TITLE PAGE

THE MANAGEMENT OF INSURANCE RISKS IN NIGERA: THE CASE FOR REINSURANCE

BY

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BEING A PROJECT SUBMITTED TO THE POST - GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINTRATION (MBA)

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DECLARATION

I hereby declare that this research project is the product of my research findings, a partial requirement for the Award of the degree of Master of Business Administration (MBA) of post graduate school, Ahmadu Bello University, Zaria, Nigeria.

All references made to texts, journals and articles have been dully acknowledged.

ISHAKU AHMED PAIKO

26.06.99

DATE

CERTIFICATION

This project entitled:The management of Insurance risks in Nigeria : the case for Reinsurance by Ishaku Ahmed Paiko meets the regulations governing the award of the Degree of Master of Business Administration (MBA) of the Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

IN THE NAME OF ALLAH, MOST GRACIOUS, MOST MERCIFUL.

TO MY GRANDPA, LATE MALLAM MOHAMMED KWATU AND MY COUSIN SISTER, MALLAMA TALATU ISYAKU.

ACKNOWLEDGMENT.

IN THE NAME OF ALLAH MOST, GRACIOUS, MOST MERCIFUL. Praise be only to Allah; prayers and peace be upon the Seal of prophets, after whom there is no prophet.

My sincere gratitude to the ALMIGHTY ALLAH for his help and mercies in my life.

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KASHIM IBRAHIM L[illegible]

Lastly, My thanks and appreciation goes to Mr Ibrahim M.B.T, P.A to commissioner for Insurance, Abuja, for making my access to the commission easy, Mr Abdulazeez Yinka of Nigerian Reinsurance corporation, Abuja, for making my access to the corporation easy and that of Mallam Sanusi Aliyu of NICON Insurance, Abuja. I will also like to acknowledge the contributions of Mr Filimon Zakariya of the Nigerian Shipper's council, Abuja.

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ABSTRACT

The Insurance industry is a major component of the economy by virtue of the amount of premiums it collects from its policy holders, the scale of its investments to the Nigerian economy and more fundamentally, the essential social and economic role it plays by covering personal and business risks in Nigeria.

Though, the impacts of insurance business on the economic development of Nigeria did not become noticeable until after Nigeria's independence in 1960, it has since developed into one of thee major Non-bank financial industries in the country.

However, despite the enormous contribution of this key financial sector towards the economic development of Nigeria over the year and its potentialities for future development, it is quite discouraging to note that the widespread criticisms on the insurance practices has inhibit its effective marketing.

This research project is therefore aimed at broadening the relevance of the insurance industry and the management of insurable risks to individuals and corporate organisations, its contribution to the economic development of Nigeria, Investment and management of insurance funds, promoting insurance awareness and the manpower development of the industry.

The research finding will also focus on the various insurance covers provided, the management of risks, the ceding of risks to reinsurance and reinsurance, factor affecting insurance marketing, measures taken to regulate and control the industry and problems and prospects of the insurance industry in Nigeria with a view to making some acceptable recommendations towards the greater development of Insurance industry in Nigeria.

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1.0 BACKGROUND OF THE STUDY.

Insurance is a Major tool in the social and economic development of any modern nation. In the modern society in which we now live and to which we aspire in the 21st century, to ignore the insurance sector is the surest way to promote societal disequilibrium and economic backwardness.

Insurance plays a vital role in the development of the Nigeria economy, and in recent years especially since the establishment ofthe Nigeria Reinsurance corporation in 1978 and recently the National Insurance Commission in 1997 to regulate and control the activities of the insurance industry in the country; Nigeria has become a very important insurance and reinsurance center for Africa and to some extent, to the insurance world.

Although, the level of insurance awareness in Nigeria is still very low, insurance is and has been a key factor in the Nigeria economy. In view of the fact that the performance of the insurance industry depends to a great extent on the social, economic and political environment in which it operates, the state of the insurance industry of any nation, is to a large extent, a reflection of the level of performance of the nation's economy and, the Nigerian Insurance industry has played and continues to play a useful role in the country's development, there is no doubt that the full potential of insurance as a factor in the social and economic development of a nation has not yet been achieved in Nigeria.

There are various factors and constraints that are working against the effectiveness of the insurance industry, some of which are; the low level of insurance awareness in the country; weakness in the management of some insurance companies; inadequate technical and professional expertise coupled with an acute shortage of experienced and adequate trained personnel's; the adverse effect of claims management resulting in the alarming incidence of fraudulent and grossly exaggerated claims; low capitalisation. Some of the firms have also failed to operate in a line of business for which they were granted license. Firms in the category were discovered to have registered as general business or composite insurance operators but abandoned life insurance for over one year or more years[1].

The management of insurance business at all levels has undergone a lot of reformation since the beginning of this decade because of the changing nature of the total business environment. As a result of these changes, it has become imperative that all factors are in a position to affect the management of the business of insurance be examined and appropriate recommendations made. The regulatory and supervisory controls of insurance business are some of the fundamental requirements for a sound development of insurance activities in any developing nation. It is a requirement that is put in place to create a conducive environment and enhance the growth of the business of insurance.

Therefore, the focus of this project work is to provide an insight on the insurance business in Nigeria. Its relevance to individuals and corporate organizations, contribution to the economic development and growth of Nigeria, investment and management of insurance funds, management of insurance risks and ceding of risks to insurance and reinsurance. The research finding will also highlight on the various insurance marketing, how to promote insurance awareness to the insuring public, Government regulations and control, problems and prospects of the insurance business in Nigeria, and also the issue of staff training, and insurance practitioners will be considered.

1.2 STATEMENT OF THE PROBLEM.

In Nigeria, as in most countries, banking and insurance constitute the predominant sectors of the financial industry. Despite the realization that a well developed financial sector is needed as a catalyst for the development process, all attempts in developing a sound insurance industry, have been confronted by market distortions, high rate of inflation, various government regulations, unethical practices and fraudulent tendencies of insuring public. As insurance practitioners continues to search for ways of making the industry more relevant in the financial sector, it has become pertinent to examine the activities of the insurance industry, and in the light of this, this research shall consider the followings;

a The relevance of insurance business in a developing economy like Nigeria.

b The extent to which insurance marketing promotes public confidence and awareness to the insuring public.

c What necessary steps the regulatory authorities should initiate to adopt a more relevant insurance system.

1.3 PURPOSE OF THE STUDY.

On a cursory examination at the insurance mechanisms, it would be observed that insurance is a service rendering business. There are special characteristics of insurance, which set it apart from tangible goods industries. Being mostly a contract of indemnity and more so that insurance is a commodity which people pay for in advance and whose benefits is accrued in the future, sometimes in the far distant future, often by someone else different from the insured and who is not present to protect himself when the contract is effected. This fact have generated misconception and criticisms amongst the insuring public and it is the aim of this research to throw more light on the activities of the insurance industry with the view to arousing the awareness of the policy holders and prospective new comers. This will be achieved by highlighting the insurance mechanisms, discovering the weak areas that need to be strengthened with a view to making recommendations.

Futhermore, to examine in details the structures in place in response to the challenges posed by the industry and its contributions to the economic development of Nigeria. As the country is heading towards the 21st century, there is the need to bracing up for the insurance needs by promoting the insurance consciousness in the minds of the insuring public.

1.4 SIGNIFICANCE OF THE STUDY

It is noteworthy that in the insurance industry in Nigeria today, there are very few literatures and academic research, undertaken on the impact of the insurance business on the economic development of Nigeria, with a view to measuring the performance of the insurance industry in the face of changing business environment. This has also contributed to low image within this financial sub-sector despite the huge investment accruing to the nation through the industry. No doubt, adequate research coverage and literatures have been published on the banking industry highlighting on the activities and contributions to the economic growth of Nigeria. Thus, there is

the need for academic research and literatures to promote public awareness of the industry that has not been fully explored.

It is in the light of this that I consider it important to carry out this research which would make a tremendous contribution towards promoting the development of insurance business in Nigeria and also be of immense importance to insurance practitioners and authorities as a tool in designing good corporate polices and programs for the reforms of the insurance business in Nigeria.

1.5 SCOPE OF THE STUDY.

The research is the assessment of the insurance business and its impact on the economic development of Nigeria, its contributions to gross domestic product, and the effect of macro-economic problems on the insurance business activities. However, the time period covered by this study has been limited to the past one and half decade. The choice of this time frame is to give comparisons of the growth within the industry before and during the present economic recession. Some activities of insurance companies between these periods will be analysed, premium income, investment and total assets of the companies will also be considered to enable us determine the contributions to the Nigerian economy so far.

1.6 LIMITATION OF THE STUDY.

It is pertinent to point out some of the constraints that limits this research work. There were little or inadequate literature on the insurance business in respect of the Nigerian environment. The uncooperative attitude of most personnel approached for data collation also limit the scope of the research study.

Also, time was a serious constraint and unavailability of adequate resources to travel far and wide to collate up-to-date data that are paramount for this analysis. However, one was able to cope up with the constraints in a way and able to collate enough data for the purpose of the research work and literal knowledge.

1.7 SOURCE OF DATA AND METHOD OF RESEARCH

The research work relied principally on secondary sources of data collection. Most of the data collected were obtained from various sources, including text books on insurance, the financial and economic review of central bank of Nigeria, the Nigeria insurance year book, central bank of Nigeria annual report, NICON at 25 publication.

The literature review aspect of the research that are largely theoretical are drawn from works of some prominent scholars, insurance practitioners, authors, journals, news papers and magazines. This source have been dully acknowledged by means of references.

Other source that were primary in nature include personal interview and discussions held with some prominente insurance practitioners, scholars, managers of both NICON PLC - Head office, Nigeria Re-insurance – Head office, National Insurance Commission – Head office, all in Abuja.

The method of their research on the other hand shall be of descriptive and prescriptive in nature. Descriptive in the sense that the information obtained shall be explained within the contents of the study while it will be prescriptive when specific recommendation shall be proffered on how risks can be managed and improved towards economic development of Nigeria.

1.8 DEFINITION OF TERMS

For clarity and avoidance of possible misinterpretation, it is pertinent to express a contextual definition of explanation of some important concepts as used in this research project.

(a) **INSURANCE:** Is the situation whereby the loss lightened rather easily upon many than heavily upon few is the essential feature; the insured person (known as insured or assured) transfers from his own shoulders the financial burden of some potential misfortune to the broader shoulders ofthe insurers who, in return for agreeing to assume a potential risk of loss, receive a payment known as a premium. The insurers, by collecting a sufficient number of premiums, rely on the probability that only some of the losses they insure against will occur within any given period [2].

The contract of insurance is an agreement between the insurer and the insured whereby the insurer undertakes, in return for the payment of a premium, to pay the insured compensation or a sum of money upon the happening of a specified event.

(b) **INSURABLE INTEREST:** Insurance can be granted only where there exists an insurable interest; that is to say, the insured must have an interest in the preservation of the thing insured, so that he will surfer financially on the happening of the peril insured against. Insurance without such an interest would be a mere wager and, as such, unenforceable at law. The Life Assurance Act, 1774, provided that life insurance without interest should be null and void. Similarly, the Marine Insurance Act, 1906, which defines insurable interest, provides {section 4 (1)} every contract of Marine insurance by way of gaming or wagering is void.

In life insurance, a man is deemed to have an unlimited financial interest in his own life and he may therefore insure his life for an amount. In the insurance of property, a man may have an insurable interest without necessarily being the owner. Also where a potential liability is concerned, anybody who may incur liability has an insurable interest [3].

