THE INVESTMENT OF INSURANCE FUNDS:

A CASE STUDY OF LEADWAY ASSURANCE COMPANY LIMITED

BY

ELUJOBA, ABIODUN ISAAC

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ELUJOBA, ABIODUN ISAAC

A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL OF BUSINESS ADMINISTRATION AHMADU BELLO UNIVERSITY, ZARIA

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION (MBA) OF THE AHMADU BELLO UNIVERSITY ZARIA

DEPARTMENT OF BUSINESS ADMINISTRATION
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AHMADU BELLO UNIVERSITY
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DEDICATION

The project is dedicated to God who has made it possible for me to complete the programme.

DECLARATION

I hereby declare that this project has been written by me, and that is a record of my own research work.

It has not been previously presented in any applications for a Degree.

ELUJOBA, ABIODUN ISAAC _____ 26/6/01
NAME OF STUDENT **SIGNATURE** **DATE**

The above declaration is confirmed by my Supervisor.

A.M. ABU-ABDISSAMAD
NAME OF SUPERVISOR

_____ _____
SIGNATURE **DATE**

CERTIFICATION

This project entitled "THE INVESTMENT OF INSURANCE COMPANY FUNDS: A CASE STUDY OF LEADWAY ASSURANCE COMPANY LIMITED BY ELUJOBA, ABIODUN ISAAC meets the regulations governing the Award of the degree of MASTERS IN BUSINESS ADMINISTRATION (M.B.A.) of Ahmadu Bello University Zaria and is approved for its contributions to knowledge and literacy presentation.



Chairman, Supervisory Committee — **Date** 26/6/01



Head of Department — **Date** 26/6/01

Dean, Post Graduate School — **Date** 28/09/01

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I am also grateful to Leadway Assurance Company Limited and the following Employees of the company - Mr. M.O. Oyegunle (Deputy General Manager Technical) who really assisted me with most valuable information about the company and the encouragement to complete the project. Little data would have been collected if not because of the efforts and assistance of some employees in the Account Department of the company (who are numerous to be mentioned because of space) really contributed in making the project a success.

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I will also use this ample opportunity to express my gratitude to the Authority of Ahmadu Bello University Main Library, Authority of state Library, and National Library Kaduna for their guidance and assistance for making available useful materials for the project. The assistance of all the employees in these libraries is highly appreciated.

Finally, I am grateful to God for sparing my life, and for giving me every opportunity to complete the project, may His name be praised.

ABSTRACT

This project is in respect of the Investment of Insurance company funds - A case study of Leadway Assurance Company Ltd was used to elucidate the importance and the reasons why an Insurance company should invest their accumulated funds for their growth and the subsequent economic development in the country.

The operations of Insurance companies could be dated as far back as 18th Century when the first marine policy was issued in Britain. However, the first Insurance company in Nigeria Royal Exchange Assurance commenced its operation in the 1920s, and since then, many Insurance companies have sprung up in the country. The operations of these Insurance companies inevitably lead to the accumulation of funds over the above capital subscribed by shareholders- As a result of the nature of Insurance company's operation in which premiums are collected from many people (Insureds) to which is accumulated into a fund for the compensation of few which may or may not involve in an accident in the future; there is a need therefore for the Investment of this excess fund to provide profit for the company for the benefit of the owner of the company like shareholders, employers and employees and the government which may consequently result in the growth of the country's economy.

Various contributions by many authors on theoretical aspects of Investment of Insurance companies funds were considered. The problems and controls of government toward the investment of Insurance company's funds, Government control on the choice of Investment and how the fund of an Insurance company has to be invested with their handicaps were critically examined The study has a useful purposes especially at this period when the country is facing a lot of economic problem caused as a result of low production, currency devaluation and dependence on foreign goods, it will therefore examine the general pattern of insurance investment, the role they can perform to resuscitate our economy with a view to offering the tremendous role of the Insurance company in the capital market and to improve their already battered image.

Careful selection of methods were used in collecting necessary data through interview, observation and secondary data of Leadway Assurance Co. Ltd. on how they invest their funds, and contributions of Investment towards the growth of the company. Tables were drawn, comparison of 5 yrs 1990 - 94 were analysed, with the problems being faced by the Insurance Industry in general and the company in particular. Limitations and short coming of the methods used were duly noted.

It will be useful as a reference material for Government ministries, Insurance Industry and of course for Researchers on similar project.

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CHAPTER 1

INTRODUCTION

Insurance Industry in Nigeria is regarded as Risk bearer. They assume the Risk of many to compensate the unfortunate few; they are one of the giant industries in the financial Institutions which provides financial services to the teeming population. As a result of the nature of insurance company's operation in which premiums are collected from many people (Insureds) to which is accumulated into a fund for the compensation of the few which may or may not involve in an accident in the future, there is a need therefore for the investment of this excess fund to provide profit for the company for the benefit of the owner of the company like shareholders, employer and employees and the government which may consequently result in the growth of the country's economy.

In Nigeria, like other developing countries the needs for the investment of Insurance company funds for both economic and political development cannot be over emphasized. It helps virtually in all sphere of Economic development.

The operations of Insurance companies inevitably lead to the accumulation of funds over the above capital subscribed by shareholders. In every insurance business either life or Non-life there occurs a time lag between the payment of premium and the settlement of claims so that the insurer holds funds to cover its liabilities to policy holders. In some classes of insurance, substantial delay often occurs between the occurrence of the loss and the final settlement of the claim. As a result of this, the funds required to cover his liabilities to policyholders will be invested pending the time of loss; in addition, life assurance is a class of Business where a huge amount of funds are available for the Insurance company to invest.

Leadway Assurance Company, the company under study is an example of several insurance companies scattered all over the country with its Head Office in Kaduna and Control Office in Lagos.

In view of the reasons enumerated above, we have taken up a project like this to study the operations of Insurance Company and how they invest their huge fund using Leadway as a case study.

Chapter 1 therefore exposes the reader to the purpose of this project; the scope of study, the significance of study, the hypothesis put forward and the problems of study.

Chapter II deals largely and mainly on literature review of types of investment, meaning of investment, problems of investment. Various works and views of many authors were examined and presented.

Chapter III deals with research methodology. Sources of facts were from primary and secondary sources. Most of the facts were collected from the library (text books), journals and newspapers.

Chapter IV deals critically on analysis of data and research findings.

The last chapter (V) is a summary of findings, recommendations and conclusions of the project work.

1.1 Statement of the problem

The study emphasises the problems and controls of government toward the investment of Insurance company's funds. The Government control on the choice of investment and how the fund of an insurance company has to be invested is a critical problem to be examined in this work. This study will among other things, based on our findings serve as a clue for the government in deciding whether to withdraw her involvement in the investment of an insurance company fund or not.

In most of the Nigerian Insurance companies, there is no department served with the responsibility of investing this huge fund available to the Industry; even in companies where there is availability of an Investment department, there is dearth of competent hands (experts in this field) to effectively manage this department.

As at present, a large sum of money are being invested on government securities which may be attributed to the ignorant on the part of many and partly due to the lack of knowledge of investors. This therefore contributed immensely to the low yield of an Insurance company's income on their investment.

It could be emphasized that the money available for an Insurance company for investment has been gradually reducing due to the fall in premium income in terms of value of money of recent and also due to the sharp increase in the expenses of most Insurance companies in Nigeria. This has been problematic, and as a result, Insurance companies are looking at the way(s) of increasing their income and at the same time reducing their overhead cost.

The income emanating from Investment of an insurance company's fund has not been encouraging due to the crude ways of investment, stock brokers who are vast in this field are not being used by insurance company. This study therefore examined the need for an insurance company to make use of stockbrokers to enhance their investment portfolio.

1.2 Purpose of the study

The purpose of this project is in 4 parts:-

(i) To base particularly on the test of the hypothesis dealing with the investment of Insurance company funds.

(ii) To look at the various sources and applications of funds. That is, how insurance company utilize their huge capital resources from both life and non-life on investment for the betterment of Nigeria economy.

(iii) To justify or otherwise, the rationale behind government control of the insurance company's funds.

(iv) Finally, to suggest possible solution to some of the problems facing the investment of insurance company funds and make recommendations for the economic development in the country.

1.3 Significance of the study

The study has a useful purposes especially at this period when the country is facing

a lot of economic doldrum caused as a result of low production, currency devaluation and dependence on foreign goods. It would be useful to examine the general pattern of insurance investment, the role they can perform to resuscitate our economy with a view to offering the tremendous role of the insurance company in the capital market. It is hoped that the anomalies of the investment can be normalised and the virtues improved open.

Furthermore, the Federal Government is currently looking at the ways the insurance companies will revamp the nation already battered economy.

It seems the best way by which insurance business can contribute its own quota towards revitalising the nation economy is through the path of effective investment of funds.

It should not be forgotten that the image of insurance industry is nothing to write home about, different names have been given to insurance by people even among the literate, the best way they can improve their images is through effective and helpful investment of their funds for the betterment of both the government and the generality of the populace.

1.4 Scope of the study.

The scope of this study shall be limited to the investment of Insurance company's funds - sources and uses of funds and shall not extend to other areas of Insurance.

In doing the above study, we shall be using Leadway Assurance Company Ltd with its headquarters in Kaduna. Due to time limitation, large population in the country with its vast land, we shall limit our field work to only Kaduna and Lagos.

In as much as the field of investment is a living one, it keeps on developing every day, the study at the end comes up with the suggestions for further development and improvement of investment of insurance company fund which could facilitate further development in the country's economy, social and political conditions; and which may no doubt improve the already battered image of insurance industry in Nigeria.

1.5 Limitation of the study

A study of this nature that centres on a low awareness of people toward Insurance is no doubt bound to be problematic the impression of people about insurance really affected the reliability of data collected as people were already biased immediately the word Insurance is mentioned. One of such problems was that of lack of enough data many people interviewed in the company could not give adequate answers to questions. This may not be unconnected with the policy of the company that information relating to investment should be securely kept and that approval must be sought from top management staff before anything relating to giving out information could be done.

Other limitation include reluctance on the part of employees to disclose information relating to financial report, lack of paper work on the subject, and the dearth of experts in this field of study.

1.6 Hypotheses

Since this work is basically concerned with a critical analysis on how the Insurance Company invests their funds, the following hypotheses will therefore be tested:-

H1: The investment of the company's fund has no relationship with the growth of the company.

Ho: The investment of the company's fund is related to the company growth.

1.7 Definition of terms

The author thought it imperative to define some of the Insurance terminologies used in this study to make the work clearer to readers.

(a) **Insurance or Assurance**:- These terms are synonymous and they define the act of Insurance. Insurance is the study of risk spreading and is also commonly used to describe all non-life insurance, while Assurance generally applies to life and more frequently or commonly used in England than in the United States. In modern usage however, both terms are interchangeably applied and means the same thing.

(b) **Risk:**- This is defined in Insurance as 'Uncertainty of financial loss.

(c) **Premium:-** This refers to the amount payable to the Insurance company for the benefits that are to be provided in any given contract of insurance.

