MANAGEMENT OF REINSURANCE FUNDS
A CASE STUDY OF NIGERIA REINSURANCE CORPORATION

BY

SULEIMAN ABDU KWARI

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BEING A PROJECT SUBMITTED TO THE POST GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE IN MASTERS OF BUSINESS ADMINISTRTATION (M.B.A.)

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DECLARATION

I hereby declare that this project is a product of my research findings and that I am responsible for any errors committed and/or omissions. All articles used here have been acknowledged accordingly in the notes and references.

SULEIMAN ABDU KWARI

CERTIFICATION

This project titled "Management of Reinsurance Funds": A case study of Nigeria Reinsurance Corporation meets the regulations governing the awards of the degree of Master in Business Administration (M.B.A.) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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Signature of Supervisor — Date:..................

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Head of Department — Date: 6/4/99

Dean Post Graduate School — Date: 19/12/00

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Finally, my special thanks goes to my parents late Alhaji Abdu Kwari and Hajiya Mariya Abdu Kwari for their support and good upbringing.

DEDICATION

This project is dedicated to my son Saleem and my daughter Samira who showed unusual patience and understanding when I had to turn off the T.V. and deny them my attention in order to concentrate and complete this MBA programme.

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ABSTRACT

The success of any organisation depends on the effective management of its funds. Management of investment funds is one problem confronting many companies including the Nigeria Reinsurance Corporation. This project examines the management of Reinsurance funds with particular reference to Nigeria Reinsurance Corporation. Specific focus was placed on the determination of the efficiency and effectivenes of management of funds generated through premiums, compulsory legal cession, investment income and other sources in Nigeria Reinsurance Corporation.

The study reviewed that about 85% of registered insurance companies in Nigeria transact business with Nigeria Reinsurance Corporation. 10096 of the premiums received by the Corporation is invested by way of fixed deposits, purchase of services, debentures, government securities, real estate and the like. The Corporation has also succeeded in conserving the foreign exchange of the country to a large extent and part of the premium received are remitted abroad for further spreading of risk. However, the Corporation has not succeeded in collecting much premiums because the defaulting companies have not been prosecuted, and the volume of work in the Corporation has grown to the extend that the mannual system being used could no longer cope with it.

The investment problem of Nigeria Reinsurance Corporation, these study revealed, were not caused by inadequate funds, the government fiscal policies among others affected the Corporation's miximization of its investible funds. Based on our findings, the recommend actions of this study if implemented will reduce if not solve most of the identified problems.

CHAPTER ONE

INTRODUCTION

1.1. The success of any organisation depends on the effective management of its funds. Peter F. Drucker, in his book "Practice of Management" sees management as the specific organ of the business enterprise. Nwankwo, G. (1991) simply defined management as "a process of getting things done effectively through the organised efforts of other people". Of all the activities performed in organised human life, management is the most difficult and most intellectually demanding because it borders on decision making.

Management of any profit making organisation involves planning the inputs, the outputs and the process of converting the inputs into outputs and getting them delivered to the ultimate consumers at a profit. This objective is maximization of profits or wealth for the owners. The scope and sophistication may differ, but the basic functions are the same.

Management of investment funds is one problem confronting many companies and individuals alike. In the Insurnace Industry alot of funds are generated inform of premium on policies underwritten by Insurance companies, investment income and other sources. These funds are invested in profit yielding ventures with a maximizing net benefits and minimising costs. As discussed earlier, management being the process whereby resources are combined into an integrated system in order to accomplish the objectives of the system, this definition therefore treats management as a process within a total system with managers who get things done by working with people and other resources (funds indusive). The scarcity of reasoruces (funds) especially in the current world Economic Recession has made it mandatory for a better and effective management of funds.

This research therefore is intended to examine the sources of funds for the Insurance and Reinsurance Industry for Investment purposes, how these funds are managed for maximum benefits, and the associated problems with particular reference to Nigeria Reinsurance Corporation. Also to be considered are alternative sources of funds and investment opportunities open to the industry. Useful suggestions on methods of investment appraisal, analysis, evaluation and project selection would be made.

1.2. STATEMENT OF THE PROBLEM

The problems of this study are:

1. Determination of the efficiency and effectivenes of Management of funds generated through premiums, compulsory legal cession, investment income and other sources in Nigeria Reinsurance Corporation.
2. Determination of the area of investment opportunities open to the Corporation.
3. Examination of how funds accruing to the Corporation are managed.