(c) **PROPOSALS:** The term proposal in the past was commonly reserved for the printed description of the contracts of insurance that insurance companies were offering to the public. Nowadays such a document is termed a prospectus, the modern proposal is the form on which particulars of the risk suggested for insurance are given by the prospective insured to the insurers.

Proposal forms vary in length and in the questions asked, according to the type of insurance. All forms require the name and address of the proposal to be stated, and most also came from his occupation, age and a statement as to whether previous claims have been made under similar insurance or whether other insurers have declined a proposal or have imposed special terms. The remainder of the form is devoted to questions about the subject – matter of insurance, so that the insurers may able to identify it and to determine whether the subject – matter is a normal one of its class and what premium to charge [4].

Many proposal forms end with a declaration to be signed by the proposer, warranting that the answers to the questions are true and complete and that no material fact has been suppressed. The proposer agrees that the proposal shall form the basis of the contract, and that he will accept a policy in the usual form.

(d) **POLICIES:** Contract of insurance are evidenced in the form of policies. To the uninitiated, a policy is often a frightening document because it usually includes a good deal of clause printing. Often, too, there are several printed or typed slips, known as endorsements, struck to the policy, and these may seem at first sight to contradict the printed wording. Whatever the type of insurance, however, policy forms have many common features.

Policies contain five main parts, the preamble or recital clause, the operative clause, the attestation clause, the policy conditions and the schedule.

- The preamble recites the insurer and the insured, and that the insured has made a proposal to insure.

- The operative clause explains the circumstance in which the insurance operates. It sets out the perils insured against, and the exceptions to the insurance.
- The attestation clause is the form of word that confirms that the insurers have authenticated the policy by signature.
- Conditions provides that the insured has an insurable interest in the subject – matter even if no policy conditions were printed, the law would imply certain conditions, for example, notice of claims, cancellation, Arbitration etc.
- The schedule of the policy groups together, for convenience in typing, the details which are special to a particular policy number, the name and address of the insured, description of the subject – matter of insurance etc [5].

(e) **UTMOST GOOD FAITH:** A contract of insurance is founded, not merely on good faith, but on the utmost good faith, which each party is required to exercise in his dealings with the other. Anyone who proposes an insurance to insurers is therefore bound to tell the intending insurers all facts that he knows or ought to know which would influence the mind of prudent insurers in deciding whether to accept the insurance, and if so, on what terms.

This duty of disclosure has nowhere been better expressed than in the Marine Insurance Act of 1906. The Act Codifies the law on the subject as it relates to Marine Insurance which does not differ in principle from the law applicable to other classes of insurance.

Section 17 - 19 of the Act appear under the heading 'Insurance is Uberrimae Fidei (that is of utmost good faith). They read as follows:

Sec.17 A contract of marine marine insurance is a contract based upon utmost good faith, and if either party not observe the utmost good faith, the contract may be avoided by the other party. the party.

Sec 18 (1). Subject to the provision of this section, the assured must disclose to the insurer, before the contract is concluded, every material circumstance which is known to the assured and the assured is deemed to know every circumstance which, in the ordinary course of business, ought to be known by him. If the assured fails to make such disclosure, the insurer may avoid the contract.

(2) Every circumstance is material, which would influence the judgement of a prudent insurer in fixing the premium, or determining whether he will take the risk.

(3) In the absence of inquiry the following circumstance need not be disclosed, namely: a) Any circumstance which diminishes the risk

b) Any circumstance which is known or presumed to be known to the insurer. The insurer is presumed to know matter of common notoriety or knowledge, and matters, which an insurer in the ordinary course of his business as such, ought to know.

c) Any circumstances to which information is waived by the insurers.

d) Any circumstance which it is superfluous to disclose by reason of any express or implied warranty.

(4) ....

(5) The term 'Circumstance' includes any communication made to, or information received by, the assured. Sec. 19. Subject to the provisions of the preceding section as to circumstance which need not be disclosed, an insurance is effected for the assured by an agent, where agent effects insurance for the assured, the agent must disclose to the insurer:

a) Every material circumstance which is known to himself, and an agent insurer is deemed to know every circumstance which in the course of business ought to be known by, or have been communicated to him.

b) Every material circumstance which the assured is bound to disclose, unless it comes to his knowledge too late to communicate it to the agent [6].

Once a contract of insurance has been concluded, the insured is under no obligation to reveal changes in material facts during the currency of the insurance, unless the contract requires him to do – so. On renewal of the policy, however, the duty of the disclosure revives if the contract is one which the insurers are not bound to renew.

(f) **INDEMNITY:** The law makes insurances of property and liability, subject to the principle of indemnity whereby the insured is unable to recover the more than the amount of his pecuniary loss arising form the event insured against. An insurance may be for less than a complete indemnity, but it may not as a rule be for more. It is undesirable that an insured should stand to make profit out of an event such as fire or a car accident; if he could make such a profit, there might be more car accidents. Hence the principle of indemnity.

No reference to the principle of indemnity will be found in most policies, but the courts will apply it none the less, as it is a common law principle. Indemnity has two important corollaries, which apply, whether or not they are mentioned in policies, to any insurance, which is a contract of indemnity. These are contribution and subrogation.

a) Contribution; There is nothing to prevent an insured from effecting two insurance on the same property (or potential liability). The law says, therefore, that, in the event of a loss, if there is in force more than one policy covering that same interest in the same subject – matter, the insured shall not be entitled to recover more than the full amount of his loss, and if he so recovers from one insurer, he has no right to a further payment form the other.

By the principle of contribution, which the courts will apply, the insurer who has paid the loss in such circumstances may then recover a proportionate contribution from the other insurers. in practice, most insurance policies that are contracts of indemnity contain a contribution condition which provides that, where there are two more insurances in the circumstances mentioned above, the insurer shall not be liable to pay more than his pro rata share of any loss.

b) Subrogation: The law provides that the insurers, on paying an indemnity, take over such rights or, as the phrase goes, the insurers are subrogated to these rights. The principle of subrogation applies to all insurance contracts that are contracts of indemnity. Thus, where cargo is damaged by the negligence of a third party, the insurers, on paying for the damage, may sue the third party in the name of the insured. Similarly, where insurers under a motor policy pay for repairs to the insured vehicle, they thereby become entitled to any legal rights in respect of such damage enforceable against a third party.

This right of subrogation arises whether or not it is expressly mentioned in the contract of indemnity, and the insured is bound to lend his name to any proceedings which the insurers may decide to take against a third party, as the insurers are not able to sue in their own name. Legally, however, subrogation right do not arise until after the indemnity has been paid, unless that policy contains, as it often does, an express subrogation condition empowering the insurers, even before they have paid the loss, take action in the insured's name [7].

Though, some contracts of insurance are not contracts of indemnity, and the principles of indemnity with its corollaries of contribution and subrogation doe not therefore apply. Life and personal accident insurance are instances.

(g) **<u>REINSURANCE:</u>** Reinsurance is a system whereby the insurers who deal with the insuring public and who are known as the direct insurers) cede all (or part) of an insurance to other insurers known as reinsurers. In other words, the ceding company pays to the reinsurers the whole (or part) of the premium it has received, and the reinsurers thereupon agreed to reimburse to the ceding company the claims (or an agreed proportion of them) which the ceding company may find itself liable to pay under the original insurance. The contractual rights of the original insured against the original insurers are unaffected by the reinsurance transaction of which, indeed, the original insured will almost certainly remain unaware [8].

1.9 FOOTNOTES

1. Business Times, Vol.23, No.32, Monday August 10,1998.

2. Hugh Cockerell; Business and Management studies: Insurance,Hodder and stoughton Educational, Dunton Green, Sevenoaks, Kent, (The Chaucer, Press) Ltd, Bungay, Suffolk, 1980
3. Ibid
4. Ibid.
5. Ibid.
6. Ibid.
7. Ibid.
8. Ibid.

CHAPTER TWO

2.1 HISTORY OF INSURANCE INDUSTRY IN NIGERIA

The Nigerian Insurance market has evolved over the years and can easily be described as one of the major players in the African and indeed International insurance business. The market is open, dynamic, and competitive and hosts the highest number of insurance companies in any country in Africa. As in any other dynamic and reputable market, the Nigerian Insurance market is made up of insurance companies, reinsurance companies, brokers and agents, loss adjusters and other insurance related institutions.

Modern commercial insurance is relatively new to Nigeria, which undoubtedly is due to our cultural background and our extended family system which on its own provided for contributions by members of the family to the unfortunate of other family or group members. As responsibilities increased and society become more sophisticated, so insurance as we know it today began to have an increasing importance in our way of life.

The concept of insurance was introduced into Nigeria by the British. Infact, until recently most of the leading insurance companies in Nigeria were either partly or wholly owned by the British or other western countries. It follows therefore that the theory and practice of insurance in Nigeria has to a large extent followed the British pattern.

The first insurance company to have a full branch office in Nigeria was the Royal Exchange Assurance in 1921, and until 1949, it remained the only company fully established in the country. "As at 31st December, 1996, the total number of registered insurance companies operating in the country stood at 135."[1]

The impact of insurance business on the economic development of Nigeria did not become noticeable until after the independence in 1960. The practice of insurance business was purely dominated by private investors and regulated mostly by them before the promulgations of the companies Act of 1969 (Decree No. 2 of 1969 establishing the National Insurance Corporation of Nigeria). Since then the government intervention in form of regulations and control of insurance business in Nigeria has been dominating. Recently, "The Federal Government promulgate the Insurance Decree of 1997 to regulate and control the activities of insurance business in the country".[2]

Generally speaking, in a depressed economy of Nigeria, it is imperative that insurers must play a dynamic role for our economy to survive. The fundamental objective of insurance is the provision of security and protection to individuals, private enterprises and government establishments both in buoyant and depressed economy. Individuals and organisations are exposed to various risks, such as fire, theft, death, welfare of employees, loss profit, maritime perils etc., and it is this important role of providing against risks that accompany all personal, government and business activities in the economy that distinguished the insurance industry from other financial market- the banks and investment companies. It is therefore not an over-stated fact or exaggeration to state that insurance is the one business which exists for the survival of other businesses or that insurance is the hand maiden of commerce and industry.[3]

Inspite of its social and economic value as a risks management tool and despite its key role in the national economy, it is not all risks that are insurable. Insurance companies will only insure those risks classified as "insurable risks". However, in today's Nigerian insurance market, which is yet to achieve the level of sophistication of the big international markets, there is hardly any proprietary interest or contingency that is not insurable, subject of course to the payment of the appropriate premium.In view of the peculiar nature of insurance, the vital role that it plays in the lives of individuals and in the nation's economy, coupled with its international character as a result of the complex system of reinsurance, insurance transactions are subject to certain basic principles; such as the principles of indemnity, insurable interest, utmost good faith and the doctrine of causa proxima (proximate cause).

Although, the level of insurance awareness in Nigeria is still very low, insurance is and has been a key factor in the Nigeria economy and will continue to be a vital tool for addressing the risks problem in the years ahead. If the right policies and positive attitude are adopted, insurance should play an important role in the development and growth of Nigeria's economy as it has done in the economies of most developed and developing nations of the world.

2.2 SIGNIFICANCE OF INSURANCE IN NIGERIA

Many discoveries mark long steps forward in the progress of mankind. Such for example, are the harnessing of fire to men's needs, the development of printing, and how in recent times the application of nuclear fission. In the economic and financial fields can be mentioned, in the same breath with these, the formation of a banking system which enables credit to flow freely, and the principle of insurance which permits men to protect themselves collectively against the financial consequences of happenings that would spell ruin to the individual.