(d) **Claims:-** It is the amount being demanded by an Insured when he incures a loss or the compensation the Insurance company is supposed to pay when an insured person incurs a loss.

(e) **Insured or Assured**:- This is the person who effects an Insurance policy or for whom a policy is effected. He can also be called a policy owner, but where one effects a policy for someone else e.g. his child he is normally referred to as the policyholder or premium payer.

(f) **Insurers:-** This refers to an Insurance company.

(g) **Policy:-** This is the name given to the written contract of insurance, wherein all the priviledges and conditions of said contracts are stated.

CHAPTER 2

LITERATURE REVIEW

INTRODUCTION

According to MICGRAW HILL (1974); Investment in the Broad and Customary Sense of the term "is any asset or property right acquired or held for the purpose of conserving capital or earnings an Income".

As said earlier in section one of this study, Insurance Company accumulates funds from the premium they collected from both life and non-life business. These vast amounts of money are held by companies to meet future liabilities. These funds do not lie "dormant waiting for claims to come in; they are invested to provide income for the companies and to assist policyholders and shareholders. Not only do these two group benefit, but the company as a whole benefits as the funds are invested in many forms that encourage expansion of Industry and promote Employment" (Falegan 1983). In the text of a paper presented at the 9th National Educational Seminar of the Life Offices Committee in 1995, G.O.A. Oyelami states that 'As large funds have to be set aside to meet commitments which may be very many years in the future, the opportunity arises for investment of these funds to earn interest. The higher the rate of interest which can be earned, the lower will be the premiums which the client will pay. In fact, in life assurance like pension Business for an instance involves long-term contracts, the rate of interest is the most important of the factors which have to be taken into consideration in calculating premium. Investment of Insurance Company funds is a large, complex and important aspect of Insurance Business which consists of interests, dividends and rents and in consequence determine the profitability or otherwise of an office.

The aims of Investment in an Insurance Company could be therefore grouped into two broad aspects viz:-

(1) To meet the liabilities when they arise.

(2) To earn maximum expected yield thereon.

"Having regard to the acceptable Risks, for a company to construct his or her portfolio to meet the above aims, it needs to consider the Nature and term of his liabilities, the yield, the Diversification of Investment, marketability, legislation, inflation proofing, security and risk, liquidity requirement, Taxation, the extent of free reserve, policyholders expectation, expenses of managing the portfolio, activities of competitors and the future expectations".

2.1

NATURE AND IMPORTANCE OF INSURANCE FUND

In this project, it is of vital importance to state the Nature of Insurance and the importance of insurance funds. Broadly, Insurance Business can be categorised into life and non-life. Non-life representing what is usually called general lines of business, such as motor, workmen's compensation, liability, fire, bond etc while life business represents Individual life, Group life and pensions business.

According to Ogola Osoka (1995) "The concept of Insurance as practiced requires funds to be pooled from persons exposed to same loss making event on their properties and life such that those who suffer forfuitous losses as a result of the event insured against occuring may be compensated". In this sample description of insurance therefore, a few assumptions have been made as to the adequacy of the contributions by each exposed person, that the number

of persons so exposed will be large enough to pool adequate funds to compensate victims of losses to be suffered in any given insurance period is determinable.
However, as it is in human existence, we encounter fluctuations and contigencies all through life, it is for these reasons, that adjustments are usually made to the pure premium component of the premium by loading for contigencies, claims fluctuations, profit margins, administrative expenses and investment returns.

The Investment of Insurance company's funds is of significant importance to the very survival of an insurance company and therefore the National Insurance Industry. The objectives of investment is to increase the efficiency and capacity of the Insurance Industry in the capital market. Money cannot lie dormant, it has to be invested in order to increase the solvency margin of the companies. Investment in productive venture will increase the capital flow in the Economy and thereby generate employment opportunities for the unemployed populace Nwankwo (1976).

Generally, it is agreed that Non-life businesses are short-term in nature where most of the policies are renewable after 12 months of Insurance whereas life businesses are medium to long-term in nature, depending on the number of years elected by the life assured for the policy to run.

In a paper delivered by Ogola Osoka titled "The Challenges of Professionalism - Survival of life assurance business; it states 'that for a company to attain satisfactory stability and adhere a higher security rating it must show in its balance sheet solid medium to long terms investments in addition to the various reserves that may be available. The funds for such long-term investment can only be derived from life business. Whereas it may be argued that

the Non-life classes of Business generate substantial funds in any given 12 months of Insurance. It can be argued that claims take up at least 35% of the income from this category in any one insurance year. Worst still, such funds, including reserves built for prior years can actually be wiped-off in a serious loss, either by fire or some national disaster which is covered under the policy.

"The claims frequency that attends non-life classes of business, demands that fund generated by these classes be invested in short-term near liquid investments, otherwise the insurance company will be forced to divest at a loss in the event of large losses occuring".

However, fund from life business therefore becomes very crucial to an Insurance company, giving the company not only access to medium to long-term investment, but also financial stability by cushioning the shock fluctuations inherent in Non-life funds.

2.2

TYPES OF INVESTMENTS AVAILABLE FOR INSURANCE FUND

There are different types of Investments available for Insurance fund. Some of the most important ones are hereby stated and explained below:-

1) Government securities
2) Ordinary shares
3) Preference shares
4) Debentures stocks
5) Investment Trusts and Unit Trusts

6) Property

7) Mortgages and Loans

8) Other Investment

2.2.1

GOVERNMENT SECURITIES

This is a completely secured type of investment as it is easily Saleable on the stock exchange, which can deal quite easily in large amounts of stock without depressing the price. Issue of some of the securities are very large. Settlement is for cash (that is within three days of the transactions) rather than on 'On account'. In Britain for an example, the Government Securities include all the issues made in the name of the government, such as war loan, exchequer and treasury stocks. It also includes all government guaranteed securities that deals with those issue by Nationalised undertakings, such as electricity gas and transport. Public boards also issue securities that form part of the government securities, they are public controlled and not organised for profit.

The forms by which government and similar securities may be issued take the following forms:-

a) **Inscribed stock** - This is where the holder's name in inscribed in the books of a specified registrar; no certificates are issued. Transfer is effected by signing (in person or by attorney) the transfer in the register.

b) **Register stock** - The name and address of the owner are recorded in a register and a certificate is issued to him. Transfer is effected by completing a transfer deed and May 24, 1997 sending it with the certificate to the registrar.

c) **Bearer Bonds** - These are issued with interest coupons attached which are detached and cashed on the due date. Bearer Bonds are transferable by delivery.

d) **Registered Bonds** - The name of the holder appears on the bond and is also registered in the books of the registrar. Transfer is by deed. Interest coupons are often attached to the Bonds.

2.2.2

DEBENTURES AND LOAN STOCKS

'Debenture stocks are a form of raising finance frequently used by Joint- Stock Companies and are, in effect loans to such companies'.

Debentures are usually protected by a charge over specific assets or by a floating charge over all the assets of the company. Trustees are usually appointed to represent the debenture holders, and assets, such as freeholds or lease holds are conveyed to the Trustees by way of a mortgage or they are given an equitable charge over floating or circulatory assets such as stock in trade.

In considering the purchase of a debenture, security of capital and sufficient earnings to give a substantial margin over the amount needed for service of the debenture are the important factors. The history and future prospects of the company are investigated to ascertain the likely ability of the company to be able to carry out the terms of the debenture.

Debentures are fixed-interest securities with no possibility of any increase in the return, apart from convertible debentures. Yields obtained on debentures are usually slightly higher than for gilt-edged stocks of similar term.

2.2.3

PREFERENCE SHARES

Preference shares form part of the capital of the issueing company. They receive prior rights over ordinary shareholders as to dividends and (if provided by the articles of association) capital in the event of the company being wound-up. As shareholders in the company, they have no contractual right to the dividend which can only be paid out of profits (Note debenture holders have contractual right to their interest). Preference shareholders receive a fixed dividend on the capital subscribed and they are paid this dividend before any dividend can be paid to the ordinary shareholders. Preference shareholders rarely have voting rights unless their dividends are in arrears.

The most important types of preference shares include the followings:-

a) Cummulative preference shares - In the event of the dividend not being paid in one or more years, the arrears of dividend are accummulated, normally without interest, and the accummulated arrears on these shares must be paid before any dividend can be paid on ordinary shares.

b) Participating preference shares receive their normal fixed dividend before any payments are made to the ordinary shareholders but they have a right to participate

in further profits, usually after a certain rate of dividend (say 40%) has been paid to the ordinary shareholders.

c) Redeemable preference shares as the name implies are redeemable at a fixed date or between two specified dates. Redemption must be out of accummulated profits or the proceeds of a share issue.

It has to be noted that prefrencee shares receive a fixed dividend only and do not share in any increase in the prosperity of the company, unlike debentures, the payment of the dividend depends on the company earning a profit.

2.2.4

ORDINARY SHARES

'Ordinary shares are part of the capital of the company. The holders of the shares have proprietory rights in the company, and residual profits (and capital on winding up) of the company, 'belong' to them after all prior charges and dividends to preference shareholders have been met'.

Investors in ordinary shares of a company suffer most in the event of a decline in the fortunes of the company but they also stand to profit most by improving the fortunes of the company.

The following factors are taken into consideration before a company invests in ordinary shares:-

a) The nature of the company's activities, the amount of competition, and the scope of expansion.

b) The quality of the Board and management.

c) The capital structure - amounts of ordinary, preference and debenture stocks and the rights and powers of each.

d) The amount of surplus earnings over the amount required to service the contemplated investment.

e) At least a five year comparison of the trading results and balance sheet items and of the financial record (including debenture, interest and dividend records) of the company.

f) Growth prospects.

g) Current rate of dividend and the market price of the shares; the yield.

h) Marketability of all shares.

2.2.5

INVESTMENT TRUSTS AND UNIT TRUSTS

Investment trusts are limited companies which invest their resources in a balanced range of securities. Usually there is a proportion in many of the different classes of investment available on the stock market and in some cases a small proportion is placed in non-marketable securities such as shares in small private companies. Alternatively, the trust may specialise in overseas shares or in the shares of companies in a particular industry.

Unit trusts are slightly difference from investment trusts in that these are not limited companies but are trusts under the care of managers. Their resources are invested in stock exchange securities in a similar manner to investment trusts. It is usually possible to buy additional units in the trust from the managers at any time at a price which depends upon the

market value of the portfolio of investment in which the trust places its money.

2.2.6

PROPERTY

These involve investing in a fixed Assets of land, machinery e.t.c. Prosperity may be owned freehold or leasehold. In the first case, the land and buildings belong to the owner.

In the latter case. Only the buildings are owned and the land is owned by some other person who is entitled to a ground rent and is usually also entitled to the buildings on the land at the expiry of the lease. Property Investment requires specialised skills that are not normally found in the investment departments of Insurance Companies. Some of the information to look for in the investment on property include, the location of the building, the closeness of a landed property to urban city, the present inflation and the projection for inflation. These therefore need advice from professionals like Architects, Quantity Surveyors, Chartered Surveyors, Lawyers and Valuers just to mention but a few.