1.3. OBJECTIVES

The objectives of this study include:

1. To examine the investment opportunities available to the Insurance/ Reinsurance Companies.
2. To examine sources of funds and funds generated in Nigeria Reinsurance Corporation.
3. To determine how these funds are managed for profit maximization and cost minimization in Nigeria Reinsurance Corporation.
4. To identify problem areas and make useful recommendations to the management of the Corporation which could assist them in solving the problems.

1.4. SIGNIFICANCE

The significance of this research therefore is to provide some insight into the operations of Nigeria Reinsurnace Corporation, how funds are generated by the Corporation and how these funds are managed. It is relevant to supplement the efforts of individuals and organisations that are making contributions on how to get a realistic management of Reinsurance funds in the Corporation. A realistic management of funds is important for the Corporation to give a better sense of direction and to put it in a right course.

1.5. SCOPE OF THE STUDY

This study will be limited to Nigeia Reinsurance Corporation in Abuja. The funding of the study may not be generalised to all companies in the Insurance Industry. it would not be possible to cover all the Insurnace and Reinsurance companies, hence this study would be limited to Nigeria Reinsurance Corporation with few instances taken from other insurance companies where necessary.

The reason for choosing Nigeria Reinsurance Corporation for this study was because it was considered to be the most diversified Insurance company in terms of investment purposes mainly due to the decree establishing the Corporation.

1.6. LIMITATION OF THE STUDY

Some problems would be encountered in the course of the research . Some information like the market value of all quoted shares for the period of study may not be available in the Nigerian Stock Exchange. The limitation might be in terms of data collections since some of the materials needed may be sensitive documents of the Corporation.

1.7. DEFINITION OF TERMS

The following words are defined as they will be used in this study:

Ceding Company: This is the primary insurer who has reinsured with the reinsurer or reassurer. He is known as the direct or original insurer or the ceding insurer.

The Insured: This is an individual or a company that decided to take up an insurance cover. They are also called policy holders.

The Insurer: The company that protects the individual policy holders against any loss. They are insurance companies.

Reinsurer: The company that protects the primary insurer or the ceding company from being crippled by large losses beyond the financial capacity of the insurer concerned.

Bordereaux: This is a form submitted by the ceding companies to the reinsurers, showing all transactions of companies. The form indicates the insured, typed of transaction or risks, limits of liability, gross premium, legal cession, commission and premiums due to the reinsurer.

Cargo: This includes all kinds of moveable personal property other than animals.

Catastrophe: This is an event (e.g. flood, earthquake) which results in substantial claim being made on an insurer.

Corporation: This means the Nigeira Reinsurance Corporation.

Cession: Cession refers to the amount of a risk given off by way of reinsurance by the ceding company to the reinsurer. It also represents the amount accepted by the reinsurer. Thus, to cede a risk refers to passing on to the reinsurer of a portion of a risk and the reinsurer is said to have reinsured when he accepts such a cession of a risk.

Policy: A document detailing the terms and conditions applicable to an insurance contract and constituting legal evidence of agreement to insured.

Facultative Reinsurance: This is a system of reinsurance under which each and every offer of reinsurance is considered individually by the reinsurer who either accepts or declines in accordance with the dictates of his faculties.

Hull Insurance: Insurance of a ship, boat or aircraft, including its machinery and aircraft equipment in the event of war.

Nigeria Re: This means Nigeira Reinsurance Corporation.

Offshore Reinsurance: This refers to reinsurance of risks in relation to drilling activities in the high sea, that is drilling activities off the land.

Onshore Reinsurance: This is reinsurance of risks on the land.

Portfolio: The total securities owned by the Corporation.

Premium: Premium is the consideration for a contract of insurance.

Retention: This is the proportion of risk or the amount of the liability which the ceding company retains for its own account.

Reserve: This is funds set aside by an insurance or reinsurance company for the purpose of ensuring that the obligations of the reinsurers or retrocessionaires are met.

Retrocessionaire: This is the reinsurer that reinsures another reinsurer.

Risks: This means a person or thing or liability insured or reinsured.

Pool: A pool is a group of insurance companies that have joined together for the purpose of sharing business or risks of a certain class on an agreed basis.