Just as it is hardly possible to conceive of a modern community without fire or printing, so it may be claimed that we could not have reached our present level of civilisation without insurance. Insurance has brought into our lives a sense of financial security that medieval men never conceived.

The best way of seeing the significance of insurance in Nigeria today is to imagine a comparable state of material advancement without insurance. At sea, men, and even the largest shipping companies would hesitate before committing their capital to marine enterprise of the size we see today. Few would be found to risk the total loss of millions of naira committed to the construction of gaint tankers. Multitude of small ships would be safer as an investment than a few large ones, even though small ships might be proportionately much more costly to run. Shipping costs would therefore be higher.

At present, when goods are shipped, the manufacturer recoups his cost by getting from bankers advances. Against shipping documents, which include as an essential a policy of marine insurance. Such advances would be less readily forthcoming, and at much higher rates of interest, if the lender had to bear the risk of the total or partial loss of his security (in the form of the goods) through the happening of marine perils. The manufacturer would either have to finance the shipment himself, and therefore operate with much larger capital and a greater risk of loss on his own shoulders, or he would have to pay a great deal more for financial accommodation pending the safe arrival of the goods at their destination. In either event prices would tend to be higher than at present and, as each of the parties to a transaction would be bearing extra risks, each would need more capital to protect himself against the possibility of ruin through extraneous cases, since the supply of capital is limited, fewer goods would tend to be produced.

The lack of accident insurance would expose to possible ruin every user of a motor vehicle on a road. A single accident caused by a moment's abberation may expose the motorist to lawsuit for damages of thousands of naira. Whereas the motorist proved insolvent it would be the seriously injured pedestrian or passenger whose family would face poverty. The slight but ever present risk of aviation accidents would deter passengers from travelling by air. Similarly, the prospect of insolvency resultng from accidents to workmen, customers, or members of the public might well deter men from running businesses that involve some hazardous process.

National, or social insurance has also proved a great stabilising factor in modern life. Fluctuations in the national economy inevitably gave rise to pockets of unemployment which may bring poverty and ruin to individuals and their families. Unemployment insurance, to which an employed worker contribute, can give them a guarantee of at least minimum substance if they should fall out of work. Similarly, sickness insurance and industrial injuries insurance have enabled thousands to survive financially through periods of misfortune without the need to call on charity.

Modern society is to an increasing extent based on credit. Few people would own houses if they had to save up the full price of a house before they could buy. Similarly, most furniture and many private cars are brought on the hire-purchase system. In trade, too, somebody has to grant credit, and thus bear the risk of non-payment. Modern forms of insurance have been evolved to bear the risk inherent in such transaction. Building societies which tend more than their normal maximum to home-purchasers may insure in respct of their extra risk by relying on an indemnity granted by insurers. Hire- purchase contracts may be supplemented by an insurance under which instalments falling due in periods of sickness or unemployment on the part of the buyer are paid by the insurers. Credit insurance will protect manufacturers against at least a part of the risk that wholesalers or retailers buying their goods will make default in paying for them.

In all of these ways the granting of credit is facilitated and living standards raised by enabling prospective purchasers to come into earlier enjoyment of property than would otherwise be possible.

Life insurance also makes its stabilising contribution to society. It offers an unrivalled means of steady saving, with the consequent accumulation of capital for investment - capital that is vital to society today. It also enables the prudent man to ensure that his family's standard of living will be maintained after he ceases to earn, whether on retirement or by his death.

Perhaps enough has been said to show that insurance, with its contribution to individual and commercial security, is a pillar of the economic structure of modern society. The prime service of insurers is to make good financial loss arising from insured perils. At the same time, the avoidance of perils and the minimisation of loss arising from their occurrence is to the interest of both insurer and insured [5]

In engineering insurance the greater part of the premiums is devoted to paying for the service of accident prevention. Regular inspection of boilers, lifts, cranes and electrical plant ensures that they are maintained in safe condition and that repairs or replacements are undertaken before danger develops.

Similarly, in fidelity guarantee insurance, insurers make inquiries into an employer's system of check to ensure that it is based on sound accounting principles and is as watertight as humanly possible.

Although, commercial insurance has steadily widened its scope there remain some perils that are too great for private enterprise to contemplate covering. The risks concerned must therefore be assumed by the community as a whole if individuals are not to bear the whole financial consequences of their incidence. The most that commercial insurers can do is to offer cover limited to what they can afford to pay for.

2.3 TYPES OF INSURANCE

The method of classifying types of insurance depends on the purpose for which the classification is needed. For administrative convenience, insurance has been classified into several categories mainly according to their subject-matter, separating out motor insurance and marine, aviation and transport insurance respectively.

A convenient classification for the purpose of academic analysis is into insurances of the person, of property, of liabilities, and of pecuniary loss.

Insurance of the person include all types of life insurance as well as insurances granting benefits for disablement through sickness or accident.

Property insurances include, for example, most types of marine insurance, whether in respect of ship or cargo, fire insurances on buildings or goods, and insurances on aircraft or engineering plant.

Liabilities that may be the subject of insurance include those of the motorist to other road-users for accidental bodily injury or damage to property; of the employer for liability to his work people for accidents at work; and of any trader or private person for his liability to members of the public who may sustain fortuitous injury or damage.

Pecuniary insurances include many other kinds of contingencies resulting in loss or expense. For example, insurances may be granted against bad debts or against loss of profits to a business consequent upon a fire. In practice, many a policy, even a simple holiday insurance, includes elements of all the classes described above-personal, property, liability and pecuniary. The simplest classification from the consumers point of view is therefore into business insurances and private insurances. Some insurers are nowadays organising departmentally on that basis.

Historically, insurers have set up separate departments as various types of insurance developments as various types of insurance developed successfully. Thus they have had marine, life, fire, accident, motor, and aviation departments, each developing its own peculiarities. With the head offices of insurance companies, for example, marine insurance and life insurance are handled in separate departments with virtually not interchange of staff, though there is not such a clear demarcation between fire-trained and accident- trained insurance men and women. Branch managers and insurance salesmen often have to deal with all types of insurance.[6]

The Nigerian Insurance Industry is made up of a large number of companies with varying sizes, among which is the NICON Insurance Corporation, owned by the Federal Government of Nigeria, and a few other equally strong insurance companies.

The Insurance Decree of 1997 classifies the operations of insurance companies on the following basis:

(i) Life Assurance

(ii) General Insurance business excluding special risks.

(iii) General Insurance business including special risks viz:

- (a) Oil and Gas business
- (b) Credit Insurance business, Bonds and Suretyship.
- (c) Contractors' All Risk and Engineering Risk Insurance business
- (d) Marine and Aviation business, other than goods in-transit insurance business by water, road, air and rail.[7]

2.4 THE RELEVANCE OF INSURANCE INDUSTRY TO NIGERIA'S ECONOMY

The Nigerian public have some regrettable misconceptions of the purposes and roles of the insurance industry, leading to unfair and baseless criticisms. The public feels that premiums are fixed by chance and believe that the properties of claims paid to the insureds is so small in relation to the total premiums collected by the insurance companies. It is against this backdrop that I considered it imparative to examine the economic roles of the insurance industry and its contributions to the socio-economic development of Nigeria.

(1) The primary economic role of an insurer is the assumption of the pure risk of many insureds. This risk transfer system involves the combination of the risk of many individuals who are bounded together. It does not reduce the aggregate amount of potential loss, but it does achieve a reduction of uncertainty and spread the burden for those whose risks are pooled. The major economic benefit accruing to the society from insurance mechanism is thus the reduction of uncertainties in the aggregate, to the extent that pure risks, like fires, flooding, accidents etc. are reduced and minimised.

(2) Insurance companies form a part of the very nerve of the Nigerian economy and are indispensable to it. In the modern state they are a vital necessity because they are one of the most important vehicles to development and because of the security they provide to individuals, entrepreneurs, organisation, policy holders, government and even shareholders. Industrialist and investors are generally quite cautious and conservative, and no prudent investor would risk investing substantial sums of money in any project without being certain about the security of the investment. The insurance industry, by devising the appropriate insurance cover to protect the investment, makes it possible for the investor to release funds for relevant project. The overall effect of the insurer's intervention in this regard is to promote the development of trade and industry.

(3) The insurance sector accumulate a lot of funds by way of premiums collected. A substantial volume of these insurance funds are invested in various sectors of the economy, such as

government securities, real estate, both (public and private projects) etc. They also provide short and long-term funds to governments, companies and investors.

(4) The insurance industry promotes confidence and eliminates fears in the minds of the insuring public. The state of being insured has consistently been described as the purchase of security and peace of mind. It cannot be disputed that the purchase of adequate insurance protection promotes confidence and eliminates insecurity and fear of loss. In life insurance, the breadwinner who knows that the proceeds from his life assurance policy would take care of his dependants in the event of premature death is in a much better psychological frame of mind than his colleague who had no insurance cover.

(5) Insurance business encourages loss prevention. Surveyors provide expert advise, and recommendations they make are of tremendous help in reducing the incidence of losses from different sources. Additionally, insurers do make available funds for research purposes in the area of loss prevention, reduction and minimisation.

(6) Insurance industry plays a very active role in the financial sector. It accumulates premiums and turns into capital small sums of money which would have remained unused or spent to businesses use. The life insurance business is of importance to the economy because of its role as a medium for the collection of savings.

(7) In the area of credit facility, the modern society is increasingly based on credit. Few people would own houses or cars if they have to save up the full price of a house or car. Similarly, a lot of private properties is bought on hire-purchase terms. Similarly, in trade and commerce, too, somebody has to grant credit and thus bear the risk of non payment. Modern forms of insurance have been evolve to bear the risks inherent in such transactions. By requiring debtors to purchase life and disability income insurance payable to the creditor, lenders need not tie-up scarce capital in contingency funds which need to be kept highly liquid, often low-yielding assets.

(8) Insurance surveyors are concerned with minimising the extent of losses which do occur, through loss control devices and the services rendered by loss adjusters in loss prevention and minimisation is also very important.

(9) The insurance industry is an important employer of labour in the economy. The employment prospects are widely spread in that firms operating in the industry which establish branch offices on a country-wide basis. The insurance industry is therefore, contributing its share in assisting government to tackle the problem of unemployment in the economy.

2.5 PROBLEMS OF THE INSURANCE INDUSTRY IN NIGERIA

In looking at the problems facing the insurance industry in Nigeria, we would appreciate the fact that a number of problems identified below tend to inhibit their growth and effectiveness in playing their crucial roles in the economic development of the nation. Some of the problems identified are:

(1) There is the issue of poor image by the public. The issue of public image of the insurance industry does not enjoy the required public goodwill to operate to full capacity. This is owing to the incalculable damage done to the insurance practice by some mushroom insurance companies who does the business with little regard to the principles and ethics of the profession. The public still has a misconception of the proper roles that the insurance industry can play and this appears to have arisen because of ignorance and religious prejudices. Insurers have also been accused of using all sorts of excuses to delay claims when they are presented for payment.

(2) Manpower shortage particularly in the highly skilled and specialised areas has been the bane of the insurance industry. Most companies still lack qualified loss adjusters, fire surveyors, assessors, actuaries that are vital for the operation of the industry.

(3) There are lack of adequate realistic data which has been identified as one of the primary factors inhibiting the developmental planning efforts of the nation. Our data base appears less furnished. In life insurance, they still rely on foreign mortality tables which will not produce realistic statistical data for actuarial calculation for the country.