2.2.7

MORTGAGES AND LOANS

Another way of raising money on property is by mortgage, here the investing insurer merely loans money to the company needing it on the security of the property, but does not acquire the 'equity' as with sale and lease-back. These are done through:

a) Industrial and commercial mortgages

b) House purchase mortgages

c) Loans on companies policies within their surrender value

2.2.8

OTHER INVESTMENTS

These include Ground Rent, leasehold ground rent and all other rents. A ground rent is the rent paid to a landlord for a permit to build on his ground. The lease is granted for a fixed number of years and on its termination the Buildings which have been erected become the property of the landlord. The purchase of such rents after they have been created is a reliable investment, although it may involve a certain amount of expense in the way of management. A leasehold ground rent is similar, except that the company does not own the land but is merely entitled to receive the ground rent during the term of the lease.

2.3

INSURANCE INDUSTRY AND THE ECONOMY GROWTH

According to Ogola Osoka 1995 'In most of the developed countries, and indeed some developing countries, insurance funds are critical to government development plans and industry, especially life funds'. The contributions of life funds to the gross income in any of these markets are usually substantial and in some countries exceeds those of the Non-Life Branch. Insurance companies in those markets are known to hold the bulk of long-term investment in industry, real estate and office buildings, manufacturing and commerce.

'Long-term investments are absolutely essential for the economic development of any nation. It is only by means of such investment that a sustainable growth across industries, improved productivity and creation of new jobs can be attained.

As earlier stated that the nature of Insurance business calls for a large control of investible funds - making Insurance an indispensable factor in modern economic life - an investment factor of prime importance. 'This industry occupies a place of prime importance by the means of a unique and inherent attribute that makes it the only industry resistant to the economic recession, thereby performing an essential service in the orderly function in the economic transformation of any country'.

It is in the performance of this important role that led to the promulgation of the Trustees Investment Acts 1962/1990 and Insurance Act of 1991, with the prime objective of ensuring safety and control. It is equally appreciated that flow of investment funds should be channelled to sensitive areas to avoid distortion and ensure growth and stability in the economy. The Insurance act 1991, section 21(3) stipulates that at least 35% of the Insurance company total Assets should be invested in securities specified under the Trustee Investment Act.

2.3.1.

TRUSTEE INVESTMENT ACT 1957:

This Act in a nutshell draws the profile of the investment portfolio of the Insurance Industry. Section 2(1) in particular states inter-alia that all securities created by the government of the federation of Nigeria, state and local governments as well as debentures and ordinary shares

of incorporated companies under the companies and Allied Matters Act (other than unincorporated private companies within the meaning of the Act are qualified for investment consideration.)

Section 2(2) amplifies further that:

a) The fully paid up share capital of the company you may invest may not be less than N1 million.

b) The ordinary shares of loan stocks of the company must be quoted with the Nigerian stock exchange.

c) Such a company must have paid dividends during each of the three calendar years immediately preceeding the current year. And the aggregate amount of the dividends paid during each of those years shall not be less than 5% of the par value of the share.

Section 3 of the Act stipulates that:-

a) Amount of the investment portfolio allowed for these investments shall not exceed one third of the total value of the fund; and

b) Not more than one tenth of the total value of the fund shall be concentrated on the equity shares and debenture stocks of a particular company; equally

c) Not more than one-tenth of the total value of the fund shall be invested in the ordinary shares of a particular company.

It could therefore be inferred from the above stipulated statutory that the demerits of its restrictiveness apart, that central to the objectives is the theory of spreading the risk of

diversification so that definite selection could be injected and approximated across a broader band of risk measurement and to create enabling and yet predictable environment.

'An Insurance company because of its investment activities is in a sense two organisations - an insurance as well as investment company. This unique pathology, aside from the statutory requirements, dictates to a very large extent the investment psychology of an insurance company. It then becomes imperative that insurance executives play a balancing role in their risk management. As risks are allowed to increase in one part of the business, they should try as much as possible to reduce it on the other hand.

Hence companies with a large exposure to insurance risk do try to curtail the amount of their investment risk by limiting, for example, their common stock holdings while companies with less insurance risk can afford to assume or maintain a more aggressive common stock position. A balancing Act indeed.

It should be noted at this juncture that with the level of instability in the economy the high default rate in the money market and unprecedented high unstable interest rate, the investment community should have and have predictably turned to the only available alternative "the capital market" for stability, growth, reliability and sustainable profitability being the needed catalysts for meaningful and sustainable economic transformation of the Nigerian economic landscape. Since the deregulation this dream has come very close to realisation. The market has become very active, enabling investors realise unprecedented returns on their investment in the annals of Nigerian capital market. This has in general, going by any estimation, out-performed in the risk/return ratio investments in other areas, including the money market".

2.4

SEPARATION OF INVESTMENTS IN INSURANCE INDUSTRY

The Insurance companies Act 1958 required separation of life and Non-life Insurance fund in the chosen of type of investment. According to insurance companies regulations 1973, insurers must segregate the Assets and liabilities relating to long-term business from the general business assets and liabilities. Because of the nature of life business, the fund secured from this class of business are usually channelled to long-term investment whereas Non-life business which normally renewable annually are usually invested on short-term basis.

2..4.1

MAIN CHARACTERISTICS OF LONG-TERM BUSINESS

The main characteristics of life business (which is the bulk of long-term Business) are as follows:-

a) The contracts are long-term ones. As lapse cases loss to the assured, the premium income is for this and for other reasons more constant and reliable than in other classes, even in periods of industrial depression. Further, it is possible, approximately, to estimate the out go of the fund which can almost always be met out of premiums and investment income without the need to realise investments.

b) The catastrophe risk is not to be expected although a small element of this hazard does have to be taken into consideration in connection with group life schemes.

c) Premiums take into account investment income to be earned over the period of the policy.

d) The life fund is as much dependent for its solvency upon its investment income as it is upon premium income. It must earn a rate at least equal to the rate assured in calculating the premium.

e) The investment policy is as important as the underwriting policy.

f) Few offices transact much overseas business and large overseas investments are rarely held as a result.

g) As the contracts are mainly long-term, efforts are usually made to counter-act to some extent at least, the effects of Inflation.

h) Different considerations apply in respect of annuity and bond business where the contracts provide for cash options, and where surrender values are guaranteed; in these cases the office will need a higher liquidity level in a similar way to a general business fund. Also,different investment considerations apply to 'linked' contracts.

Due to the long-term nature of the contracts considerable reserves build up over the term of each policy. This makes the life fund, which is held in trust for the policyholders much larger in relation to the flow of premium income than are the general funds.

2.5

EARLY INVESTMENT PRINCIPLES (BAILEY'S CANONS)

It is usual to quote five principles laid-down by A.A. Bailey, in a paper read before the Institute of Actuaries in 1862, as the starting point of investment policy. It must be remembered that these principles were originally applied to the investment of life funds and that the economic and investment background of over one hundred years ago was very different from that of today. The five principles are:-

a) The first consideration should invariably be security of capital

b) The highest practicable rate of interest should be obtained, but this principle should be subordinate to the previous one.

c) A small portion of the total funds should be held in readily convertible securities for the payment of current claims and for any desirable loans transactions.

d) The remaining and much larger portion may be safely invested in securities which are not readily convertible.

e) As far as practicable, the fund should be invested to aid the life assurance business.

In critical Analysis of the above principles, it was later found that principles A and B appears to be incompatible since if absolute security of capital is to be obtained, very little interest will be earned. However, it is in considering the investment of life funds in mortgages that these principles apply and 80% of life investments were in mortgages in 1862. Principles C and D arose because in Bailey's time most of the investments were in mortgages and reversions which were not readily realisable.

2.6

PRESENT-DAY PRINCIPLES

Investment conditions have changed so much since Bailey's time that his five principles are no longer really suitable as the basis of a ground investment policy for Insurance Companies. The major part of the investment portfolio is now placed in stock Exchange securities which were not then available. Equity shares, preference shares, debentures etc. None of these can be properly fitted into the background of Bailey's Canons.

There have been a number of discussions of Investment principles at the Institute of Actuaries in recent years commencing with a paper presented by J.B.H. Pegler in 1948. This suggested a new set of principles which provides a more realistic theoretical framework for the investment of the life funds of an insurance company:

a) It should be the aim of life office investment policy to invest its funds to earn the maximum expected yield thereon.

b) Investments should be spread over the widest possible range in order to secure the advantages of favourable, and minimise the disadvantages of unfavourable, political and economic trends.

c) Within the limits of the second principle, offices should vary their investment portfolios and select new investments in accordance with their view of probable future trends.

d) Offices should try to orientate their investment policy to socially and economically desirable ends.

The first principles was intended to replace Bailey's first two principles. In calculating the yield on an investment, Peglar suggested that it was appropriate to take into account not only the purchase price and current interest or dividend, but also the likelihood of a change in dividend on equities and the ability to continue paying interest on fixed-interest securities. In addition, his yield would take into account the risk to the capital, i.e. would the capital value be likely to remain at least at the purchase price or even rise (including the ability to repay under redeemable securities) Thus, his yield would take into account both the income and the capital on the security, unlike Bailey, who treated security of capital as being more important.

Peglar's second principles requires a spread of investment and this is followed by practically all insurance companies. The spread is by type of investments (basically fixed interest equities), by Industry geographically within the country of operation, and by term for redeemable securities. However, within this, investment should normally be chosen so that they match the general nature and term of the offices liabilities.

The third principles permits the taking of view as to the likely future trends, which is the art of investment.

In the present day, Insurance Investment is a major factor on the stock Exchange, and, along with other institutional investors (mainly private pension funds), provides one of the largest sources for channelling new savings into investment. As a result, it is natural that both economists and the government should pay considerable attention to the effect of this Investment on the country. If Insurance investment was not producing socially and economically desirable ends, it is quite likely that there would be government intervention and so Pegler's fourth principles becomes important.

2.7

INVESTMENT CONSIDERATIONS

The investment manager will first need to know for which fund he is investing as different considerations apply to the long-term and annuity funds.

He must know how money is available and its source, i.e. whether he is investing new money or reinvesting the proceeds of the disposal or redemption of other investments.

The investment manager will have an investment policy, either coming from his own ideas or from those dictated by the board of Directors (within whose guidelines he is empowered to work). This policy change from time to time, as fashions, moods and the relative attractions of investments alter; thus, during one period, emphasise might be on high-yielding fixed interest securities, while in another, lower-yielding equities may be in vogue to give long-term growth.

Another factor which must be kept in mind is that of over-investment in any one company. In the main, Insurance companies regard themselves as specialists in the Insurance field only, and investment is secondary to this, so that they rarely place themselves in such a position with regard to any company in which they invest as to be drawn into the management of that company. Because of this, unless it is intended deliberately to take a measure of control over a company in another industry (this is not frequently done) the amount invested in the equity shares of any company must be restricted to, say, 10% of such shares in issue.