Retrocession: Retrocession means the reinsurance of part or all of a business which the reinsurer has obtained by way of reinsurance that is, reinsurance of a reinsurance. This takes place when a reinsurer decides to limit his liability in respect of business which he has reinsured and therefore reinsures such business or part of it with another reinsurer or reinsurers.

WAICA: West African Insurance Consultative Association.

Treaty Reinsurance: This means a binding reinsurance contract between an insurer and a reinsurer under which risks written by the insurer are automatically reinsured by the reinsurer as written, but always subject to the extent, terms of conditions agreed and stated in the treaty wordings.

Class of Business: The types of policy issued e.g. Fire, Marine or Motor etc.

Right of First Refusal: This is the right the reinsurer has to refuse any additional business in respect of reinsurance business if the reinsurer feels that it cannot accept such business apart from the compulsory cessions specified under the provisions of the Decree which it must operate.

CHAPTER TWO

LITERATURE REVIEW

The purpose of this chapter is to bring together the view of different authors and Insurance/Reinsurance experts with regard to the management of Reinsurance. These views will be based solely on information extracted through primary sources such as text books, newspapers journals and other secondary sources.

The subject of management of Reinsurance funds has gained much ground in the developed countries. This would not have been so but for their level of economic development. They have attained that tertiary age in which various forms of investment opportunities are being utlized in order to maximize the shareholders' wealth. In the developing countries however, this is still at very low ebb.

2.1. WHAT IS REINSURANCE?

Reinsurance according to Robert Melar and Emerson Cammsack (1967) is the insurance of insurance. When an underwriter receives an application for insurance on property exceeding its retention limit, the excess amount may be reinsured and if business from all agents exceeds the amount supportable by the insurer's surplus position, part of the business can be insured. This amount of business placed with the reinsurer is called the "ceded".

Irukwu, J. O. (1977) defined reinsurance as an extension of the insurance principle and it is nothing but a tool for the effective sharing of risks. Since reinsurance is an extension of the insurance principles of insurable interest, indemnity and utmost goodfaith. The traditional legal definition of reinsurance is that it is a contract whereby one party agrees to indemnify another party wholly or partially against loss or liability by reason of distinct contract as insurer of a third party. This goes to show that a reinsurer does not transact any business with the individual policy holders but with the original insurer which is the insurance company or the ceding company.

The main objective of the reinsurer is to protect the primary insurer or the ceding company from being crippled by large losses beyond its financial capacity.

Principles guiding the investment of insurance funds are classified as:

i) Liquidity

ii) Maximisation of returns on investment (Profitability)

iii) Development and

iv) Inflation.

Government exercises a lot of regulatory control on the investment of insurance funds, primarily to ensure that the interest of the insured is adequately protected. The variours stipulations contained in the insurance Decree 1991 are to be highlighted or restated.

2.2. *PREMIUM COLLECTION*

Under section 7 of the decree No. 49 of 1977 it was provided that the registered insurer shall pay over to Nigeria Reinsurance Corporation an amount equal to 20% (percent) of the premium received by the registered insurer in respect of every insurance policy issued or renewed by it; but most insurance companies violate this rule. In the insurance market, brokers and agents are known to collect premiums from clients without paying them over to the insurance companies for months, and in some cases policy holders who enjoy credit facilities hardly ever pay up on time in 1979, an independent survey carried out in one of the major markets of a third world country revealed that Brokers and Agents are one time owed the leading insurers almost 50% of the gross annual premium of the market. For the same reason, reinsurers also default in the payment of premiums to their reinsurers.

The ceding companies send out their monthly returns to their reinsurers by completing the premium bordereaux in respect of all classes of reinsurance business transacted during each month. This bordereaux provide such information as the cession member, the name of the insured description of the risk insured including its location and the total sum insured. If the insurer cancels the policy, the insured receives a pro-rata return of premium from both the insurer and reinsurer.

2.3. METHODS OF REINSURANCE

There are two basic methods of reinsurance proportional (or participating) and non-propportional (or non-participating).

i) **Proportional Method**

Under proportional reinsurance arrangement, the reinsurer receives a proportion of the premium paid by the insured and pays the same proportion of any loss under the policy.

ii) **Non-Proportional Method**

In the non-proportional reinsurance arrangement, the reinsurer receives a percent of the ceding company's annual income for the class of business covered and pays the excess over a specified amount of claim. Thus, although the proportional arrangement allows for the payment of premiums and claims related to a particular policy, the non-proportional arrangement allows the payment of premium income of a class of business and claim settlement based on the excess over a specified amount of claim in that class of business. in every general terms it may be said that proportional is affected by class of business although settlement may be per risk or event.