(4) The insurance industry in Nigeria is subject to very strict legal and regulatory control by the government in order to develop and foster a strong and viable industry. The latest provisions of Decree 2 of 1997 where the capital base of insurance companies has been increased, most insurance companies are currently battling to meet their new capitalisation deadline, and this may result to either mergers or acquisition as options to recapitalisation. In the Business Times of Monday August 10, 1998, the National Insurance Commission may cancel licences of 27 underwriting companies for alleged breach of insurance rules and regulations[8]

(5) The insurance Decree of 1976 when studied insists that the industry directs their funds into quoted companies. Considering the limited requirements for enlisting in the stock exchange, how far can their investment reach with the present economic condition in the country.?

(6) While businesses continue to face downward trends, claims have gone up astronomically. The policy holder identified his or her rights in the insurance contract before a claim occurs and device some devious means of making claims with the connivance of some fraudulent

officials. The issue of rate-cutting and premium purchasing by some insurance companies [9] is posing a lot of concerned to the authorities and the insuring public.

(7) The issue of low market capacity is of concern to the insurance practitioners. The population of the country is over 100 million, but the percentage of this population who has genuine insurance covers are insignificant compared to the population. The retention capacity of the market is highly under-utilised. Furthermore, owing to lack of insurance consciousness on the part of most Nigerians, coupled with the problem of qualified technical manpower to carry on the business the market capacity continues to depreciate. However, there is still great scope for expansion as the market i continuously growing.

(8) Depreciation of local currency is also of concern to the business community that the market forces only see it as an economic paper whose exchange rate is cheap. The resultant effect is that the insurance industry has problems employing their foreign counterparts in legitimate transactions that would affect the overall performance of the industry.

(9) The reduction in level of business because of the depreciation of the value of the Naira and the consequent high inflation. Industrial activities have been on the decline with a good number of firms particularly those depending fully on imported raw materials folding up. The overall effect is that the volume of all classes of insurance business has declined considerably.

(10) On the whole, some of the underwriting companies may be cancelled for alleged breach of insurance rules and regulations. This is as a result of an investigation carried out by the National Insurance commission on insurance and reinsurance companies by the commission. It was gathered that the affected firms had, apart from violating salient provisions of the Insurance Decree No. 2 of 1997, shown symptoms of distress.

Offences of the firms include low capitalisation, poor staffing, absence of qualified insurance practitioners and failure to pay claims. They have also failed to operate in a line of business for which they were granted licence for over one year. Firms in this category were discovered to have registered as general business or composite insurance operator but abandoned life insurance for over one or more years.[10]

2.6 FACTORS AFFECTING INSURANCE MARKETING IN NIGERIA

Unlike other products and services, the best an insurance company can do is to promise the policy holder that by acquiring an insurance policy, he or she will be in a position no worse and no better than the situation existent before the event against which the service that has been provided has occurred. And to the insurance customer, buying insurance cover mean accepting relatively small, but definite financial loss in order to avoid a larger (Probable) loss.

Before insurance policies can be marketed and a marketing programme drawn up, the major factors that influence the market have to be considered. Obviously, the rapidly changing nation's economy has a considerable influence on the demand for insurance products and services.

Among the major factors affecting the insurance market in Nigeria are:

(1) **LEGISLATION AND TAX CONCESSION:** Legislative requirements and reforms have always been exerting a considerable influence on the size and scope of the market. This can be in the form of the minimum share capital and control as to the types of insurance policy to be written and policy conditions to be imposed. For instance, the Insurance Decree No. 2 of 1997 provides that "No insurer shall carry on insurance business in Nigeria unless the insurer has and maintains, while carrying on that business, a paid-up share capital of N20 million in the case of life insurance business, and in the case of general insurance business, not less than N20 million. Where the general insurance business includes oil and gas insurance business, credit, bonds and surety ship, contractors all risk and engineering risk insurance business, marine and aviation insurance business by road, water, air and rail, an additional paid-up capital of not less than N50 million, in the case of reinsurance business, not less than N150 million".[11]
This Decree spells out other conditions of operation and control of insurance companies in Nigeria.

Insurance laws in Nigeria allows for income tax rebates on life assurance premiums. Motor vehicles Third Party Insurance Ordinance 1945 makes it compulsory that all users of motor vehicles on Nigerian roads must compulsorily insure their legal liability for death or bodily injury to third party. The legislation assist insurance companies to acquire sufficient premium income on general business while tax concessions encourage a large number of people to buy life assurance policies.

(2) NATIONAL INCOME:

When real income is increasing rapidly there will be a tendency for personal consumption to increase. At the same time, personal savings will be channelled to the traditional institutions like banks and building societies, and life insurance companies. This shows that there will be a large potential market for life insurance when personal income increases. However, the major problem here is the competition from other financial institutions and effects of inflation in the country.

(3) SIZE AND THE DISTRIBUTION OF POPULATION:

The size of the population might be expected to have a particular or direct influence on the market of insurance services. This of course, depends on the density and distribution of the population, socio and economic factors of the area. In the cities for example, where insurable lives and properties are concentrated, insurance business is likely to sell more than in a rural area.

(4) MARKET COMPETITION:

Competition is very rife in the industry now, such that aggressive competition coupled with the increasing costs of services and administration have led to the elimination of small unviable insurance companies and difficulty in offering effective and efficient personal services. The nature of competition is far from being perfect. It will be noted that the Federal government and the state governments have set up insurance companies with the basic objectives of serving the insurance requirements of government ventures. There is a provision in the Insurance Decree No. 2 of 1997 that empowered the NICON Insurance Corporation to ensure most of government properties in the country, being a government owned insurance company. The multinational companies too are noted to be pitching camp with sister companies while the foreign owned insurance companies though with government equity participation enjoy the patronage of individual expartrates and foreign commercial companies in the country. The indigenous insurance companies are left to struggle for privately-owned commercial ventures in the country. There is that general attitude of the insuring public that any insurance company that has governmental or foreign element is synonymous with reliability, security and efficiency while they are sceptical about the efficiency and reliability of indigenous companies. Thus, all categories of insurance companies employ various tactics and strategies to acquire insurance business. An essential catalyst in this competition is the goodwill of the chief executives and their principal officers.

(5) INFLATION:

Most of the free world has faced, and is still facing certain inflationary trends and high taxation which both reduce purchasing power. Many potential insurance customers now with growing awareness of the need to budget as well as to invest wisely. Thus, most life policy holders prefer policies with an investment element attached, like endowment with profits. Inflation, even at moderate levels will continue to influence insurance marketing from economic point of view of the insuring public.

2.7 FUTURE PROSPECTS OF INSURANCE INDUSTRY IN NIGERIA

The state of the Nigerian insurance industry should largely be a function of the state of the nation's economy. The industry has equally been effected by the decline experienced in recent years. Fortunately, the gains from the earlier years have greatly helped to stand the industry in good stead for the future. With the indicators of a gradual recovery of the economy to the path of sustained, growth and the enormous potential that exists, there is certainly a great future for the insurance industry.

The Nigerian Insurance Market is currently one of the major single market in Africa, generating, an annual premium income of over N20 billion in 1996. The recently promulgated decree Nos. 1 and 2 of 1997, contain provisions that would facilitate the presence of strong, viable and professionally managed insurance and reinsurance companies in Nigeria. There are equally strong possibilities for mergers, takes overs or wind-up within the next few years. Attempts are being made to boost the development of life insurance business and health insurance in Nigeria. Life Insurance business which presently generates about 10 percent of the average annual market premium income holds great potential that has to be explored and tapped.

The recent launch, by the Head of State, of the National Health Insurance Scheme on the 18th of October, 1997 is a tremendous boost and would help to refocus the average Nigerian on the importance and relevance of individual Life Assurance Protection and Health insurance on a national scale.

The positioning of the Chartered Insurance Institute of Nigeria as the interface between the professional Association and the training needs of the industry in the face of possible ratification of the proposed General Agreement on Trade in Services (GATS), is expected to enhance the quality of services being offered by the industry. The relevance of the institute to the future of the industry is being properly located against the backdrop of the need for a strong and important role the insurance sector is expected to play in the country's development efforts.

Given the enormous pool by educated manpower available in the country, coupled wit the pool of experienced skilled and well trained Insurance and Reinsurance professionals, the ability of the industry to appropriately respond to the challenges of its growing market can be assured.[12]

Despite the unconducive economic environment, the Nigerian Insurance Industry continues to improve on its performance. The industry has witnessed growth over the year as the gross premium income recorded in terms of naira has shown significant growth rate in the last five years. From N8.2 billion in 1994, the market premium increased to N17.3 billion in 1995; the industry again grossed a total projected income of N26.2 billion in 1997, as against N21 billion in 1996 - a 25 percent increase.[13]

The industry witnessed an increase in the frequency and severity of claims with attendance effect on the underwriting results. The bulk of this income came from the non-life branch and indications are that the general branch consists about 93 percent of the total premium income in Nigeria. The predictions are that it may maintain the current level of growth in the foreseeable future, given the move towards a market economy which should greatly boost production and services in all sectors of the economy. The most significant step that has been taken as regards the control and supervision of the insurance market in Nigeria for the next century challenges is the new promulgation of the new Insurance Decree 2 of 1997 which replaced the previous Insurance Decree 58 of 1991, and would help to create an enabling environment for the smooth operation of the industry.

The new capital requirement for insurance and reinsurance companies would certainly enhance market capacity. In addition to the usual professional indemnity cover, brokerage firm and loss adjusters are now required to maintain a paid-up capital of N5 million.

Therefore, a lot is expected from the Nigerian market, given its status as one of the leading insurance centres in Africa. This, obviously, places on it tremendous pressure to create and maintain a high level of professionalism and other leadership qualities which upcoming markets would look up to as a model.

Generally speaking, the Nigerian Insurance market of the future will be vastly different from what we know today. The market will have to attend clients and customers who are more educated and sophisticated. They will make more demands for good quality service. To cope with the situation being envisaged, the Insurance practitioners needs to be extremely good and professional.

According to the President of Chartered Insurance Institute of Nigeria - CIIN, Mr. Ogala Osoka, He said that " a special training scheme for insurance practitioners is to be introduced in the first quarter of next year (1999) by the instite. The scheme named Continuing Professional Development (CPD) is aimed at updating practitioners knowledge and enhancing professional interactions among all categories of operators for the purpose of satisfying the needs of i insurance customer, employers and the environment at large"

2:8: FOOT NOTES:

1. Nigerian Insurance Year Book, published by Nigeria Reinsurance Corporation, 1997.
2. Ibid.
3. Ogala Oboka, Insurance and the Nigerian Economy.
4. Ibid
5. Hugh Cockerell, Business and Management Studies; Insurance, Hodder and Stonghton Education, Dunton Green, Seven oaks, Kent, (The chaucer press), Bungay, Suffork, 1980.
6. Ibid
7. Nigerian Insurance Year Book, published by Nigeria Reinsurance Corporation, 1997.
8. Business Times, Vol. 23, No. 32, Monday August 10, 1998.
9. Ibid
10. Ibid
11. NICON news, A Newsletter of NICON Insurance Corporation, Vol. 2, No. 4, January - June, 1997.
12. Nigerian Reinsurance Year Book, published by Nigerian Reinsurance Corporation, 1997.
13. The Guardian, Friday August 14, 1998.

CHAPTER THREE

3.1 THE MANAGEMENT OF INSURANCE RISKS.

The word risk is used in many different senses. For our purpose it can be considered as a danger about which there is some uncertainty. Thus, a firm has risk capital, which may be lost if the business is unsuccessful. An enterprise will be described as risking if there is a distinct danger that it will fail. A new profession has developed, that of the risk manager. He is employed by enterprises to minimise the cost to them of the pure risks to which they are subject.