However, more recently, some insurers have taken a more active interest in the management of some of the companies in which they invest, in order to maximise returns.

Having decided on the policy matters, certain points have to be considered about each investment made, some factors are common to most or all investments made:

a) **Price -** The price to be paid will be weighed against the expectancy of the price changing within the near future (and this makes the investment perhaps cheaper to obtain.

b) **Security** - This depends on many factors; with industrial securities and shares the quality of management has a great bearing. Security of capital is indicated by

slightly different points to short-term security of income, but in the longer term both are governed by the same factors.

c) **Yield** - This is the annual returns per unit of capital invested and unless there are special circumstances regarding an investment (such as growth prospects with ordinary shares)

Then the income must be sufficient in the light of prevailing circumstances to justify the investment.

d) **Marketability**- Some investments are easily marketable; others are not whether one type or the other is purchased will depend largely on the requirements of the particular fund for which the investment is required.

(e) **Redemption dates and terms**. The date or dates on which redemption may be effected with redeemable stocks and the prices at which redemtion is to take place must be looked at carefully.

Thus it follows an insurance company would be most unwise to make an investment in a company in which it did not already hold shares until it had studied carefully the accounts of that company and made certain decisions about the desirability of the investment and the price at the which purchase should be made. Similar conditions apply where additions to an existing holding of investments are being considered and where a sale of an investment is proposed.

A prudent investor will review the portfolio of investments from time to time to ascertain their continued suitability, in the light of investment policy, changed, economic and political trends and results and prospects of the investment.

On receiving a takeover bid for shares or stock held, the investment manager will wish to calculate the attractiveness or otherwise of the bid from a financial point of view even although in some cases the final decision on the bid may be made on the grounds of the investment policy of the Insurance company.

One overriding principle is that statistics must never be looked at in isolation, for alone they can be very misleading. The facts about a company must be looked at together and against the background of similar facts about other companies and the economy as a whole.

2.8

GOVERNMENT CONTROL OF INSURANCE INDUSTRY INVESTMENT

The control of investments by insurance companies, entails the prescription of the manner and the area where the insurance funds are and should be invested in the interest of the insurance companies, as a means of maintaining their solvency and as a way of motivating the activities of the companies, towards measures, which will benefit the national Economy, Falegan (1983). In Nigeria, government control of insurance company investment emanated from the 1968 and the Insurance Act of 1976. This control is of the view to protect the policyholders.

To ensure that there is adequate portfolio diversification and that the overall capital and liquidity risks are kept within acceptable limits, it has the effects of imposing some constraints on the flow of the funds which Insurance Companies have at their disposal to invest Faleggan (1983).

The scope of investments open to insurance companies under the 1976 Act include the stocks of federal and state government, and some government bodies equities, mortgage loans on real estate, industrial debenture and unsecured loans, treasury bills and treasury certificates and cash on deposit account. Insurance Act of 1976 section 18 (2) states that the assets of the insurer shall not be invested in property and securities except:

a) Securities specified under the government and other securities (Local Trustee's powers) Act and the Trustee investment Act 1962.
b) Shares or other securities of a society registered under any law relating to cooperative societies.
c) Loans to building societies approved by the commissioner.
d) Loans on real property, machinery and plant in Nigeria.
e) Loans on life policies within surrender values.
f) Cash on deposit in, or bills of exchange accepted by licensed banks.
g) Such other investments as may be prescribed.

This Act of 1976 imposes serious limitations on the ability of Insurance company to invest in corporate securities by invoking the provision of the Trustee investment Act 1962. Section 1 of this Act specified the type of securities in which the funds of an insurer could be invested, does not cover investments in private companies. Furthermore, investment in public companies are limited to companies whose securities are quoted on the Nigerian stock exchange, while the nominal of the fully paid up shares issued by such companies must not be less than N1 million. This is to preclude insurers from investing in the securities of non quoted companies; however vast they may be. Ogunshola (1976).

Problems of Investment are in the areas of government control on Insurance company's investment, infrastructural Barriers, the Nature of Insurance obligation and the satisfaction of Insurance Managers.

The effects and impacts of Government Control on investment has continued to result in increase in the volume of the investments e.g. the investment by Non-life Insurance companies was N187.6 million rose to N274.4 million in 1982. Life assurance rose from N105.3 million in 1978 to N327.4 million in 1982. Investments from life assurance funds accounted for 44.5% of the combined investments in both life and Non-life Insurance in 1978 and in 1981 it was 53.1%. *Okwor (1984).*

2.9

PRACTICE OF INVESTMENT IN INSURANCE INDUSTRY.

2.9.1

Investment Policy

The investment policy of an insurance company is usually under the control of the board of directors. In some companies, however, the investment manager is an executive director with power to dictate the investment policy and take decisions on all but those most important matters which will require the attention of the board. The investment policy will be considered from time to time to see if any changes are required. Investment policy covers the proportions of the portfolio placed in any class of investment, the types of company suitable to invest in, the terms for fixed interest securities, etc. The investment policy is personal to the office following it. The domestic requirements of each office and the views of

management as to the future are such that the investment policy must be tailor-made to fit the circumstances of the particular company.

2.9.2

INVESTMENT DEPARTMENT

The day-to-day management of the portfolio is carried out by the investment department under the control of the Investment manager. Since decision on particular investment opportunities are needed at short notice; considerable powers are delegated by the board to the investment manager.

The investment department is divided into a number of sections, often by type of investment or by the duties to be performed. For example, it could be divided into mortgage, stock exchange and property sections, with possibly, an overseas section as well if the volume of overseas investments justifies this.

The main duties of a typical investment department might be listed as:-

a) The execution of purchase and sale transactions;

b) Analysis of companies, results, etc, and the preparations of statistics to assist in the formulation and fulfilment of the investment policy;

c) Portfolio review;

d) The maintenance of records and accounts of investments.

2.9.3

INVESTMENT RECORDS

Several types of record will be kept by most investment department as there are several aspects of investment. One set will probably be an accounting record to show the amount of each type of stock or share held, costs, purchase and sale transactions and the like. Thus, the amount invested in any company, local authority, etc, can easily be determined together with prices paid or received and any schemes, mergers or take-over bids which have occured. Another record will show for each investment the amount of interest or dividend received and the dates of receipt; this will also show what amounts are outstanding at any time.

The methods of classifying the investments for record purposes vary widely from company to company but a common method is approximately according to the statutory classification set out in the Insurance companies (Accounts and forms) (Amendments) Regulations 1980 to enable the balance sheet to be prepared with the minimum of trouble.

Most companies keep a file for each investment where the history, reports and the exact terms and condition of each investment are recorded. Other records are often kept according to the nature of the activities carried on. Statistics will show the amounts invested in the different classes of government securities and in commerce and Industry.

2.9.4.

TIMING OF OPERATIONS

In timing the purchase or sale of an investment, the 'feel' of the market is most important. This is not something that it is possible to teach but is only acquired with long experience of

Investment practice. However, the experts use many techniques to satisfy themselves that shares are desirable not only because of their intrinsic value but also in relation to others available at the same time for a life fund in particular, money is accruing all the time and must be invested so as to earn investment income.

When stock market prices are especially high and some fall is anticipated it is often better to wait rather than invest immediately. However, as money is accumulating for investment all the time with life funds, it must be made to earn the highest possible yield without delay. A moderate amount may be earned on deposit with a Bank but many institutional investors find that a better return can be obtained by making short-term deposits with local authorities and, sometimes, certain banks. These are usually arranged through specialist brokers, and may be on two days; seven days or twenty-eight days call-in other words, either side, borrower or lender, may give 2, 7 or 28 days' notice of repayment or of a change in terms (usually the Interest rate).

2.10

INVESTMENT INFORMATION AVAILABLE TO INVESTORS

According to John C. Clendenin in his book 'Introduction to Investment' pg 279-287. An investor in securities needs to procure or to supply at least six types of investment supervision. He must keep his securities physically safe for fire or other loss; he must give them a mechanical supervision which will take care of rights, conversion and exchange options, maturing bonds and coupons, and similar matters; he must have executing records, for income tax and other purposes; he should have an estate plan, which will allow for adequate liquidity and divisibility; he needs a general portfolio policy, incorporate his estate

plan but allowing also for other objectives, such as diversification; and the selections of individual securities must be made. These six functions must be performed either by the investors or by persons paid to perform them. Parts or all of these functions may be obtained from brokers, investment service organisations, investment counsellors, banks, accountants on attorneys". Brokers are accustomed to give all their clients a considerable amount of free advice on selection of securities, estate and portfolio planning and Tax matters. They also furnish library facilities which will contribute to an investor's efforts to solve his problems for himself. They also provide fine safe keeping for securities held in customers accounts.

The publishers of printed investment services offer 2 viable variety of personalised advice. The less costly types are usually limited to an annual or semi-annual review of the client's portfolio in the light of client's desires and needs as disclosed on questionaire submitted by him: more elaborate personal service may include detailed portfolio planning in accordance with the client's needs, continuous supervision of the client's holdings by the organisation, day-by-day recommendations to the clients and return reports by him to the organisation.

The term investment counsel is applied to investment advisers whose services are sold to the public on a personal basis, not in completion with a publication which is regarded as a vital part of the service. Investment counsellors render a service very similar to the more elaborate types furnished by the publisher - advisers describe in the preceeding paragraph, for the same types of clientelle, at about the same cost.

Banks have developed several types of services which investors may use. The simplest of these, which is sometimes terms the custodian account, obligates the bank to maintain physical care of the securities, keep accounting records, collect income, call the owners

attention to such matters as right and bond maturities and execute transactions at the owners request.

Accountants and attorneys are often in a position to render investment services to clients, particularly in relation to tax matters, estate planning, and portfolio planning. Their contributions are too varied to permit any adequate description.

Other areas by which an investor can collect investment information include:

(a) **Public Regulation of investment** advice through enactment of laws, various activities of congress - House of senate, and those of parliament. These are derived through the Act that undertakes to impose sound principles of conduct upon investment.

(b) **Appraisal of investment advice**. A number of attempts to tabulate the result of any and sell instructions to clients by leading advisory services have led to the tabulators to the concluding that the clients have done as well if he had merely held diversified portfolio of good securities throughout the period and had made no effort to improve results by buying and selling.

(c) **Newspapers and periodicals** - Most metropolitants daily Newspapers include a financial section of fair quality. Good daily financial sections include sales quotations from the unlisted markets, earnings and dividend annoucements by major corporation, a report on the market averages, highlights from the business News, editional or sydicated commentaries on market and business affairs, and announcements of new securities offerings. offerings.

(d) **Specialised sources** - The specialised sources of information available to the investorsand actually studies by many professionals in the investment fields are almost too numerous to mention. Almost every trade Journal, such as Steel, Railway, Age, Oil and gas Journals, has information and statistical data which are of value.