Under these two methods of reinsurance there are three ways in which reinsurance are usually arranged:-

i) Facultative

ii) Treaty

iii) Pool

FACULTATIVE

Under the facultative reinsurance, each risk is considered separately. When the primary insurer has decided on his own retention, he approaches the reinsurers he believes would be willing to accept a share of the risk. Each reinsurer then examines the risk, applying his own intelligence skill and faculties or determing whether or not to accept the risk and on what terms and proportions.

When a facultative reinsurance cover has been agreed and effected, the ceding company will then supply the reinsurer with a copy of the original policy and other details. The reinsurer on receiving this would issue a reinsurance policy or reinsurance certificate would indicate the amount of the liability reinsured and the premiums charged. The same view is shared by Chief J. O. Irukwu in his book "Reinsurance in the Third World" and also Robert I. Mehr and Emerson Commark in their book "Principles of Insurnace" about the facultative reinsurance.

Treaty

This was defined by Chief J. O. Irukwu as " an agreement in writing between as Insurer known as the ceding company, and the insurer under which the ceding company agrees to accept all reinsurance offered in accordance with the terms and limits stipulated in the treaty". Whenever there is a treaty, the direct insurer or the ceding company must first cede business to the treaty before going outside to place the risk facultatively where the amount at risk is greater than the treaty can absorb. A treaty reinsurer cannot refuse business ceded to the treaty provided the business falls within the scope of the treaty. There are different types of reinsurance treaties. The Quota Share and Surplus treaties. The quota share treaty is a binding reinsurance agreement whereby the ceding company is bound to cede and the reinsurer must accept an agreed percentage of every risk written by the ceding company on an agreed class of insurance business. Thesame proportion of the original premium collected by the direct company must also be paid over to the quota share reinsurer less the agreed reinsurance commission. The operatives clause in the treaty will indicate the percentage of the risk to be reinsured. For example, where under a quota share treaty it is agreed that 60% of all motor risks would be reinsured, the ceding company would retain 40% of all motor risk and reinsure the remaining 60% with the reinsurers who would also be responsible for 60% of all calss and the ceding company will bear 40% of all losses. Under a quota share treaty, the ceding company must pay away premiums to the reinsurer in respect of small good quality risks which it could quote easily have absorbed without much difficulty. This is to the disadvantage of the ceding company. Because of high cost of the quota share treaty as a result of the potential profits which the ceding company is made to pass on to its reinsurers. It is only best on a short term basis and for specific purpose. it is very useful to a new class of business and requires time to build up its capacity and expertise. Small capital companies are therefore advised to use a quota share treaty at its early stages. Until it has built up a sizeable volume of business when reinsurers will be disposed to allow it to change to a surplus treaty.

A surplus treaty is defind as an automatic reinsurance contract under which the reinsurer is bound to accept and the ceding company is bound to retrain for its own account one risk before it allots any liability to its reinsurer. Under the surplus treaty the reinsured is only required to cede to the treaty the surplus on any business it writes in excess of its own retention subject to the terms and limits as indicated in the treaty. The surplus treaty gives the primary reinsurer all the advantages of automatic treaty reinsurance protection without the disadvantages of the quota share treaty, therefore, if a risk is of a size that the ceding company may retain all of it for its own account, then there is no surplus to be reinsured in the treaty.

POOLS

Reinsurance by means of the pooling method has had special appeal to insurance and reinsurance institutions in the developing countries. It is mainly used in respect of extra harzardous or catastrophe risks where insurers expect to be called upon to pay very large claims, such as aviation and atomic energy risk or even "motor tanks" risks in some developing countries.

Under the pooling arrangement, all the insurers who are members of the pool put all or part of their premiums for the particular class of business into the pool and they share any cliams in the same proportions as their premiums. Similarly, all expenses and profits are shared by the members of the pool in the same manner. Kenneth R. Thompson has this to say on pools:

> "Companies make use of an arrangement called a pool which acts the part of a reinsurance corporation. When a pool is arranged, several insurers enter into an agreement whereby each insurer assumes a stated share both of premium and of losses with respect to risks exceeding certain limits or retentions or risks of a special classification written by members of the pool".