The task of the risk manager is, first to identify the pure risks to which the enterprise is subject and then to analyse and quantify them. He next classifies the risks, having regard to the maximum loss potential of each and the predictability of loss. Once this has been done, he can select the tool best fitted to deal with each risk. Perhaps a danger can be avoided, for example by ceasing to carry on some hazardous process. Perhaps it can be reduced by better loss prevention measures or by not keeping all one's eggs in a single basket. Once these possibilities are exhausted, the choice for the enterprise lies between itself bearing the risk or transferring it to somebody else. A transfer will cost money. In importing goods, for example, one will pay more if the exporter has to bear the risk of damage in transit that if the importer himself takes that risk. Similarly, if a risk is transferred to an insurer for a premium one must expect that the premium will exceed the value of the objective probability of loss because the insurers will have to pay their own expenses and will also need profit margin if they are to continue in business. In most cases, however, the only way of transferring a pure risk is by means of insurance. The insured pays a fixed sum by way of premium and is thus relieved of the anxiety that goes with having to bear a pure risk oneself. He has converted his uncertainty on account of pure risk into a fixed cost.

The risk manager's task is so to arrange the affairs of his firm that the cost of pure risk is minimised and that no loss will occur that would financially embarrass the firm. He can choose which tool or combination of tools to employ. For example, a sprinkler system may be installed in a factory on the strength of a calculation that the capital cost will be recovered in a short period by savings through tax concessions and reduced fire insurance premiums.

The resources of the organisation whose risks are being managed are an important factor in the risk manager's calculations. A loss that could be damaging to a small firm can be viewed with equanimity by a large one.

Firms that elect not to insure must face the consequences of their decision. A firm that does not insure its liability for damage to customers' goods in transit, for example, will have to pay the cost of investigating and checking customers' claims as well as the cost settling them. In the case of a risk that could result in a very large claim the firm that decides on self-insurance may have to put aside money in a self-insurance fund to enable it to meet a sudden large call on its resources. There is a cost attached to keeping resources liquid in that way when they could otherwise be used more profitably in the business.

Very large firms, such as international oil companies, are reluctant to pay others for taking a transfer of risks they feel able to bear themselves. Some seek insurance with large excesses (or deductibles) to pay claims only if in excess of millions of naira. Others have formed active insurance companies to which they transfer their risks, leaving the captive company to reinsure some of them in the reinsurance market.

The risk manager cannot wholly eliminate pure risk. The most he can do is to minimise its cost to his employers. The techniques of risk management (identification of the risk, classification, qualification, reduction and treatment of the residue) are equally applicable to financial or speculative risks which can often be spread or hedged or even, in the case where credit is granted, be covered by insurance.

According to chief Dipo Bailey, commissioner for Insurance, National insurance Commission, he stated that "in this highly competitive time, and era of rapid socio-economic and political changes, every manager must be concerned with the survival of his organisation". He noted that the quest for survival strategies throws up a matrix of variable options before a manager, but that of all the options, a unique and distinct tool is insurance.[1]

He further said, "it is a universally acknowledged fact that insurance is the only business which exists primarily for the survival of other businesses. Consequently therefore, it is a must for every manager particularly at times like this, to understand and appreciate the roles of insurance as a survival strategy for all organisations". [2.] He stated that recent trends in the economy especially as they relate to fire damage to individual, business and public properties; loss of lives through epidemics, plane crash and other accidental causes, theft, embezzlement of funds, explosions in factories, loss of funds through bank and other financial institution failures, require a device for dealing with such risks. According to him, "the only logical and reasonable option left is insurance".

He also noted that the need for sound financial management of the small resources of business organisations calls for the development and operation of a system that will take care of mishaps involved in managing organisations resources. The Insurance Commissioner also explained how insurance can be used in organisational assets management strategy, noting specifically that, "even though insurance is the last option in the risk management process, its inevitability to an efficient assets management as a survival strategy by organisations cannot be over-emphasised"[3].Other strategies examined include organisational liability management and human resource management, in which he spelt out what insurance companies can pursue to enhance workers and business fortunes.

3.2 TYPES OFINSURANCE RISKS

A business, and indeed all life, is fraught with risk, in the sense of danger. But risks are of two kinds, speculative and pure. Speculative risks are those risks deliberately taken in the hope of profit. Pure risks are those risks inherent in the world around us that we do not seek but have to endure.[4]

Business is a matter of speculative risk - taking. The entrepreneur lays out is capital in advance in the hope that eventually the prices he receives for goods or services he has to offer will exceed his costs in providing them so that he will make a profit. Many things may go wrong. His costs may be too high; the price he is offered may be too low; demand for his wares may fall to vanishing point because of a change in fashion or in market conditions. These speculative risks are the essence of business. But even if the business is going well it may be adversely affected by some extraneous event-a fire damaging his factory, a ship-wreck, an accident to his lorry laden with goods, or an illness that incapacitates him for work.

These are pure risks that he does not seek and would rather be without. Taking a speculative risk can lead to a profit as well as a loss. A pure risk can never result in a profit but may result in a loss.

3.3 THE CEDING OF INSURANCE RISKS

The majority of all known risks can be placed in the Nigerian Insurance Market and subsequently shared by insurance companies world-wide through reinsurance. The business potential of the market as revealed by the size and growth of the annual premium is reasonably high and thus attracts the interest of insurance companies and experts all over the world.

Though, other insurers attempt to break through the reinsurance problems from "the inside", thus, encroaching in the traditional hunting grounds of the professional reinsurers.

Certain direct insurance companies in the country have launched into the Acceptance of reinsurance business. They attempt in turn to underwrite risks coming from other insurance companies. Other direct companies hope to find in Reciprocity, between similar sized companies, a solution to their preoccupation of balancing their foreign currency reserves, and as an accessory to this, improve the score on business turnover. To reach its objectives, reciprocity supposes exchanges which are equitable and of a certain volume between the partners. Certain other companies, in the end, adopting the saying unity is strength have put forward the idea of forming community institutions of a region or inter-regional character in the form of a pool. This regional pool would be in an informal organisation grouping the interests of several companies within a certain geographical area. Management would be undertaken by one of the companies which would act as a leader.

3.4 REGULATION AND GOVERNMENT CONTROL OF INSURANCE IN NIGERIA

One of the most interesting developments in recent years in the Africa insurance scene is the growing interest and participation of most African governments in the business of insurance and reinsurance. In the past most governments in Africa showed no interest whatsoever in the business of insurance and what probably accounted for the slow pace of development of the industry. With the realisation in recent years by various African governments of the economic and social values of insurance and the important part of that business can play in national development, there was a change of attitude and most African governments started showing keen interest in insurance business.

Until the nation's independence in 1960, Nigerian's insurance market was almost totally free of any form of government regulation and control. This has been mostly attributed to the predominance of foreign, mostly British insurance companies operating in the country. As such, it was to be expected that the home laws of such countries would adequately take care of the operations of the companies. Besides, it is pointed out that since the insurance companies were still very few, the colonial government obviously did not feel obligated to clamp some legal controls on them.

The first government intervention by means of the law was the insurance companies Act of 1961 which sought to establish and organise the insurance industry. The Act created the office of the Registrar of Insurance to supervise insurance practice. Later, in 1964, the insurance(Miscellaneous Provision) Act, and the Insurance Decree of 1968 soon followed when that of 1961 proved inadequate.This 1968 Decree introduced more stringent registration requirement for insurance companies directing that each company should produce certified true copies of premium rates, rating plan, rules and standard polcy forms of each class of insurance.

Despite all these, the activities of insurance companies still called for better regulations and more effective machinery for enforcing the law. Whereas the 1968 Decree did not prove adequate to combat the mal-practice in the insurance industry, it appeared that the promulgation of the decree made foreign insurance companies to loose ground in the country and the market became rather less attractive fo them. The had required them to prepare and publish their accounts and reports on annual basis.This led to immediate winding-up and departure of some of the even most successful onces from the country. So, inspite of the inherent weaknesses of the existing law, the period marked the beginning of the introduction of far-reaching government control and regulations of the insurance industry in the country. The need to ensure adequate protection for policy holders from the consequences of the failures of insurance companies that may be due to incompetence, fraud or insolvency of the intermediaries necessitated the introduction of regulatory measures over the activities and operations of insurance companies including brokers, loss adjusters, agents, reinsurers, insurers, etc. The expectation of these measures was that the regulatory controls would stem the tide of the loss of public confidence in insurance by sanitising the industry. It was as a result of this effort that Decree 22 of 1969 was enacted which established the NICON with a mandate to insure government assets, in addition to assisting in the organisation, control and development of insurance practice in Nigeria.

In 1976, another insurance Decree 59 was promulgated which not only abrogated previous Acts on insurance supervision, it also formed the basis for effective licensing, control and supervision of insurance companies. The Decree also provided for the licensing and control of general operations of insurance brokers, agents and other intermediaries. One of the major provisions of this Decree was the compulsory insurance of marine import and also the control over investment of insurance funds. The Decree also covered capitalisation requirements of insurance companies, appointment of key personnel and reinsurance arrangements, amongst others.

In the 1980s, the regulations and legislations took reformative tones. The insurance (special]provision) Decree 40 of 1988, promulgated as a result of the review of the laws of the Federation in 1988, sought to modify and redefine the principle of utmost good faith and non-disclosure of material facts. It also modified the application of warranties and conditions, insurable interest, assignment of life policies, and third party rights against the insurers. In 1989, the insurance special supervision fund Decree 20 was promulgated, which created a special fund under the control and supervision of the Federal Ministry of Finance and Economic Development for the purpose of strengthening insurance supervision in Nigeria and for such other insurance purpose. Decree 58 of 1991, was another radical insurance regulation that made provisions as to the increase in the paid-up share capital of insurance companies, the business of loss adjusting and the establishment of a security fund for the benefit of insured persons when insolvent insurers fail to fulfil their obligations under the Decree.

Sequel to recent distress in the financial sector generally and to further strengthen the control of the insurance industry in particular, the Federal government promulgated another insurance Decree 1 of 1997 which came into effect from 1st January, 1997, establishing the National Insurance Commission (NAICOM), saddled with supervision, control and regulations of the insurance industry in the country. Another Decree 2 of 1997 was also promulgated. This new Decree is all embracing and requires that a share capital of companies carrying out life insurance business shall not be less than N20 million and the same amount applies to general insurance business. But where the general insurance includes oil and gas insurance business or credit insurance, bonds and suretyship or contractors of risk and engineering of risks insurance business or marine and aviation insurance, and additional paid-up capital of not less than N50 million will be required, while in the case of reinsurance business, not less than N150 million is required. The Decree also gave NICON the sole right to insure certain government properties.

The need for regulatory and supervisory control of insurance business in Nigeria like any other developing nation is to establish in the country sound national insurance market, provide adequate cover of risks at fair prices, minimise the outflows of foreign exchange from insurance and reinsurance arrangements and contribute to the economic and social development of the nation. While regulation is often used to refer to the process of making laws, supervision is used to refer to the process of checking whether the regulations have been complied with and intervention applied where necessary in accordance with powers made available under the law.

3.5 GOVERNMENT INSURANCE AGENCIES

The Federal government of Nigeria has established some insurance agencies to look and curtailed the activities of the insurance industry in the country, with the view to making the industry more viable to the needs and aspirations of the insuring public. The government also arranged some form of insurance protection for the Finance, Agriculture, and Health sectors of the National Economy. Among the agencies of Government in this sector are:-

1. THE NATIONAL INSURANCE COMMISSION

The National Insurance Commission was established by the National Insurance Commission Decree No. 1 of 1997 by the Federal Government of Nigeria. The principal objective of the commission shall be to ensure the effective administration, supervision, regulation and control of insurance business in Nigeria.

