the refinery explodes and ₦50 billion is owed in claims, Munich Re pays 80% (₦40 billion), and Zenith pays 20% (₦10 billion).*

*The factory owner gets the full ₦50 billion regardless.*

**WATCH OUT FOR:**

When buying insurance for very large assets (ships, factories, aircraft, large events), always confirm that your insurer has adequate reinsurance arrangements.

An insurer that cannot pay large claims is worse than no insurance at all.

**TERM 14: NO-CLAIMS BONUS (NCB)**

**Plain English: A reward from the insurance company for not making any claims in a year**

Insurance companies love customers who do not make claims, because it means they keep your premium money without paying anything out.

As a reward for being claims-free, many insurers give you a discount on next year's premium.

This discount is called the No-Claims Bonus.

In motor insurance, especially, you can build up significant NCB over several years, reducing your premium by 20–40%.

**NIGERIAN SCENARIO:**

*Toyin insures her Toyota Camry for ₦180,000 per year. She has driven carefully for 3 years without making any claim. Her insurance company rewards her with a NO-CLAIMS BONUS:*

*Year 1 NCB: 0% discount (first year).*

*Year 2 NCB: 10% discount = ₦162,000 premium.*

*Year 3 NCB: 20% discount = ₦144,000 premium.*

*Year 4 NCB: 30% discount = ₦126,000 premium.*

*Over 4 years, her careful driving has saved her over ₦100,000!*

**WATCH OUT FOR:**

If you have a small accident and the repair cost is less than your NCB savings, consider paying for the repair out of pocket rather than making a claim. Making a claim resets your NCB and costs you more in long-term premiums.

**TERM 15: INSURABLE INTEREST**

**Plain English: You can only insure something if you would suffer financially if it were lost or damaged**

You cannot insure your neighbour's house and collect money if it burns down (that would be fraud). You must have a personal financial interest in what you are insuring.

This is called insurable interest.

For life insurance, you have an insurable interest in yourself, your spouse, your children, and your business partner.

For property insurance, you have an insurable interest in your own property, property you are legally responsible for.

**NIGERIAN SCENARIO:**

*Chike wants to take out a life insurance policy on his business partner, Eze, for ₦10,000,000.*

*The insurance company asks: 'What is your INSURABLE INTEREST?' Chike explains that if Eze dies, the business will lose its key salesperson and suffer financial losses estimated at ₦10,000,000.*

*The insurance company accepts this; Chike has a valid insurable interest. However, if Chike wanted to insure a random celebrity's life, the insurer would reject it; there is no insurable interest.*

**WATCH OUT FOR:**

You cannot take out insurance on something you do not own or have no financial relationship with.

Attempting to do so constitutes insurance fraud, a criminal offence.

Always be clear about your relationship to what you are insuring.

## BONUS: The 5 Most Important Questions to Ask Before Buying Insurance

<b>1</b>	What exactly is covered? Give me a full list of covered events.
<b>2</b>	What is NOT covered; read me the exclusions.
<b>3</b>	What is the excess/deductible, and when does it apply?
<b>4</b>	What documents do I need to make a claim?
<b>5</b>	How long does it take to pay claims once submitted?

## Quick Reference Glossary

Here is a quick cheat-sheet of all 15 terms:

Term	In Plain English
<b>Premium</b>	The monthly or annual fee you pay for insurance coverage
<b>Policy</b>	Your insurance contract is the document spelling out all the rules.
<b>Claim</b>	Your formal request for the insurer to pay you after a loss
<b>Excess/Deductible</b>	The portion YOU must pay first before insurance pays the rest
<b>Sum Insured</b>	The maximum amount the insurer will ever pay you
<b>Beneficiary</b>	The person who receives your life insurance payout when you die
<b>Third Party</b>	The other person you accidentally harm, not you, not the insurer
<b>Underwriting</b>	How the insurer assesses your risk before agreeing to cover you
<b>Exclusion</b>	What the policy will specifically NOT cover: the important 'no' list
<b>Indemnity</b>	You are restored to where you were, not made richer by a claim.
<b>Grace Period</b>	Extra days to pay after your premium due date without losing cover
<b>Lapse</b>	When your policy becomes inactive because premiums were not paid
<b>Reinsurance</b>	Insurance companies are buying insurance from other, bigger insurers.
<b>No-Claims Bonus</b>	A premium discount is rewarded for not making claims in previous years.
<b>Insurable Interest</b>	Your legal and financial reasons for insuring something

## Your Insurance Journey Starts Here

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Insurance in Nigeria is growing rapidly.

With mobile money, microinsurance products, and platforms expanding reach across the country, more Nigerians have access to financial protection than ever before.

But access without understanding is just as dangerous as no access at all.

The difference between someone who benefits from insurance and someone who does not is often not the cost of the policy; it is whether they understood what they were buying.

You now have a foundation.

You understand the language.

You can ask the right questions.

You can protect yourself, your family, and your assets with confidence.

**Insurance is not a luxury.**

**It is the foundation of financial security.**

*Now go and insure wisely.*