He went further to say that the pools operation are along the lines of a reinsurance treaty which affords the facilities of reinsuring very large risks. It is realised that sometimes a company may turn into the pool only bad business while it continues to share in the pool business.

Calit Nomer had this to say:-

> "An insurance or reinsurance pool is a joint venture of a number of insurance and reinsurance companies in a country or within a region. In an insurance pool, the pool underwrites the risks centrally on behalf of the member companies whereas on a reinsurance pool, each participating company individually

underwrites its own risk first, and then cedes a pre-agreed portion of these to the pool. In either case, the whole business is eventually redistributed to the member according to a prefixed formular".[5]

This is in conformity with Kenneth R. Thompson's view of what reinsurance is.

2.4. CESSIONS TO THE POOL

Cessions by member companies are not entirely left to their discretion and they are frequently subject to some conditions otherwise, this may discriminate against the pool as the companies may cede only their unattractive business and/or very small shares of their available business which would hamper the potential growth, development and capacity of the pool.

2.5. UNDERWRITING

"Underwriting" according to Robert T. Mehr" is the process of accepting or rejecting risks. If the risk is accepted, underwriting is further concerned with terms under which the particular risk is insured".[6]

Underwriting includes both pre-selection and post-selection of risks. Pre-selection involves gathering relevant information concerning the risk and arriving at a decision whether to accept or reject the risk. Once a risk is accepted then the insurer must practice post selection, which is the process of reviewing persons already insured and terminating those no longer desirable. The employees who specialise in deciding whether or not to accept a risk are known as the underwriters and the underwriter would be an agent or a broker or any other employee. The underwriter has to obtain adequate information for making equitable and profitable underwriting decesions.

Some of the information helps to identify possible hazards and provide insight on controlling these hazards. Such information as the applicant, the applicants' living habits, the physical condition of the applicant or the property and the character of the person requesting insurance.

Nigeria Reinsurnace Corporation despite having its underwriting department has to accept 20% compulsory legal cession of any underwritten business by the ceding companies. To guard against underwriting bad risks, Mr. J. I. Abulime insists that the following factors must be considered.

i) Boom or Recession in the economic activities of the country.

ii) Knowledge of the geographical area enables the underewriter to acquaint himself with the nature and other related hazards such as violent, hurricanes, typhoons, earthquakes etc.

iii) The laws operating in the country should also be considered. Necessary information on laws of a country should be obtained before going into any business.

iv) Legal reguirements of the government as regards registration of the company to be dealt with must be investigated.

v) Evaluation of all offers received before "accept" or "reject" decision is made. This is to ascertain whether the treaty is balanced, whether the account is going to be profitable considering the overall deductions applicable and to insure that the statistics as provided include all the vital information.

vi) The underwriter having accepted an inward treaty must do a follow up in order to determine whether it has been a profitable business.

2.6. CLASSES OF REINSURANCE

Fire

A fire policy covers the policy holders against loss of or damage to the insured property, resulting from an accidental fire. The main risks insured against is fire but the scope has recently extended to cover special perils, some quite unrelated to fire and are covered on payment of an extra premium. The different kinds of insurance cover under fire are:-

i) **The Ordinary Fire Policy:**

These are issued to indemnify the insured against accidental fire, damage to the property covered under the policy, such property may be a building or the contents of the building. The fire must be accidential from the insured's point of view and there must an actual ignition.

ii) **Loss of Profits:**

The ordinary fire policy covers the insured person against loss due to the fire damage to his material property. The insurers will provide the money necessary to repair or reinstate the material damage. If it is a building, they will provide money to repair or reinstate. The insurers are not liable to pay the policy holder for the loss of the profits that would normally have accrued to him had his business not been upset by the fire. Loss of profit or consequential losses are not covered by the ordinary standard fire policy.