(e) **Annual Reports and prospectus** - Corporate annual reports plus the proxy reports, digests of annual meetings, and special interim reports which companies send to stock-brokers are often extremely illuminiating. Modern report to stockholders are becoming quite comprehensive. Financial statements in the better reports are thorough and well explained, operating policies are out lined, hopes and problems are explained. Though much of these material sets into the securities manuals, a great deal does not. A careful investor would do well to study annual reports obtained from the company or borrowed from brokers before buying stock, and he must certainly should study them when he receives them as a stockholder. Prospectus are issued by corporations as descriptive literature in connection with the sale of new securities.

(f) **Brokers and dealers literature** - some of the best and some of the worst investment literature is provided by Brokers and dealers, securities firms generally are eager to enhance their own prestige by offering their customers good analytical risk and sound advice. They may on occasion be biased, through a desire to see their own wares but poor literature and advice seem more commonly to stem from haste or incompetence than from selfish bias.

(g) **Reading the financial page** - While much of the material prescribed in a newspaper financial page is direct and simple, the hieroglyphics used in some of the statistical

tables usually require explanation. The forms are conventional and not always adequately explained in the headings used. While there are many table shown is a comprehensive financial section, some of them will serve to illustrate most of the commonly used devices.

2.11

THE CAPITAL MARKET

The capital requirements of the economic system in the advanced Countries of say Britain are supplied by a very large number of Agencies, some of which are decentralised and some of which are highly concentrated in the capital cities. Thus, there is an outer capital market and an inner capital market. The outer capital market consists of a large number of undefined but *importants agencies, such as Building societies, Savings associations, and the system of trade* credit in general-money is raised on mortgages, merchants and dealers specialise in supplying trade credit, financial firms specialise in financing line purchase transactions; the humblest trading firm finances its customers by giving them credit.

Generally, the English capital market comprises four groups of institutions:

a. The specialised institutions dealing in short-term capital, known as the money market. The funds which flow to this market come to it from other institutions, but mainly from the commercial banks and the larger private banks. The borrowers in this market are the dealers in bills and dealers in certain short-term securities, or to put it in technical language, call money is borrowed by the bill market and joblers in short-term British Government stock i.e. stock which has a maximum period of five years to run before repayment.

b. A market in which funds available and required for medium periods of time and lent and borrowed. This market is the field of activity of the commercial banks. It absorbs the current spare funds of the community which constitute the deposits, and re-lends the bulk of them to the business community in commercial loans and overdrafts.

c. The market in new securities or new capital consisting of all those engaged in company promotion - issuing houses, company promoters, underwriters, and finance houses.

d. The stock Exchange - a highly specialised organisation dealing in issued securities, that is the transfer of rights to already invested capital.

2.11.1

THE STOCK EXCHANGE

As earlier stated that this is a highly specialised organisation dealing in stocks and securities; within the Council are a number of Committees dealing with the bulk of the day to day matters affecting the Exchange, including disputes between members, admissions of new members, the enforcement of Rules and Regulations, the granting of 'official listing' and permission to deal publication of the official list, administration of the compensation fund and other such concerns.

A company may apply to the Council for 'permission to deal' (that is, to have its stock or shares dealth in on the exchange) and if this is granted there following an 'official listing' without which there can be no dealings in the stocks or shares on the Exchange. The Council

takes its responsibilities seriously and it imposes a rigorous control on the entry of all securities to the market. In its power to exchange them the Council has a weapon which gives protection to investors. The Council will not grant permission to deal for any issue unless the company concerned is willing to make available brief accounting figures half-yearly. This is more than the statutory requirements of full accounts annually. There is no insistence on this information for securities already quoted on the exchange, but if a Company finds it necessary to raise additional capital where the securities are to be quoted then it must conform to the requirements concerning half-yearly details. The Exchange publishes a daily official list showing details of all transactions.

Stock Exchange Members are either joblers (dealers) or brokers. It is claimed that the system makes for a free market in which it is easy to buy and sell, and that, owing to competition it makes for small margins between buying and selling prices.

A. **JOBLERS:**

The joblers is a principal. He operates on his own account and for his own profit. He does not deal directly with the public, and can be approached only through a Broker. He conforms his activities to a limited field of securities in which he is thus a specialist.

A jobler purchases securities on his own Account and hopes to sell these again at a higher price when approached by a broker about a particular stock or share, he quotes two prices - the lower is the price at which he is willing to buy and the higher the price at which he is willing to sell - and the amount of stock he is willing to deal in. At this stage he does not know whether he is being asked to buy or sell. If the broker is satisfied with the price and can

fulfil his clients requirements then he will close the deal and advice the jobler wether he is buying or selling. If not satisfied on price, the broker will approach other joblers, the many, however, need to deal in a greater volume than if offerred and then he must use his skills and knowledge of the market to decide whether to take or sell the amount offerred and then to seek joblers for the balance, or whether to look elsewhere to try and complete the bargain with one jobler. Naturally, joblers dealing in a particular line of securities operate in close proximity in the stock Exchange and so a bargain completed is soon known to all of them and affects the prices they quote.

The difference between the two prices quoted is known as the 'joblers turn' and is the profit he hopes to make over the purchase and later sale of the stock or shares. They must use his judgement as to the appropriate price to quote and the amount to deal in, remembering that if he is left with too much stock and the price drops he can lose a lot of money;

If the price rises, however, he can make a lot of money. Naturally a rising market is favourable to joblers and so makes them tend to deal in larger amounts and on a smaller 'turn' or margin'. With a falling market, the margin becomes bigger and joblers reduce the amount in which they will deal.

B. **BROKERS:**

The Brokers is the Client's Agent, he takes instructions from the Clients and it is his job to do the best he can for his Client within the scope of those instructions. Unlike a jobler, he deals in all Securities, through various broking firms have a reputation of being good dealers in particular classes. To the ordinary investor, this is unlikely to be particularly important but

to the institutional investors, who are constantly making new investments, the service provided by those brokers in providing information about the securities they specialise in is very important. Brokers are paid on a commission basis by the client.

On the same day that the transaction has been executed the broker issues his Client with a contract note setting out details of the deal and the terms obtained. The contract note will show the name and address of the broker, the name of the Client, and a description of the Stock or share, a purchase contract note will also show the purchase price, the cost, contract stamp duty, transfer stamp duty (if any), broker commission and the total which is the amount due to the broker. A sale contract will show instead the price obtained and the gross amount realised, from which latter figure will be deducted, the broker's commission and contract stamp duty; the total will show the new amount due from the broker.

2.11.2

TRANSFER

This is very common in U.K. The vast majority of stocks and shares dealth in on the stock exchange are in registered form, that is, the holder has a certificate describing the stock or share, himself as owner and the amount of stock or number of shares held and the details of each stockholder or shareholder and the amount each holds is recorded in the books of the issuing company at the registered office. Transfers are affected through the Talisman system.

The Talisman system operates through a nominee company, Sepon Limited (Stock Exchange Pool nominees), which has a share holding account in all participating companies, and into which all sold stock is registered during the course of settlement. All sold stock is transferred

from the seller into the Sepon Pool account - a single holding of stock in the course of settlement - and purchasers receive their stock by transfer for each jobler dealing in the stock, and these record the merchant of stock during the settlement process.

When the selling broker receives the share Certificate and the signed Talisman sold transfer form from his Client, he passes them to the Talisman Centre where they are checked for good delivery and then passed to the Registrar for Registration into Sepon Account.

Once apportionment has taken place the stock is held to the order of the various buyers, and a Talisman Bought Transfer Form, authorising the removal of stock form Sepon into the name of the buyers, is prepared by the centre lodged directly with the Registrars for Registration.

When the Talisman Bought transfer is registered, legal title passes from Sepon to the buyer and a new Certificate is issued by the Registrar through the Centre.

Although the Legal title passes to Sepon on registration, the effective control of the stock remains with the seller until the evening prior to account day when the stock is transferred to the jobber's Trading Account. On account day the selling broker receives payment for the stock from the centre on the jobber's behalf. The stock in the jobber's trading account is then allocated to his sold bargains, by the process of apportionment.

After the end of the account, computerised procedures have to be completed to ensure that settlement between broker and client and between broker and jobber is effected without delay.

2.11.3

SPECULATOR IN STOCK EXCHANGE

At the beginning of a new account, a speculator knows if he buys shares he need not pay for them, over a forthnight, or if he sells shares he needs not deliver them for over a forthnight, or if he sells shares he need not deliver them for over a forthnight. He hopes, if he has bought shares that they will rise in value before then, or, if he has sold shares, that they will fall in value so that he can buy them back more cheaply.

There are 3 types of speculator on the stock Exchange - they are the bulks, bears and stags.

A. BULL OPERATIONS

A bull is a person who buys shares which he does not wish to hold as an investment, hoping to be able to sell them at a profit before he has to pay for them. This is possible, for instance by buying at the beginning of an account, if the price rises before the end of the Account (which may be up to 3 weeks away) then the shares may be sold and the difference between the buying and selling prices, less certain expenses, represents the Bull's profit. If by the end of the account the bull cannot sell at a profit, he may decide to sell at a loss or, more likely, he will try to arrange to carry over settlement until the next account by a contrange operation; he pays a certain rate of interest on the amount of cash involved for this priviledge.

B. BEAR OPERATIONS

A bear is a person who sells shares which he does not possess in the hope that before he is

required to deliver, the price will have fallen so that he is able to purchase shares (to enable him to deliver) at a price lower than the price at which he has sold; the difference, profit. If he is unable to deliver by the end of the account, there is offer no objection to delivery being deferred until the end of the next account without penalty, on the occasions when the bear is called upon to pay interest, it is termed **BACKWARDATION.**

C. STAG OPERATIONS

A stag is a speculator who applies for a new issue in the hope that when dealings begin he will be able to sell his allotment. Often the stag will sell, even if he cannot realise a profit, as he may be unable or unwilling to pay any further instalments that may be due.

2.12 OPTION DEALINGS IN THE STOCK EXCHANGE

There are 3 types of option which one may purchase.

a. A take option where the holder has the option to purchase stock or shares within a given time at the price arranged in the option agreement.
b. A put option which entitles the holder to sell stock or shares within a given time at the price arranged in the option agreement.
c. A double option which entitles the holder to buy or sell stock or shares within a given time at a price arranged in the option agreement.

In exchange for the option, the purchaser pays a correction (usually a certain amount per share) and this amount is not refundable even if the option is not eventually exercised. The consideration payable for a double option is usually twice that payable for a put or take option

in the same stock at the same time. The maximum option period is normally three months.

The buyer of a take option hopes that the price of the shares will rise; he is then able to exercise the option and sell the shares so acquired at the prevailing higher market price; the difference, less the expenses of dealing and the consideration payable for the option represent profit. The buyer of a put option hopes that the market price will fall; he is then able to buy shares in the market and exercise his option and sell the shares at the higher option price. The holder of a double option hopes for a rise or fall in price which is greater than the expenses of dealing and consideration he has paid for the option, if the price movement is this great, either up or down, then he can exercise his option to take (if the price has risen, when he will sell in the market) or put (if the price has fallen, when he will buy in the market to enable him to deliver).