The commission shall:

(a) Establish standards for the conduct of insurance business in Nigeria.

(b) Approve rates of insurance premiums to be paid in respect of all classes of insurance business;

(c) Approve rates of commission to be paid in respect of all classes of insurance business.

(d) Ensure adequate protection of strategic government assets and other properties;

(e) Regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria;

(f) Act as adviser to the Federal Government on all insurance related matters;

(g) Approve standards, conditions and warranties applicable to all classes of insurance business;

(h) Protect insurance policy-holders and beneficiaries and third parties to insurance contracts;

(i) Publish for sale and distribution to the public, annual reports and statistics on the insurance industry;

(j) Liase with and advise Federal Ministries, Extra Ministerial Departments, statutory bodies and other government agencies on all matters relating to insurance contained in any technical agreements to which Nigeria is a signatory;

(k) Contribute to the educational programme of the Chartered Insurance Institute of Nigeria and the West African Insurance Institute; and

(l) Carry out such activities connected or incidental to its other functions under this Decree.5

2. THE NIGERIAN REINSURANCE CORPORATION

The Federal Government of Nigeria established Nigeria Reinsurance Corporation under the instrument of Decree No.49 of 1977, to transact Reinsurance business within and outside Nigeria in all classes including life of insurance business.

Subject to the provisions of this Decree, the corporation shall have the power within or outside Nigeria, to carry on reinsurance of any class of insurance business, including life insurance business and reinsure against loss of any kind arising from any risk or contingency in respect of any matter whatsoever.

The corporation shall also have the power to:

(a) To reinsure with any insurer carrying on insurance of reinsurance business, any risk undertaken by the corporation and for that purpose to enter into reinsurance contracts, and

(b) To accept the reinsurance of any part undertaken by any other person (being risks such that the corporation has power to reinsure against) and to retrocede any part of such risk.

Although, Nigeria runs a free market economy through a policy of guided deregulation, the Nigerian Insurance Market has a strong indigenous reinsurance sector made up of:

i) Nigeria Reinsurance Corporation
(ii) Continental Reinsurance Company Limited
(iii) Globe Reinsurance Company Limited
(iv) Universe Reinsurance Company Limited
(v) Africa Reinsurance Corporation

The Government of member countries of the Organisation of African Unity (OAU), the African Development Bank (ADB) and some Institutional Investors own the Africa Reinsurance Corporation. The Federal

Government of Nigeria owns the Nigeria Reinsurance corporation while the other reinsurance companies are privately owned. There are also a number of reinsurance pools operating in the market. These include:-

(a) WAICA Reinsurance Pool
(b) Nigeria Aviation Pool
(c) Nigerian Liability Pool, and
(d) The Third World Pool

Subject to section 69 of the 1997 Insurance Decree, the Nigerian Insurance Market is also open to other international reinsurance companies, some of which have been active players in the market over the years[6] .In 1992, the corporation was fully commercialised.

3. THE NATIONAL INSURANCE CORPORATION OF NIGERIA

The National Insurance Corporation of Nigeria was established by the Federal Government of Nigeria with the promulgation of Decree NO. 22 of 1969. NICON transacts all classes of insurance and reinsurance businesses in Nigeria.

However, the promulgation of Nigeria Reinsurance Corporation Decree No. 49 of 1977, repealed the powers and mandate of NICON to transact reinsurance business[7] The corporation was fully commercialised in 1992 and was registered with the Corporate Affairs Commission as NICON insurance Plc. The Federal Government is the sole owner of NICON Plc[8] and has the monopoly of insuring all Federal government assets.

With an asset base of N5 billion as at December 31, 1996, NICON Insurance Corporation is without doubt, the foremost insurance company in Nigeria, and infact, one of the few leading insurance companies in Africa. NICON does not only have the privilege of having the highest premium income ever in the insurance history of Nigeria, the company also has what many consider as perhaps the best claims service in the industry. For example, while the company made a gross premium income of N9.9 billion in 1995, N10.214 billion in 1996, it also disbursed, as claims settled, N969.86 million in 1995, N971.83 million in 1996, and N378.78 million in 1997, totalling about N2.32 billion. Theses are no mean figures by standard.[9]

Many argued that NICON could not have fared otherwise going by the immense governmental support and patronage which the company enjoys. However, keen followers of trends in the industry are of the view that NICON has continued to maintain its leading role by a deliberate positioning for high credibility among Nigeria populace through its sound claims service. After all, 'big' does not necessarily mean efficient and credible. It is in this light that many see NICON's great strides and achievements over the years as well earned.

The corporation which has about 42 branch offices in almost all states of the Federation and one office in London for its international operations, accounts for over 45 percent of the total premium income of Nigerian Insurance Market.

Insurance operators are of the view that the leadership position of NICON is unlikely to be seriously challenged for many years to come going by the corporations huge paid - up share capital (N1 billion as at 1996), assets base, investments and sound management. Insurance practitioners are also of the view that NICON's monopoly of insuring government assets be open up for competition with the privately owned insurance companies for efficient and healthy management of public properties.

4. THE NIGERIA INSURERS ASSOCIATION

The Nigerian Insurance industry is modelled after the British Insurance Industry. Virtually most insurance associations that existed in the United Kingdom also exist in Nigeria. The leading educational and professional body for the industry is the Chartered Insurance Institute of Nigeria (CIIN) founded in 1969. Other associations include Nigerian corporation of Insurance Brokers (NCIB), Professional Reinsurance Association of Nigeria (PRAN), Nigeria Insurance
Association (NIA).

The Nigeria Insurers Association (NIA) was established in 1971 and charged with the following responsibilities:-

(i) The protection, promotion and advancement of common interest of insurers transacting any class of insurance business in the country;

(ii) The taking of such concerted measures as may within the limits set in (i) above deemed expedient where the business transacted by members of the Association may be affected by the action or proposed action of the government or any other authority;

(iii) The guidance and assistance of any member of the association in complying with statutory regulations and laying down minimum standards of ethics for members;

(iv) The creation of better understanding of insurance by all sections of the community including furtherance of knowledge and research [10].

In addition to the above objectives of the Association which concern their trade, the secretariat performs industrial relations functions on behalf of some members who are also members of Nigeria Employer's Association of Banks, Insurance and Allied Institutions (NEABIA).

5. THE CHARTERED INSURANCE INSTITUTE OF NIGERIA

The Insurance Institute of Nigeria (IIN) was started in 1969. In accordance with the Article of the Association, the institute exercises professional supervision and control over the conduct and development of insurance education and research in Nigeria. The Institute enabling law, Decree No. 22 of 1993, titled "The charter," commenced in February, 1993 with the specific function, among others, of determining standards of knowledge and skill to be attained by insurance professionals and reviewing these standards from time to time.

Membership of the Institute is open to all persons who are actively and fully engaged in the business of Insurance. In addition, any person passively or partly engaged in the business of insurance such as university lecturers, students of Insurance, Insurance officials of non-insurance companies, can also be considered for membership of the Institute.

For the purpose of registration, the number of members of the Institute is unlimited with a member assuming either a founder, corporate, honourary or student membership. The Institute also have a code of ethics and practise guiding all insurance companies and practitioners in Nigeria, including the members of the following:-

(i) Nigeria Insurance Association (NIA)
(ii) The Insurance Institute of Nigeria (IIN)
(iii) The Nigerian Corporation of Insurance Brokers (NCIB)
(iv) The Institute of Loss Adjusters (ILA).[11]

3.6 FOOTNOTES:

1. Vanguard, Wednesday, August 26, 1998
2. Ibid
3. Ibid
4. Hugh Cockerell, Business and Management Studies: Insurance; Hodder and Stoughton Educational, Dunton Green, Sevenouks, Kent, (The Chaucer Press) Ltd., Bungay, Suffork, 1980.
5. Nigerian Insurance Year Book, published by Nigerian Reinsurance corporation, 1997.
6. Ibid
7. Ibid
8. Nigerian Insurance Year Book, published by Nigerian Reinsurance Corporation, 1996.
9. Vanguard, Monday, September 21, 1998.
10. Nigerian Insurance Year Book, published by Nigerian Reinsurance Corporation, 1996.
11. Ibid.

CHAPTER FOUR

4.1 INTRODUCTION:

No study of insurance would not be complete without a brief explanation of the principles of reinsurance. Reinsurance is a system whereby the insurers who deal with the insuring public (and who are known as the direct insurers) cede all (or part) of an insurance to other insurers known as reinsurers. In other words, the ceding company pays to the reinsurers the whole (or part) of the premium it has received, and the reinsurers thereupon agree to reimburse to the ceding company the claims (or an agreed proportion of them) which the ceding company may find itself liable to pay under the original insurance. The contractual rights of the original insured against the original insurers are unaffected by the reinsurance transaction of which, indeed, the original insured will almost certainly remain unaware.[1]

The insurance technique face to face with its internal logic, brought into being another specific technique, that of Reinsurance, which while being closely connected to internal insurance, has progressively become distinct from it by putting into practice formulas which are more and more diversified.

This situation has justified the existence of specialised reinsurance companies or companies affliated to direct insurance companies, such are generally called "professional Reinsurers". The great majority of these professional reinsurers are concentrated in Western Europe and North America. They share more than 85 percent of the proceeds which makes up world reinsurance business. One cannot deny the reality of the servies they can provide toinsurers of developing countries, including Nigeria,because quite often, the peak risks there are out of all proportion to the possibilities of the market.

The implicable logic of the system thus engendered means that only the reinsurance organisations having the greatest capacity for cover can practice reinsurance acceptance, and by this continue to increase both their profits and financial standing, inversely and parallel to this, the developing country insurers will forever be condemned to be satisfied both with ceding their business and their miserable rate of growth.

However, in order not to get struck down which would be fatal, certain developing country insurers are looking into certain possibilities which would enable them to reach the objective of net turn over,of this possibilities is that of increasing the capacity of retention. Nonetheless, experiments in this respect are very limited because of the lack of permanent capital and the decline of real funds. To this must be added the constant anxiety to reach a measure of harmony between the quality, the importance and the composition of the portfolio.

Other insurers attempt to break through the reinsurance problems from "the inside", thus encroaching in the traditional hunting grounds of the professional reinsurers.

Because of the relevance of reinsurance to other insurance companies in Nigeria, the Federal Government established Nigeria Reinsurance Corporation under the instrument of Decree No.49 of 1977, to transact Reinsurance business within and outside Nigeria in all classes, including life insurance business[2]

4.2 OPERATIONS OF REINSURANCE

Reinsurance arises from the need of the original insurer to spread the risks he has assumed. Originally, reinsurances were placed by agreement in individual wishes to reinsure on a reinsurance slip which it submits to the reinsurer who can accept or reject it. Alternatively, an insurer and a reinsurer may enter into an agreement, known as a treaty, whereby all insurances of a specified kind, or a proportion of them, shall be offered to the reinsurer by way of reinsurance. Usually the reinsurer binds himself by the treaty to accept them automatically. Where the reinsurer retains the right to accept or reject at his option, the reinsurance is known as facultative.
Reinsurers are naturally interested in seeing that the direct insurers exercise care in the selection of business, and this is best ensured by the direct insurers keeping for their own account a fair-sized financial interest in the risks ceded.

Reinsurers may be proportionate or non-proportionate. A proportionate reinsurance is one where the insurance is sliced vertically like a cake and the reinsurer takes a piece. In non-proportionate reinsurance, the insurance is split horizontally and the reinsurers takes the top layer, for example, the cost of each claim above a given amount.