In Nigeria Reinsurance Corporation, fire business accounted for N21.7 million of the Corporation's overall income for 1983, showing a substantial increase when compared with the premium income of N14.7 million written in 1982. This class of business has maintained a portfolio share of 19% of the Corporation's overall gross income. Fire business in 1983 was satisfactory except for the Nigeria External Telecommunication (NET) building (now NECOM

House) fire loss estimated to cost insurance companies over N30 million, of which the Corporation had its own share.

iii) **Motor and General Accident**

The scope of accident insurance is wide and it is the youngest and most recent of the four main brances of insurance. It includes all types of insurance not covered by the marine, fire and life departments. An accident is a mishap which is neither looked for nor designed by the insured. The event may have been designed unintended by some one else, but provided it was accidental or unexpected by the victim, it is an accident from the point of view of the victim. Thus, a burglary carried out by another person is an accident from the victim's point of view. The different classes of insurance handled by accident department are motor insurance, personal accident, employers liability, public liability etc.

Motor insurance business controlled about 45% of the insurance gross premium income in Nigeria. Motor insurance business recorded N49.5 million premium income in 1975, N75.8 million in 1976, N103.8 million in 1977, and N113.6 million in 1978. The premium fluctuated to N104.6 million in 1979 but leaped to N122.2 million in 1983. If the growth in premium is used as a yard stick, it could be said that the motor vehicle insurance sector is lucrative. But Mr. Ogundasan had this to say "Motor insurance is not a paying aspect of our business of all". He based his contention on the skyrocketing cost of repairs and spare parts which he says compares very miserably with "the premium we have been charging. For instance, you pay N1,000.00 as premium and we have to repair with costs running as much as N2,000.00 N3,000.00 and so on. It is not paying". Another insurance executive, Mr. Banjo Yusuf, hold the same view with Mr. Ogundekan, M. A. that motor insurance is no more a profitable business in Nigeria despite such additional measures as increases in excess damage especially for theft and premium loading. Mr. Yusuf of the Sentinel Assurance Company noted that motor insurance was still profitable in terms of accidental damages but that theft cases involved total loss. Nigeria Reinsurance Corporation has experienced a marginal growth rate on motor business which they attributed to the general economic situation and serval plants have had to be closed temporarily. The gross income for motor business was recorded of N22.4 million in 1983 as against N21.9 million in 1982 a marginal increase of 2.3%. General accident business showed a growth of 35% based on the 1983 income of N31.8 million and the 1982 figure of N23.5 million.

iv) **Marine and Aviation**

Marine insurance covers ship, freight and cargo against maritime risks. The ship, cargo, freight and profits are exposed to very many hazards during a voyage by sea and the purpose of marine insurance is to protect the owner of the relevant interest against accidental losses arising from the materialisation of these sea perils.

Aviation insurance deals with the insurance of aircraft, the cargo they carry and the operator's liability for damage to third party property and injury to passengers.

"Compared with other classes, marine business suffered a substantial drop in income in 1993. In view o f restrictions imposed on importation, the income for this class was only N24.36 million showing a drop of about 26.45% when compared with the previous year's figure of N33.12 million. The substantial drop affected mainly marine cargo". In respect of aviation businesses, the Corporation i.e. Nigeira Reinsurance Corporation recorded a gross income of N11 million which is substantial increase from the 1982 figures. In view of delays in sending returns, some of the business of the previous years were accounted for in 1993. The bulk of the aviation business is derived from Nigeria Airways fleet which accounts for over 90% of the premium for this class. It is expected that aviation will grown further especially considering the proposed addition of Air buses to the Nigeira Airways fleet.

v) **Life Assurance**

The primary purpose of life assurance is to insure against the loss of future income which may arise as a result of the premature death of the income producer. The different types of life assurance policy are the "term assurance" which is an assurance for a fixed period in which the assurers in returns for a permium undertake to pay the sum assured in the event of the life assured dying within the period of term state in the policy. The second type is the "whole life assurance" under which the assured undertakes to pay the sum assured whenever the person whose life is assured dies. The third type is the "Endowment assurance" under which the assurers will pay the sum assured when the life assured reaches a certain age or when he dies, whichever comes first.

Unlike the other classes of insurance where the Corporation accepts legal cessions on each policy, the Corporation's life business is derived from treaties and facultative reinsurances which are based mainly on surplus. Life business therefore only occupies less than 2% of the Corporation's total gross income. A gross premium income of N1.54 milllion for life business was recorded in 1984 as against the figure of N1.81 million for 1983. It is evident therefore, that the decline is due to the economic environment where life assurance become less of a priority.