CHAPTER 3

METHODOLOGY

3.1 METHODS OF DATA COLLECTION

For a better understanding and appreciation of a work of this nature by readers, there is the need to carefully explain the methods and techniques used in obtaining and analysing the data for it. The reasons for their choice, where necessary, constraints also need to be explained.

In order to obtain suitable and reliable information about the investment of Insurance Company funds and to test and validate the Hypothesis mentioned at the Introductory stage of this work, there is the need for careful selection of methods to be used in collecting necessary data. It is greatly impossible for only one method to be enough to collect the data needed for a study of this nature. It is against this view that different methods and techniques were employed in gathering and analysing the data for this study. The collection of data was done through: Interview, observation and through collection of secondary data.

Unstructured and unscheduled oral interviews were conducted with some members and officials of the Leadway Assurance Company Limited. The interview centred on the organisation and the ways the company invest their funds.

The researcher also depended on the data collected from the Leadway Assurance Company Limited which ranged from underwriting files, Annual yearly reports, Hand-outs on some delivered papers and papers presented by Top Management Staff on related topics.

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Furthermore, Data were collected from relevant text books on Investment written by Academicians and professionals in the Industry.

Personal observation of the institutions as well as secondary data collected also helped as the strong base for this study. General operations and dealings with the customers also form source of useful data for the study. Personal calls were made to various offices and libraries, past Research work on the topic also contributed greatly to the quality of the work. The officials in Leadway Assurance Company Limited cooperated with the Researcher by providing the relevant texts, hand-outs on past seminars and lectures.

3.2

DATA ANALYSIS

From the data collected through interview and secondary data, table were constructed and percentages calculated (where necessary) comparison were made for the Annual yearly reports for 1991 up to 1995 to see the growth and progress of things within the chosen company - Leadway Assurance Company Limited in order to effectively analyse the information supplied during the interview.

3.3

CONSTRAINTS OF METHODS SELECTED

There were a lot of constraints in the selection of data, most of the officials interviewed were reluctant to disclose the information pertaining to the company. Inconsistency was also noticed and common which had to be corrected during the data analysis.

Knowledge of the Background of the figures obtained through secondary data is also a problem. Amendments have to be made in the analysis of data under chapter four of this work.

Information and data are generally very dry on the topic due to the fact that Insurance Business has not been long in the country and the fact that the company chosen is one of the companies that was set up in the early 70s which has little experience in the Investment of funds. Infact, it involves a lot of money travelling to Lagos to seek for more information and data on the subject under study.

This research work will not be complete without a short history of the organisation.

3.4

HISTORICAL BACKGROUND

Leadway Assurance Company Limited was incorporated in Nigeria on the 22nd September, 1970.

The Directors are Sir Olushola Hassan Odukale (Chairman), Alhaji Hassan Hadejia (Director), Oye Hassan - Odukale (Managing Director), J.O. Oni Esq. and Mallam Mohammed Faruku (Directors).

The company was the second company to be registered under the new Insurance Decree of 1976. The registration number is R1-2.

The Headquarters is situated at NN 28/29 Constitution Road, Kaduna with a Network of 25 Branches and Control Office in Lagos. This office in Lagos co-ordinates all the activities of all the Branches in the south.

As at present, the company is rated among the biggest five Insurance Companies in Nigeria going by the Insurance Year Book of 1993. The company has an average yearly income of N400 million with roughly a Billion Naira Asset.

The Reinsurers are Swiss Re-Insurance Company (Life and Non-Life), Munich Re-Assurance company, (Non-Life only) and other local Reassurers like Nigeria Re-continental Re and Globe Re.

As at the time of writing this project, the company is rated as number 3 among the biggest after NICON and UNIC, with a workforce of about 500 employees.

The choice of this company for this study could be considered proper if analysed in terms of income, Background, workforce and the volume of Business, and of course and most important easily available and closest to the Researcher.

CHAPTER FOUR

DATA ANALYSIS

4.3 INTRODUCTION

This section would look at the practical operations of the investment of funds in Leadway Assurance Company based on the data collected from the company through oral interview, Annual year report, and papers presented at various seminars. The section will also deal with the sources of fund of the company and investment problems in the company. The Hypotheses put forward in the chapter 1 will also be tested by relying on the data collected from the company under review. In this section, 5 years Annual year reports were analysed (1990-94) to look at the growth of the company and the investment pattern of the company. This therefore aids the Researcher to come out with some recommendations and conclusion on the topic at the last chapter of this project. The company has been making a steady growth from its inception (1971) when it first recorded a profit of under N2,000.00. In 1986, the company recorded a profit before taxation of N271,820.00; while in 1987, 1988, 1989 and 1990 the profit before tax has gone up to N399,880, N351,749, N1,117,499 and N2,493,672 respectively. Infact as at 1994, the company recorded a profit before taxation of N15,421,909. As the company was progressing, the premium income continues to increase, so that the company recorded a total premium income of N207,184,499 in 1993, but this was increased to N296,831,722 in 1994 which represents over 30% increase if compared 1994 with the previous year of 1993. Unlike other Insurance Companies which had been declining in terms of premium income carried as a result of the economic recession, the company has recorded a higher premium income of up to N300,000,000 going by the Analysis of premium

income as at 30th Sept., 1995. This was not unconnected with their "goodwill, reliability, efficiency and diligence of their staff" over the years which has made them supersede their competitors.

The inflationary trend in the country no doubt contributed in no small measure to the high increase in the premium income over the years which has considerably reduced the value of money.

Leadway Assurance as at now is only a private owned, indigenous Insurance Company in Nigeria that is ranked among the best and biggest five insurance companies in Nigeria. It transacts all classes of Business both life and Non-life which ranges from Motor, Fire, Accidents, Marine, Bonds and life Businesses.

As earlier said, our Analysis shall be limited to 5 years progression of the company commencing from 1990 up to the year 1994 which is the most current year in as much as the Annual report of 1995 is yet to be out. Please find stated on the table 4:1 the Analysis of Gross premium income of Leadway from 1990 to 1994 separated according to different classes of insurance being underwritten.

TABLE 4:1

GROSS PREMIUM INCOME OF LEADWAY ASSURANCE COMPANY LIMITED

1990 - 1994

Classes of Business	**1990**	**1991**	**1992**	**1993**	**1994**
Motor Insurance	9,111,063	15,987,118	54,594,224	113,381,169	147,396,855
General Accident	6,429,883	7,030,250	30,362,889	35,633,502	40,276,873
Fire	5,508,057	7,650,373	21,247,357	31,319,695	40,725,410
Marine & Aviation	4,592,669	9,612,128	16,768,829	14,746,990	14,780,837
Workman's Compensation and Miscellaneous Insurance	79,110	50,749	4,240,805	5,624,938	19,284,664
Life	8,035,572	9,578,138	12,146,767	14,477,928	21,605,918
Total	**N33,756,354**	**N49,908,7556**	**N139,360,817**	**N215,184,222**	**N284,070,557**

Source: Leadway Assurance Company Limited Annual Reports.

4.2

PREMIUM INCOME ANALYSIS

It is clear from the above Table 4:1 that the premium income of the Company under Analysis has been growing tremendously throughout the five years. The growth rate from 1990 to 1994 with the figures of N33,756,754 and N284,070,557 represents more than 700% increase. All classes of Insurance also witnessed a growth rate of an average of 200% if the premium income realised in 1994 is compared with the year 1990 production. This no doubt contributed immensely to the fund available for investment throughout the period in the life of the Company.

"This growth rate was attributed to the diligence, loyalty of staff coupled with the positive dynamism of the style of management" as stated by one of the top management staff in the organisation.

Researcher was able to discover that this high growth rate may not be unconnected with the high inflationary rate attributed to structural adjustment programme introduced by the Government to revamp the nation's economy which no doubt resulted in the boom in this sub-sector. Similarly the awareness of people towards Insurance has been very tremendous over the past 5 years; the need to improve the image of Insurance coupled with the high marketing Aggressiveness brought about by competition may not be far from the reasons contributed to the premium growth.

As the Company premium continues to grow, the Company also increase their investment portfolio which also enhances the income and Revenue of the Company.

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This tremendous growth in premium income no doubt necessitated the need to establish an investment department in 1993 to take care all the investment of funds accumulated over the years by the company.

According to an officer of the company, 'the creation of an investment department in the company is a very good foresight which has contributed immensely to the growth of the Company's fund and place the company in a better financial position to pay claims of its numerous customers.

4.3

SOURCES OF LEADWAY ASSURANCE FUNDS

It is very imperative to analyse the major sources of the funds available to Leadway Assurance. The continuity of any Business is measured by the funds available and the uses into which the funds are put. The funds and total assets available will enable us to determine the actual strength of the company.

In looking at the sources of Leadway's fund, we shall focus our Analysis on four years. 1991 source of funds shall be compared with 1992, while we shall compare 1993 with the year 1994.

Table 4:2 shall therefore state the sources of funds for the year 1991 and 1992 while table 4:3 states the application of funds for both years.

TABLE 4:2

STATEMENT OF SOURCE OF FUNDS (1991 AND 1992)

	1992 (N)	1991(N)
Profit for the year	7,460,816	4,282,102
Depreciation of fixed Asset	3,737,047	1,498,869
Loss/Profit on Disposal of Fixed Asset	63,918	(12,189)
Proceeds on Disposal of Fixed Assets	97,700	67,998
Share capital	2,697,280	-
	14,056,761	5,836,780

TABLE 4:3

APPLICATION OF FUNDS (1991 AND 1992)

	1992 (N)	1991 (N)
Purchase of fixed assets	13,460,436	8,036,057
Share capital increase expenses	140,000	-
Purchase of Investments	12,200,001	6,813,491
Supervision fund	-	186,645
Taxation paid	895,519	547,075
Dividends paid	2,121,088	198,852
Increase/Decrease in debtors	2,987,931	7,360,957
Increase or decrease in creditors	(1,399,467)	(13,705,838)
Increase or decrease in Technical reserves	(64,493,116)	(18,087,439)
Balance	(33,087,608)	(8,650,200)
Net increase in Liquid fund	47,144,369	14,486,980

From the above tables, it is crystally clear that the company major source of funds are from the profit for the year, sale of fixed assets, sale of investment and profit realised from the sale of fixed assets.

TABLE 4:3

Table 4:3 - However shows the application of funds in the company. During the years, the fund was applied to purchase fixed Assets, increase in share capital, purchase of investments, Taxation paid, Dividends paid, Supervision fund and also applied for technical resources.

It could be deduced from the information above that the Company witnessed a tremendous growth between the year 1991 and 1992 as the net increase in liquid fund was increased from N14,486,980 to N47,144,369 which shows a prudent management of fund as the figures represent more than 150% increase in the fund. However we shall therefore compare the above performance to the years 1993 and 1994.