Reinsurance treaties are of three main kinds:

(a) The fixed share treaty;
(b) The surplus treaty; and
(c) The excess of - loss treaty.

Under a fixed share treaty the reinsurers agree to accept a fixed proportion of all insurances of a defined type, say, one half of all fidelity guarantee insurance accepted by the direct insurers.

Under a surplus treaty the direct insurance is divided into slices known as lines; the direct insurers retain their line, and the remaining lines are taken by the respective reinsurers, who may each take one or more lines, or even half a line, according to the terms of the treaty.

The excess-of-loss treaty is commonly used for liability insurances. Here the direct insurer pays all claims up to an agreed limit, say N5,000.00 per claim, arising under insurances of a type specified in the treaty, and the cost of any claim in excess of that limit is met by the reinsurer. Such treaties prevent the occasional heavy claim fromupsetting the profitability of the direct insurers account for a particular class of insurance. It will be seen, however, that, according to the incident of large and small claims respectively, it is possible under such a treaty for the direct insurers to make a profit in a year when the reinsurers make a loss, or vice versa. Whereas under the two first mentioned classes of treaty, the reinsurer takes a proportionate share of the premium payable by the original policy-holder, under the excess-of-loss treaty an arbitrary percentage of the premium is payable to the reinsurer.

Reinsurers have to depend a great deal on the good faith of the direct insurers in whose hands the settlement of losses is largely left. The direct insurers for their part, have an interest in seeing that the reinsurers find continuance of their treaties profitable to them; for if reinsurers lose money over a period in transactions with them, the direct insurers run the risk of losing their reinsurance facilities, or, at any rate of having to pay more for them.

The cost of acquiring direct business is much heavier than the cost of obtaining business by way of reinsurance. This fact is recognised by the reinsurer allowing to the direct insurer a large discount by way of commission, to cover acquisition costs.

Reinsurance is an international business. It is transacted by companies whose main business is direct insurance, by purely reinsurance companies, and by Lloyd's underwriters. Germany and Switzerland were the home of the original reinsurance companies. Germany reinsurance was badly hit by the two world wars but has since recovered. The Swiss have fully maintained their share of the market. During and since the second world war, however, London came to the fore as an international reinsurance market, and the old-established direct-writing companies in the United Kingdom have greatly extended their reinsurance departments. Excess-of-loss treaties, however, are still mainly granted by companies established to specialise in reinsurance and by Lyold's underwriters [3]

4.3 THE OPERATIONS OF THE NIGERIAN REINSURANCE

Ever since independence in 1960, the Federal Government of Nigeria had recognised the need to ensure that a reasonable proportion of the premiums generated by insurance companies in the country are retained. Efforts to achieve this culminated in the establishment of the National Insurance Corporation (NICON) in 1969 by the NICON Act of that year. The relevant aspect of the Act made it compulsory for all registered insurance companies to pass a legal cession of 10 percent of all business written to NICON then. The rise in the insurance needs which resulted from the industrial and commercial growth generated by the oil boom of the mid-seventies, made the capacity of NICON inadequate to handle the combined Insurance and Reinsurance needs of the Country. This led to the establishment of the Nigeria Reinsurance Corporation in 1977 to supplement the then existing efforts and the compulsory cession of 20 percent is now ceded by all and sundry to the corporation.

In addition to the Nigerian reinsurance Corporation, there are the African Reinsurance corporation which is a Pan African Reinsurance Institution, established in co-operation with all Independent African states with the primary objective of enhancing the sub-regional retention capacity, and deployment of funds within the sub-region for fostering economic development. There is also the Universal Reinsurance Company, a wholly indigenous privately owned Reinsurance company commenced business operations in the market.

The Nigeria Reinsurance Corporation which was set up initially with an authorised and fully paid-up capital of N10,000,000.00 has since had its share capital substantially increased in recent time, which makes the corporation from the point of view of financial strength one of the largest in the developing world.

The types of Reinsurance covers written in the Nigerian Insurance market include both the facultative and the Treaty types. Within the latter fraternity are the Quota share, surplus, excess of loss varieties. Suffice it to say that tied up with the development of Reinsurance expertise, which had been persistently mentioned is the ability to chose the most appropriate variety of Reinsurance arrangement for each of the various portfolios of business which the insurers writes. The adoption of wrong programme can affect the orderly development of retention capacities in some companies. There are such Reinsurance pools as the WAICA

Pool, managed by the Nigeria Reinsurance Corporation and the Nigerian Aviation Pool, managed jointly by the NICON and the United Nigeria Insurance Company (UNIC), Nigeria Liability pool and the Third World Pool.

Subject to section 69 of the 1997 Insurance Decree, the Nigeria Insurance Market is also open to other international reinsurance companies, some of which have been active players in the market over the years"[4].

The majority of all known risks can be placed in the Nigerian Insurance Market and subsequently shared by insurance companies world-wide through reinsurance. The business potential of the market as revealed by the size and growth of the annual premium is reasonably high and thus attracts the interest of reinsurance companies and experts all over the world. Table 1 gives the gross premium statistics of the direct insurance companies in Nigeria by class of business in the period 1992 to 1996. The gross premium which stood at N4,471,550,000 billion in 1992 rose rather steadily to N20833,064,000 billion in 1996 respectively. Table II shows the Net premium income in the period 1992 to 1996. The Net premium Income stood at N253,680,000 million in 1992 rose to N7,873,244,000 billion in 1996. Table III shows the Loss Ratio of all companies by class of business in the period 1992 - 1996. The Loss Ratio stood at 28.6 percent in 1992 and 6.05 percent in 1996 respectively. Table IV shows the Investment pattern of insurance companies(Life)in the period 1992to 1996.The investement pattern stood at N1,922,000,000 billions in 1992 rose to N5,999,380,000 billion in1996.[5]

The share have been reasonably steady over the periods which was brought into prominence by the enforcement of the relevant sections of the insurance Decrees.

4.4 THE RELEVANCE OF REINSURANCE TO THE INSURANCE INDUSTRY

Reinsurance has contributed greatly to the stability of direct-writing companies. By means of reinsurance, catastrophic losses in any country do not fall wholly on the insurers operating in that market but spread throughout the world.[6]

Reinsurance arises from the need of the original insurer to spread the risks he has assumed. Originally, reinsurances were spread by agreement in individual cases. A well organised insurance and reinsurance market infact facilitates the achievement of conservation of foreign exchange, rationing of foreign exchange resources to spheres of economic activities compertible with given National objectives,

TAB. 1

Five Year Summary Of Gross Premium Income; 1992-1996

	1992		1993		1994		1995		1996	
	(=N='000)	(%)	(=N='000)	(%)	(=N='000)	(%)	(=N='000)	(%)	(=N='000)	(%)
Fire	571,130	13%	752,700	12%	925,770	11%	1,557,780	15%	2,850,071	14%
Motor	1,073,170	24%	1,484,940	24%	2,110,360	26%	2,994,590	28%	4,061,407	20%
Gen. Acc.	700,890	16%	1,013,190	16%	977,080	12%	1,292,000	12%	1,767,212	9%
Mar. & Avt.	1,455,590	33%	2,434,870	39%	1,142,270	14%	2,944,460	27%	2,992,406	15%
Life	670,770	15%	539,490	9%	923,510	11%	1,199,010	11%	2,054,906	10%
Others					2,036,570	25%	[illegible]	[illegible]	[illegible],107,062	35%
TOTAL	4,471,550		6,225,190		8,115,560		10,716,102		20,833,064	

Sources:

1 National Insurance Commission, Abuja.

2 Nigeria Re, Abuja.

Tab II

Five Year Summary Of Net Premium Income; 1992-1996

	1992		*1993*		*1994*		*1995*		*1996*	
Class	*(=N='000)*	*(%)*	*(=N='000)*	*(%)*	*(=N='000)*	*(%)*	*(=N='000)*	*(%)*	*(=N='000)*	*(%)*
Fire	34,980	*14%*	42,167	*13%*	40,697	*10%*	71,130	*12%*	1,436,401	*18%*
Motor	79,380	*31%*	90,331	*28%*	165,541	*39%*	238,268	*39%*	2,454,734	*31%*
Gen. Acc.	50,340	*20%*	76,320	*24%*	60,310	*14%*	84,344	*14%*	985,171	*13%*
Mar. & Avt.	54,240	*21%*	79,890	*25%*	37,692	*9%*	87,026	*14%*	741,993	*9%*
Life	34,780	*14%*	30,160	*9%*	55,077	*13%*	103,853	*17%*	1,925,714	*24%*
Others					60,047	*14%*	32,529	*5%*	329,226	*4%*
Total	*253,680*		*319,868*		*419,361*		*617,150*		*7,873,244*	

Sources:

1. National Insurance Commission, Abuja.
2. Nigeria Re, Abuja

Loss Ratio Of All Companies By Class Of Business; 1992-1996

Class	*1992* (%)	*1993* (%)	*1994* (%)	*1995* (%)	*1996* (%)
Fire	24.90	26.50	14.78	91.60	2.77
Motor	53.00	50.00	25.13	20.00	6.53
Gen. Acc.	48.60	27.10	27.58	21.00	3.89
Mar. & Avt.	11.60	12.40	17.49	74.70	3.98
Life	24.80	19.90	43.60	46.60	2.08
Oil/Gas			14.73	50.90	0.54
Others	28.60	27.80	18.14	74.60	1.19
ALL CLAS!	28.6	27.8	18.13	7.46	6.05

Notes: " Loss Ratio" is Gross Claims presented as a percentage of Gross Premium.

Tab. IV

Investment Pattern Of Insurance Companies (Life); 1992-96

Type of Investment	1992 (=N='000)	1992 (%)	1993 (=N='000)	1993 (%)	1994 (=N='000)	1994 (%)	1995 (=N='000)	1995 (%)	1996 (=N='000)	1996 (%)
Federal Govt. Securities	175,600	13%	271,400	19%	277,730	35%	175,780	4%	210,930	5%
State Govt. Securities	148,400	11%	72,800	5%	2,700	0%	35,740	1%	42,880	1%
Semi-Govt. Securities	137,900	10%	46,200	3%	30,300	4%	212,160	5%	237,370	5%
Other Bonds & Stock	506,100	37%	564,500	40%	162,540	21%	1,503,150	38%	1,653,400	35%
Real Estate	124,900	9%	171,900	12%	21,020	3%	1,135,580	29%	1,476,250	32%
Morgage Loans	45,900	3%	58,100	4%	159,240	20%	68,280	2%	75,100	2%
Loans To Policy Holders	32,500	2%	60,100	4%	15,770	2%	230,470	6%	299,610	6%
Other Loans	16,200	1%	54,300	4%	6,470	1%	111,270	3%	122,390	3%
Cash On Deposit Account	172,400	13%	96,700	7%	107,330	14%	314,580	8%	387,490	8%
Bills Of Exchange	7,800	1%	2,600	0%	2,290	0%	191,730	5%	171,560	4%
TOTAL	*1,367,700*		*1,398,600*		*785,390*		*3,978,740*		*4,674,980*	

Sources: 1 Nigeria Reinsurance Corporation, Abuja
2 National Insurance Commission, Abuja.

Tab.V

Investment Pattern Of Insurance Companies (Non-Life); 1992-96

	1992		1993		1994		1995		1996	
Type of Investment	*(=N='000)*	*(%)*	*(=N='000)*	*(%)*	*(=N='000)*	*(%)*	*(=N='000)*	*(%)*	*(=N='000)*	*(%)*
Federal Govt. Securities	124,200	*6%*	238,700	*9%*	162,110	*7%*	527,340	*11%*	685,540	*11%*
State Govt. Securities	4,600	*0%*	17,400	*1%*	17,790	*1%*	24,340	*1%*	26,770	*0%*
Semi-Govt. Securities	66,600	*3%*	77,400	*3%*	68,710	*3%*	110,970	*2%*	133,160	*2%*
Other Bonds & Stock	419,700	*22%*	697,600	*26%*	587,850	*26%*	1,112,930	*23%*	1,335,510	*22%*
Real Estate	204,500	*11%*	382,400	*14%*	397,510	*18%*	1,222,490	*26%*	1,589,200	*26%*
Mortgage Loans	55,200	*3%*	42,300	*2%*	60,690	*3%*	90,530	*2%*	89,480	*1%*
Loans To Policy Holders	21,900	*1%*	39,600	*1%*	53,910	*2%*	4,850	*0%*	3,780	*0%*
Other Loans	586,100	*30%*	748,800	*28%*	378,800	*17%*	223,160	*5%*	178,530	*3%*
Bills Of Exchange	136,600	*7%*	7,100	*0%*	48,900	*2%*	471,340	*10%*	565,600	*9%*
TOTAL	*1,922,000*		*2,669,500*		*22,299,220*		*4,782,820*		*5,999,380*	

Sources: 1 National Insurance Commission, Abuja.

2 Nigeria Re, Abuja

maintenance of confidence in the international finance system, maintenance of the per value of a national currency vis-a-vis other currencies.

The spread of risks over large numbers and geographically beyond national confines, protects National assets and when the volume of reinsurance business ceded abroad is traded on the basis of reprocity, it can with time and proper arrangement and planning result into an in flow of premiums and thus constitute an earning on invisible trade to the nation. This of course can only be possible if exchange control measures at the national level are not stringent as to affect the credibility of the local insurance market in the International Reinsurance Sphere.

4.5 FOOTNOTES

1. Hugh Cockrell, Business and Management Studies; Insurance; Hodder and Stoughton Educational, Dunton Green, Sevenoaks, Kent (The chaucer press) Ltd. Bungay, Soffork, 1980.

2. Nigerian Insurance Corporation, published by Nigeria Reinsurance Corporation, 1997.

3. Hugh Cockerell, Business and Management Studies; insurance; Hodder and Stonghton Educational, Dunton Green, Sevenoaks, Kent (The chaucer press) Ltd., Bungay, Soffork, 1980.

4. Nigerian Insurance Year Book, published by Nigerian Reinsurance Corporation, 1997.

5. Ibid

6. Hugh Cockerell, Business and Management Studies; Insurance; Hodder and Stoughton Educational, Dunton Green, Sevenoaks, Kent (The chaucer press), Ltd., Bungay, Soffork, 1980.

CHAPTER FIVE

5.1 SUMMARY

This research project work has tried to analyse the activities of the insurance companies as a whole and its relevance to the individual, business organisation and the nation in general. Efforts has also been made to highlight some of the contributions of the industry to the economic development of Nigeria.

The introductory aspect of the study has described insurance business as simply a mechanism designed for the primary purpose of rescruing the victim of a calamity from the devastating effect of his misfortunes, in purely monetary terms.

Generally, the first chapter discussed on the purpose and importance of the study to the reader. The significance of the study, the scope and limitation of the study were also provided. The chapter also delved on the sources of data and method of the research, explanations and definitions were provided for the operational terms used in the study.

In chapter two, relevant literatures were reviewed bothering on the insurance industry. The evolution of the industry to the Nigerian Market was explained, the roles of the industry to Nigeria was also explained: The problems and factors affecting the effective marketing of insurance and the prospect of the insurance industry were reviewed.

Chapter three delved on the issues of the management of insurance risks in Nigeria, the general appraisal of regulatory measures in the insurance sector, the need for promotion of insurance awareness and man-power development, and instrumentally on some Government Insurance Agencies on how it relates to the general operations of the insurance industry.

Whereas chapter four delved on Reinsurance and its operations, the Nigerian Reinsurance operations and its relevance to the insurance industry in general. Lastly, the study also highlighted on the performances of the industry and the growth of the industry.

5.2 CONCLUSION

It has been revealed in this study that the insurance industry has played a crucial role in the economic development of Nigeria. The industry will contribute even more positively to the country's social and economic development as the degree of insurance awareness in the country improves. At present, the industry is still largely misunderstood and there is still a measure of hostility towards insurance practitioners, but fortunately, the industry as a body is doing very little itself to alter this poor image. There is hope that all this will change with better education of the average Nigerian as the value of insurance to the individual and the nation.

It is imperative to conclude that the insurance industry being a service rendering business, and because of the peculiar nature of its services, the need for a better public image for the industry cannot be overemphasised. Times are changing, and competition is increasingly widening the scope of activities of professional bodies, such that one is beginning to see some overlap. The line between insurance activities and what other financial sectors such as banks render is fast disappearing, and if the industry hopes to remain relevant and independent, as well as a main stream component of the financial industry, it must aim to be truly professional.

Insurance is an international business, bringing together in close contact companies all over the world that participate in risks through reinsurance. Because of the world recession of recent years, most insurance and reinsurance companies all over the globe have been experiencing unfavourable underwriting results. There are now more reasons than before why experts all over the world have to frequently come together to find solutions to the increasing problems of the insurance business. Even though there is a world-wide depression in the insurance industry, the effect on the developing countries is more acute. While insurance companies in Nigeria, for example, face with the problems of premium collections and other unethical practices at home, they are also in addition have to contend with the pressures form overseas insurers whose conditions are getting stiffer and stiffer during Annual Reinsurance Treaty renewal negotiation.

Frank contributions from reinsurers, insurance and reinsurance brokers, consultants and the direct insurers will definitely serve to identify the problems prevailing in the Nigerian Insurance Market and promote ways and means of tackling them.

Insurance has been described as the hand maiden of commerce and as an industry that exists to ensure the survival of other industry. In developed economies, insurance is the most important form of private financial service in terms of quality and quantity. A large part of their amount flows back through the financial system to support trade and development. The traditional role of insurance has always been to support business and socio-economic developments, by eliminating the risk burden from an enterprise or individual through a specialised mechanisms of risk analysis and risk underwriting.

In the light of the above, therefore, in the modern society in which we now live and to which we aspire in the 21st Century, to ignore the insurance sector is the surest way to promote societal disequilibrium and economic backwardness of our national economy, Nigeria.

5.3 RECOMMENDATIONS

In view of that the performance of the insurance industry depends to a great extent on the social, economic and political environment in which it operates, the insurance industry of any nation, is to a great a reflection of the level of performance of the nation's economy and the general state of the environment. Although the Nigerian insurance industry has played and continues to play a useful role in the country's development, there is no doubt that the full potential of insurance as a factor in the social and economic development of nation has not yet been achieved in Nigeria.

In the light of the above therefore, for our insurance industry to be strong, viable, efficient and disciplined, the following suggestions are recommended:

(1) There should be improvement in the publicity given to insurance activities in order to educate the public generally about their rights and obligations under the various insurance contracts. This should enhance the image of the industry in the eyes of the public.

(2) The insurance companies should make deliberate efforts to increase their underwriting capacities with the objective of providing greater securities for the nation's assets. Government should be prevailed upon to insure its properties hitherto uninsured. This should lead to the industry having access to greater volume of business and therefore, a better balanced business portfolio.

(3) The government should relax its supervisory role in the area of investment of insurance funds. The insurers should be given autonomy in the area of investment. For the insurance companies to

increase their profit levels and performance, they should be given freedom to invest in high profit ventures rather that being compelled to invest specific percentage in government securities that provides low returns. Additionally, the insurance companies should spread their investment to rural areas to assist developmental ventures in these areas, subject to the viability of such projects.

(4) It is of paramount need, cooperation between the police, fire service, insurance companies and all those connected with security and safety of lives and properties in order to minimise or prevent losses. In addition, in order to reduce fire waste, which is a major national problem, government should prescribe that a percentage of the fire premiums income be applied towards the improvement of our fire services and the provision of fire fighting equipments.

(5) The industry needs to be more positive and forward looking by developing new products that are relevant to the needs of the people, up to the rural areas which are yet to feel the impact of and the need for insurance services. The challenges and opportunities likely to emerge in the few years ahead may in fact assume dimension that has never been experienced in the history of the industry. The industry, therefore, needs to look at some of these issues with a view to working out lasting solutions that would enable the market develop without hindrance. These include: Market sanitation and recapitalisation, development of new product, adequate capacity, information technology, development of human resources, positive insurance awareness and returns on investment.

(6) There is the growing need for improved management information system. This will be supported by the pressure for the reduction of management expenses through the effective use of computers and other technologies as a support for marketing, administration, finance, business control and information management. This will enable the insurance industry to underwrite easily the risks that are likely to emerge in the next century.

(7) There is the need for a wider geographical spread in the operation of the insurance industry. The industry should find a means of exchange of business with other countries in ECOWAS region, beyond the Brown card issue.

(8) Regulatory body alongside trade associations such as NIA, NCIB and ILAN must be given powers to discipline erring members. The self regulation efforts of the NIA such as the

Distinguished Insurers Award which was instituted with good intentions of promoting effectiveness in the management of insurance companies, as well as entrenching the spirit of competitiveness and excellence should be encouraged.

(9) Real professionals only should be allowed to manage the broking firms and underwriting and reinsurance, and they must be subject to sanctions. Rate cutting is a difficult area to control but if the industry is disciplined, and the measures put in place by NIA are enough to rectify the situation. One of such is that a company should not accept a business from a broker or agent with a premium that is less than what was charged by the insurer in the preceeding year. Granting of unnecessary discounts rather than those that are recognised in the industry must be discouraged, what practitioners termed "purchased premium".

(10) The insurance companies have to recognise the need to have highly trained and experienced manpower in the accounting and statistics departments of their organisations. National Insurance Commission, NICON and the Nigerian Reinsurance have a leading role to play in this respect by organising specialist courses in the area of reinsurance book-keeping and accounting.

(11) The insurers should organise a data-bank of up-to-date statistics of insurance and reinsurance operations in the country and outside. A lot of the negotiations with the government and other authorities have failed to yield positive results because they are not backed with correct and convincing statistics.

(12) The compulsory cession to the Nigeria Reinsurance Corporation should be reviewed because as it now operates, it has adverse effect on the growth and retention capacities of the companies. The original idea of legal cession based on each policy issued by insurer, was intended to be punitive in a situation where foreign companies dominate the market. This is no longer the case in Nigeria and it would therefore be more appropriate for the legal cession to relate to the surpluses beyond the retention of the ceding offices.

(13) It must be realised that the number of insurance companies operating in the country does not necessarily translate into increased capacity. It is therefore important for companies tothink seriously in terms of mergers. The goverment should lay down favourable conditions

for companies to be ready to merge in order to increase the underwriting capacity of the market.

(14) The last certainly has not been heard on the issue of NICON's monopoly over the insurance of government properties/assets. Many insurance practitioners, particularly those in private sector are latching, that all laws which inhibit competition and confer monopoly on certain parastatals should be repealed to give competition a pride of place. It was unhealthy to have one firm handle government's assets in an economy where about 120 insurance companies exist, which is capable of putting the interest of the insured in jeopardy when a loss arises.

Conclusively, it is important to note that the best security money can buy is insurance, therefore the public should invest as much as possible to purchase security for their lives and properties by taking the insurance policy.

Hopefully, if the above suggestions are adopted effectively, the insurance industry will have a remarkable impact on the economic development of Nigeria.

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