TABLE 4:4

STATEMENT OF SOURCES OF FUNDS (1993 AND 1994)

	1994 (N)	1993 (N)
Profit for the year	15,421,909	10,293,371
Accretion to Insurance funds	78,667,608	90,296,420
Depreciation	9,236,580	6,438,719
Profit/Loss on Disposal of Fixed Assets	(219,900)	175,010
Proceeds of sale of Fixed Assets	276,100	5,320,713
Proceeds from share capital subscription	-	2,000,000
	103,382,297	**114,524,233**

TABLE 4:5

APPLICATION OF DUNDS

	1994 (N)	1993 (N)
Purchase of fixed assets	29,451,361	61,306,188
Purchase of investments	61,346,052	23,812,897
Income Tax paid	3,039,830	1,421,020
Dividends paid	3,000,000	3,000,000
Statutory Deposit	4,600,000	-
Debtors	(2,609,845)	45,097,183
Creditors	(11,494,754)	(42,058,334)
Increase or Decrease in Liquid funds	**16,049,653**	**21,945,279**

We would see from the above figures that the company witnessed a decrease in liquid funds in the year 1994 as compared with the year 1993. Though there was no negative decrease in the liquid funds for both year, it was a decrease of about N4 million which represents about 25% decrease in the liquid fund if the years 1994 and 1993 were compared.

In all it could be concluded that from the above analysis so far, we could say that the management of the company has been very prudent in the management of their fund, as the decrease in 1994 liquid fund was caused as a result of the increase in the compulsory statutory deposits to be paid to the Central Bank of Nigeria (CBN).

To make the analysis clearer to the Reader, we would therefore state the source of funds of the company into 4 broad categories:

a. Profit for the years

b. Sale of Fixed Assets

c. Proceeds of sale of Investment and

d. Other sources of funds

4.3.1.

PROFIT FOR THE YEARS

The company recorded a profit of N4,282,102 in 1991, N7,460,816 in 1992. While the profit recorded in 1993 and 1994 went as far as N10 million to N15,421,909 respectively. We would say that there have been a tremendous growth in the profit generated over the years by the company.

4.3.2

SALE OF FIXED ASSET

This is another source of funds. The company has been witnessing up and down in their sale of fixed asset over the year. It was N67,998 and N97,700 in 1991 and 1993 respectively while the figure went up to N5,320,713 in 1993, but dropped to N276,100 in 1994.

4.3.3

PROCEED OF SALE OF INVESTMENT

One of the most important source of Leadway Assurance Company's fund is the proceed of sale of investment. The sale of share capital in 1992 was N2,697,280, while it went down to N2 million in 1993 and there was no sale of investment in both 1991 and 1994.

4.3.4

OTHER SOURCE OF FUNDS

Other source of fund include loss or profit on Disposal of fixed Asset, transfer to contigency reserve, Appreciation in the value of quoted investments and Insurance funds.

It could be clearly stated here that the application of funds was mainly on purchase of fixed Assets which is not stable for the years under review, purchase of investment has been witnessing an increase for the years which shows the growth of the company. Income Tax and damages were also paid and the company statutory Deposit usually paid to the Central Bank of Nigeria. We shall analyse critically in the next section of the purchase of investment by the company which form the focus of this profit.

To look at how the company has faired over the period of 5 years. Stated below is the five years financial summary of the company showing the progress of Earnings per share, Dividend per share of the company and the investment flows for the period.

Table 4:6 therefore states how the Assets of the company are emphasised, expenses and the appropriation and turnovers of the company over a period of 5 years ranging from 1990 up to 1994.

TABLE 4:6

FIVE YEAR FINANCIAL SUMMARY

	1994 (N)	1993 (N)	1992 (N)	1991 (N)	1990 (N)
Assets Employed					
Fixed Assets	94,110,069	73,951,488	24,579,742	15,017,971	8,536,592
Investments	226,471,299	45,331,692	104,474,569	46,580,024	28,350,088
Statutory Deposit	5,000,000	400,000	400,000	400,000	400,000
Net Current Assets	(6,531,690)	15,276,981	9,716,059	4,949,810	10,795,762
	319,049,678	**234,960,161**	**139,170,370**	**66,947,80**	**48,082,442**
FINANCED BY:					
Share Capital	15,000,000	12,000,000	8,000,000	5,902,720	3,977,040
Revaluation Reserve	3,277,593	3,277,593	3,277,593	3,277,593	3,277,593
Reserve for Bonus Share	5,000,000	3,000,000	2,000,000	0	1,325,680
Profital A/C	1,410,770	988,861	495,490	852,674	74,750
Technical Reserves	294,361,315	215,693,707	125,397,287	57,514,818	9427,379
	319,049,678	**234,960,161**	**139,170,370**	**66,947,805**	**8082,442**
TURNOVER PROFIT AND APPROPRIATIONS					
TURNOVER (NET)	269,145,054	205,853,184	129,006,285	44,312,449	0,293,313
Profit before Tax	15,421,909	10,293,371	7,460,816	3,949,012	2,493,672
After Tax	9,921,909	6,493,371	4,782,816	2,899,012	1,508,807
Dividends	4,500.00	3,000,000	3,000,000	2,121,088	198,852
Earnings per share	33.07K	21.64K	15.94K	9.66K	5.03K
Dividend per share	15.00K	10.00K	10.00K	7.07K	0.66K

Source: Leadway Assurance Co. Ltd Annual Report and Accounts (1994)

It could be inferred from the above five year financial summary table that the company has been doing well. The growth rate has been steady over the 5 years period. In 1990 the amount invested was N28,350.088 which later grew up to N145,331,692 of the total amount invested in 1993 which represents up to 80% increase in the total invested. In the period therefore the company witnessed a growth rate of N186,897,719 which represents more than 350% increase in the growth of the company over the period under review.

In 1994, there was a growth from N234,960,161 in 1993 to N319,049,678 in 1994; during this period, the total invested in 1993 was N145,331,692 whereas in 1994, this figure went up to N226,471,299 which represents more than 26% increase in the growth of the company's fund. In all there was an investment growth over the five years period, the total fund realised by the company also witnessed growth which shows clearly that there is a relationship between the investment of the company's fund and the growth of the company

which therefore nullifies our Hypothesis that states that the investment of the company's fund has no relationship with the growth of the company. Infact it clearly shows that earnings per share, dividends declared and dividend per share increases over the period as the level of investments increases.

We shall therefore focus critically at the investments patterns of Leadway Assurance Co. Ltd over a period of 3 years, that is 1992 and will compare this with 1993 and 1993 will be compared with that of 1994 to enable us get a clearer pictures on how the growth of the company has been related to the investment pattern of the company.

The investment pattern has been differentiated in terms of quoted and unquoted as stipulated in the Insurance Decree of 1976. The fund derivable from Non-life has been separated from Life for investment purpose because of the reasons stated in the chapter 2 of this project.

4.4

INVESTMENTS OF LEADWAY ASSURANCE CO'S FUND

According to the Assistant General Manager (Investment) of the Company "Leadway Investment operations is divided between life and Non-life. The two funds are treated separately and infact may be viewed as the investment for two different companies. Whereas there is really no direct financial obligation on part of our Non-life fund because it is an investment of excess fund, there is a financial obligation on our part on the majority of our life fund. Most of our life fund consists mainly of individual deposit Administration premiums and Group Deposit Administration policies. There is also however pure life Assurance portion in it as well where we only have contigent habitation, as in Non-life as opposed to direct financial liabilities".

The tables 4:7 and 4:8 below indicate the investment of Leadway Assurance Company's fund for the period 1993, 1994 and 1995. It is separated into Quoted and unquoted (General Business), Quoted and Unquoted (Life and Persons Business).

TABLE 4:7

LIFE & NON-LIFE INVESTMENTS		1993 COST (N)	1993 MARKET VALUE (N)	1992 COST (N)	1992 MARKET VALUE (N)
a.	Quoted (Non-life)				
	Govt Securities	549,916	576,590	549,916	562,175
	Equities	10,381,493	26,465,772	9,233,096	13,199,471
	Debentures Stocks	1,566,667	1,475,000	1,100,000	1,035,638
		22,498,076	**28,517,362**	**10,883,012**	**14,797,284**
b.	Quoted (Life & Pension)				
	Govt Securities	50,000	50,000	50,000	50,000
	Equities	9,788,465	13,255,074	2,785,869	3,982,629
	Debentures Stocks	2,600,002	2,568,150	2,383,334	2,597,834
		12,438,467	**15,873,224**	**5,219,203**	**6,630,463**
c.	Unquoted Non-life				
	Equities	9,549,815		5,905,395	
	Debentures Stocks	999,100		1,050,000	
	Deposit for shares	225,720		866,011	
		10,774,635		**7,821,406**	
	Unquoted (Life)				
	Deposit for shares	585,599			
	Equities	3,692,741		1,970,460	
	Debentures Stocks	1,945,537		2,237,204	
		6,023,797		**4,207,664**	

Source: Annual A/C report of Leadway Assurance Company Limited.

TABLE 4:8

LIFE & NON-LIFE INVESTMENTS		1994 COST (N)	1994 MARKET VALUE (N)	1993 COST (N)	1993 MARKET VALUE (N)
(a)	Quoted Non-Life				
	Govt securities	549,916	576,590	549,916	576,590
	Equities	43,165,997	52,677,238	20,381,493	26,465,772
	Debentures Stocks	1,250,001	1,125,001	1,566,667	1,475,000
		44,956,914	**54,378,829**	**22,458,076**	**28,517,362**
	Life & Pensions				
	Govt securities	50,000	45,000	50,000	45,000
	Equities	30,261,247	34,141,816	9,788,465	13,255,074
	Debentures Stocks	2,486,670	2,566,670	2,600,002	2,573,150
		32,797,917	**36,753,486**	**12,438,467**	**15,873,222**
(b)	Unquoted Non-Life				
	Equities	12,257,887		9,549,815	
	Debenture Stocks	1,217,125		999,100	
	Deposit for Sales	3,161,834		225,720	
		16,636,846		**10,774,635**	

Source: Annual A/C report of Leadway Assurance Company Limited.

TABLE 4:9

	1994		1993
	COST	MARKET	COST
MARKET VALUE (N)	(N)	VALUE(N)	(N)
Life and Pensions			
Equities	3,967,327		3,692,741
Debenture Stocks	1,762,204		1,945,537
Deposit for shares	0		585,519
	5,729,531		**6,233,797**
Others			
Non-Life			
Mortgage Loans	2,394,406		920,442
Commercial Loans	10,296,784		546,441
Others Loans	5,805,129		4,045,321
	18,496,319		**5,512,204**
Life and Pensions			
Mortgage Loans	1,040,362		976,913
Commercial Loans	705,140		601,885
	1,745,502		**1,578,798**

Source: Annual A/C Report of Leadway Assurance Company Limited.

4.4.1

EQUITIES

Equities constitute more than 90% of the total investment of the company for all the years 1992 - 1994. It constitutes up to 90% of the total investment. Equities has taken a lion share partly because of the Government regulation of investment and the importance derived from this type of investment. It could be said that the company maintains a steady growth in this type of investment throughout the period under review.

In 1990 the total equities invested vis-vis the total investment will be more than 90%, in 1993, it also witnessed up to 90% while in 1994 it constituted up to 92% both for quoted and unquoted investment for both life and non-life fund.

4.4.2

DEBENTURE STOCKS

Debenture stocks follow Equities in terms of priority given to it by the company. The percentage of Debenture stocks to the total investment in 1992 is up to 10% for quoted Non-life fund, this figures rose to 45% in 1992 for quoted life and pension investment. In case of unquoted Non-life, Debenture stocks constitutes about 25%, while it is more than 50% in unquoted life and pension investment. In 1993 however, the figures represent 5% and 16% to the total investment under quoted (Non-life) and quoted Life and pension) respectively. It shows 9% and more than 50% for unquoted Non-life and life respectively.

In 1994, the figures look almost the same thing like that witnessed in 1992 and 1994. In the total average, we could conclude that Debenture Stocks constitute about 10% to the total investment for the company throughout the period under review. Like in 1994 the percentage of Debenture stocks to the total investment under quoted Non-life was about 3%, while it was about 6% in quoted life fund. It however witnessed 19% and 20% in unquoted Non-life and Life fund in 1994.

4.4.3

GOVERNMENT SECURITIES

Government Securities constitute the lowest investment of the company. In 1992 for an instance, the total investment on Government securities vis-a-vis the total investment for the year was N549,916 which is lower than 5% if compared with the total investment of more than N10 million in the year. Similarly in the same year under life fund investment, it also constitute the lowest as the percentage to the total investment is lower than 10%.

In 1993, there was not much change in pattern of investment under Government securities as investment in Government Securities constitutes about 2.27% to the total investment. Under life fund, the company investment on Government Securities went down as low as 10% to the total investment for the year 1993.

In 1994, similar pattern was witnessed as in 1993 as the sum of N549,916 and N50,000 were invested in Government Securities for both quoted Non-life and life fund. The figures therefore represent 1.22% and 0.15% for both Non-life and life respectively to the total amount invested in the year under quoted investment.

From the analysis stated above, we could infer that the fund of the company is growing yearly as the amount of investment was also growing. It could be said that the investment of a company has a direct relation to its fund, and it also contributes to the growth of such company's fund. According to the investment manager of the company, as at the end of 1994, the structure of the investment portfolio of the company is as follows:

	Non-Life	**Life**
Quoted shares	N33,590,184	N30,168,477
Non Quoted shares	11,799,714	3,967,327
Quoted Debenture stocks	1,833,250	2,616,670
Non Quoted Debenture stocks	867,124	1,762,204
Real Estate	81,883,352	4,162,240
Money market	71,439,679	21,638,854
	N201,414,303	**N64,315,772**
	Grand Total	N265,729,075

4.5

PROBLEMS OF INVESTMENT IN LEADWAY ASSURANCE COMPANY LIMITED

There are many problems facing the investment of Leadway Assurance Company Funds. These problems have earnestly hampered the activities of the company in the capital market.

As previously mentioned under the Government control of investment, the ability of Insurance Company to invest their funds is dictated by the Government direction and control. This seriously affects the way and manner in which insurance companies invest their funds.

According to Tunde Hassan - Odukale Deputy General Manager investment of Leadway Assurance Company Limited in his paper presented in 1994 marketing seminar of the company stated that "in real estate investment company should not invest more than 35% of their total Assets in this area of the company for life fund; while it should not be more than 25% in case of Non-life". This provision of the law according to him was put in place so that underwriting companies do not go and unnecessarily expose themselves to real estate investment because of the nature of Insurance Business which supposed to be solvent when a claim arises.

There is a problem of financial infrastructural Barrier, which means there is no well developed capital market. The absolute capacity of the market is relatively small. The proportion of the national income held in the form of securities is very small indeed (about 20% per year). This has seriously affected the investment of the company.

Government control of the capital market which is supposed to operate in a completely unfettered free atmosphere has created the problems of inflexibility which as a result create a problem for the company.

The nature of Insurance obligation is another problem to the investment of Insurance company's fund. The principles governing the investment of Non-life or as they are more usually termed general funds are not identical with those applicable to life funds and the formulation and execution of investment policy are based upon different practical coordination. There is an interplay of conflicting principles as to the investment pattern, which serves as a problem to the Insurance company.

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"The directors and the management have responsibility for fixing the overall investment policy, the broad type and amount in each type of investment subject to legislative constraint, this will therefore be translated into guidelines for the investment manager. The Actuary has responsibility in stating what would be the ideal matching position (if there is any) or what a reasonable position and what additional reserve requirements are necessary if departures are made from this position, the investment manager having regard to all the above will be his or her expertise to construct and manage the investment portfolio. The manager will therefore use both analytic techniques (e.g. accounting ratios, investment ratios) and qualitative techniques (company information, market and economic information and rumour") and more importantly his or her subjective judgement in constructing the portfolio. All these or most of the above qualities are lacking in all the Insurance companies investment department, if at all they have one.

Complacency of Insurance manager is another area of investment problem. Although the company has experts to administer the various classes of Insurance Business, there is no functional investment department, they do not give high priority to investment as other classes of Business.

Finally, it should be mentioned that the companies are not making adequate use of other financial Institutions like stock-brokers and Merchant Banks that are available to pool and disburse resources to individual and industrial concern

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 SUMMARY

The first chapter gave a general introduction to the study as it dealth with the purpose of the study, the scope of the study and the areas where the study will be focused on. It went further to mention the significance of the investment of Insurance company's fund. Hypothesis to be tested and the problem areas of the study were stated in the first chapter.

Chapter two reviewed the contributions of various scholars with regard to the Investment of Insurance company's fund. The growth of Insurance Investment right from 1960s to this present moment were discussed, other important things discussed include investment objectives, types of investment Government regulation of investment, problems of investment of and the impact of Government control on investment.

Chapter three dealth with the Research methodology. The sampling technique employed was non-random because the project concerns an in-depth study of a particular company. Data collection methods used were personal observation and secondary data were collected. All these were supplemented by oral interview, the chapter also highlighted the scope and limitation of the project as well as the method of analysing the data collected. Brief history of the case study - Leadway Ass. Co. Ltd. was stated in this chapter.

In chapter four, Analysis of data collected from the company was done. This was done by analysing the result of our Research interview, secondary data analysis and summary of the chapters was stated, conclusion and recommendations in the chapter 5.

5.2 CONCLUSION

The conclusion reached are based on the Research interview, secondary data and the findings through the Research.

It is glaring from the Research findings that Leadway Assurance Company Limited invest their funds on both the fixed and current Assets. They invest on Government securities, ordinary shares, preference shares and debenture stocks, investment of the company is divided into both quoted and unquoted.

There was a greater efficiency on the part of the company as a result of the growth in investment right from 1990 up till the year 1994. The company derived a lot of profit from investment in 1993 and it has been growing up since then, the company is rated as one of the biggest 10 Insurance companies in Nigeria.

Analysis of data in chapter four showed that the company is conforming with the Government control of investment. And as a result, equities take the lion share of the investment in that company. The company was confirmed not investing more than 35% of its Non-life fund and 25% of its life fund in the real Estate as stipulated by law.

5.3

RECOMMENDATION

From the findings of the Researcher, the following suggestion are proferred to Leadway Assurance Company Limited and other companies in Insurance Industry:-

1. Leadway Assurance Company should set up a functional Investment department that will start to manage all the financial and investment activities of the Company. This department will of course be responsible directly to the Managing Director and the Board.

2. Experts in financial and investment activities should be employed to see to the day-to-day activities of the Company because Deputy General Manager Investment alone cannot carry out all these works effectively because this Departmennt is suppose to be an intermediary between Account Dept. and the management in dealing with outside investors.

3. A large sums of money are being invested on Equities, this can be slightly reduced to cater for other types of investment so as to make the investment portfolio broader in outlook and make the risk under equities to be diversed in nature.

4. Government control on investment although is yielding result, this could be improved upon by encouraging the Insurance industry to remove infrastructural Barrier hampering the growth of Insurance company's Investment.

5. The company should increase their rate of investment. By considering their income vis-a-vis the amount they invested in the past years, rate of investment needs to be increased.

6. The company should make adequate use of other financial Institution like stock Brokers and Merchant Banks in dealing with Investment of their funds.

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APPENDIX A

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Faculty of Administration
Business Admin. Department
Ahmadu Bello University
Zaria.

3rd of November, 1995.

Dear Sir,

LETTER OF INTRODUCTION

I am an MBA student of the above department, Ahmadu Bello University Zaria. I am writing a Research project on the topic "The Investment of insurance Company Funels, Leadway Assurance Company as a case study" for the partial fulfilment of the requirements for the Award of MBA degree.

I will be very grateful if you could make available to me the documents and records pertaining to your company that will be needed to complete the Research. I will also be grateful if you could grant me an audience to ask some questions pertaining to the operation and investment of this company.

I promise to treat the information given with the necessary secrecy.

Thanks for your anticipated cooperation in this regard.

Yours Faithfully

Elujoba, Abiodun Isaac.

APPENDIX B

QUESTIONAIRE TO COLLECT DATA FROM THE TOP MANAGEMENT STAFF OF LEADWAY ASSURANCE COMPANY LIMITED

1. What are the main sources of Leadway Assurance company's fund?

   a. premium.
   b. Returns from Investment.
   c. Returns from selling of Assets.
   d. Consultancy fees.
   e . Selling of salvaged properties
   f. Others (please specify)----------

2. In what ways has the company benefited from the Investment of its funds?

   a. High growth to the company's fund.
   b. Little growth to the fund.
   c. No growth to the company's fund.

3. What are the effects of the investment patterns on polyholders.
   a. High growth to their fund.
   b. Contributed little growth to their fund.
   c. Contributed no growth to their fund.

4. What are the effects of the Investment patterns on Shareholders?
   a. High contribution to their Investment returns.
   b. Little contribution to their Investment returns.
   c. No contribution to their Investment returns.

5. What are the impacts of Government control upon the choice of the Investment opportunities?
   a. Has positive impact upon the choice of investment.
   b. Has negative impact upon the choice of investment.
   c. Has no impact at all upon the choice of investment.

6. How does the Government control measure affect the growth of the Company ?
   a. To a large extent
   b. To some extent
   c. To little extent

7. What are the disadvantages of Investing the Company's funds?
   a. Possible loss of capital from investment may be unprofitable to the company.
   b. Taking unnecessary risk.
   c. Anxiety towards the embarking on investment is very high
   d. Loss of returns on investment may affect the image of the company and consequently affect the shareholders and policyholders fund.
   e. It may lead to a company's bankruptcy.

8. What are the problems being encountered by the Company in the choice of an Investment type?

   a. Lack of experts to make decision for the company.

   b. Economic climate of the country.

   c. Government regulations on Insurance Company Investment.

   d. Others (Please specify).

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