2.7. THE MANAGEMENT OF REINSURANCE FUNDS

Nigeria Reinsurance Corporation, as earlier discussed, was established by Federal Government of Nigeria under decree No. 49 of 1977 mainly to achieve a higher natural retention and hence to reduce the foreign exchange out flow due to reinsurance business placed abroad. The decree setting up the Corporation stipulated that in the field of reinsurance, Nigeira Reinsurance Corporation receives 20% by way of compulsory legal cession from all registered insurance companies in Nigeria in respect of every business in all classes of insurance written by each direct insurer..

In addition, Nigeria Reinsurance Corporation receives at least 10% each reinsurance treaty which 10% of each treaty is ceded to the Third World Pool and 5% to the West African Insurance Committee Association (WAICA) Pools. These are managed by the Nigeria Reinsurance Corporation. Another 5% of each reinsurance treaty is ceded to African Reinsurance Corporation through the Corporation. Having received the 20% compulsory cessions from the insurance companies from all classes of insurance, and 25% in respect of life assurance which is not by way of compulsory cessions but by surplus treaty, the Corporation retains 15% of the preium collected which is regarded as 100% for management expenses and investments as listed in the schedules below and give out 85% which is also taken 100%, 60% of it is given out to the ceding companies facultatively and 40% of it is retroceded abroad.

The insurance companies state in the bordereaux the type of business they have written, the gross premium less commission and losses to arrive at the net premium due to the Nigeria Reinsurance Corporation. This is supposed to be sent to the Corportion on a regular basis but most companies often default in this regard. Before the insurance companies decide to reinsure any of its insurance business written, they first go to

Nigeria Reinsurance Corporation which would take up more of the business apart from the 20% compulsory legal cession. In this regard, the Corporation has the "right of first refusal" if they feel that the business is not profitable enough. The Corporation would then approve the insurance companies letters of Attestation, to enable them reinsure abroad. The following problems were identified as associated with the management of the reinsurance funds. The most frustrating problems to the Corporation (and yet unsolved) is the problem of non-payment of premiums due to the Corporation from the insurance companies. This amount of money tied up in form of debts have been outstanding for more than four years thus depriving the Corporation of legitimate investment earnings to the detriment of the natural economy.

Secondly, there is the problem of failure on the part of the ceding companies to render returns to the Corporation. For those that sent it at all, they do not do so at the right time and others will falsify the figures so as to pay little or no premiums to the Corporation.

Thirdly, the Corporation has often found itself carrying a substantial liability which it is not aware of due to the poor underwriting style of some insurance companies, and there is no question of refusing bad risks, since it is compulsory for the insurance companies to give 20% of any business underwritten by them to the Corporation. Successful administration of the compulsory legal cessions requires a lot of care and underwriting skill which the Corporation has to look into, to avoid unnecessary risks and payment of large claims.

Fourthly, there is the problem of the Corporation not being able to meet its requirements, especially in the determination of what is due to if from each ceding company in the country. The volume of insurance and reinsurance businesses handled by the Corporation is very tremendous.

2.8. INSURANCE INDUSTRY AND THE NATIONAL ECONOMY

Modern insurance business is comparatively new in Nigeria, having been introduced in the country in late 20th century by the early British Merchants. The first insurance company to have a full brance office in Nigeira is the Royal Exchange Assurance Company which was establishged in Lagos in 1921. The industry continued its growth in strength with the number of companies increased to eighty between 1960 and 1975. At present, there are about one hundred and forty registered insurance companies with five reinsurance companies in Nigeria.

The Nigeian Insurnace Industry has played and will continue to play a vital role in the developement of the Nigeria economy, and in the improvement of the economic and social welfare of the citizens. No economy can survive without an organised insurance industry. Insurance is the hand maiden of commerce and industry.

Apart from the primary functions of insurance, which is combating the adverse effects of risks from a purely economic view point, insurance plays the following secondary roles:

i) Insurance helps to release funds tied up reserve.

ii) Directs investments in the economy;

iii) Insurance promotes confidence and eliminates fears;

iv) Insurance encourages savings;

v) Insurance promotes peaceful and stable society;

vi) Insurance reduce losses and natural waste.

2.9. SOURCES OF INVESTIBLE FUNDS FOR INSURANCE COMPANIES

The relatively huge sums of money available to the insurer for investment purposes can be classified as follows:-

i) Initial capital

ii) Undistributed capital

iii) Reserve for unexpired risks

iv) Reserves to cover outstanding claims

v) Contigency reserve to cover fluctuations in securities and variations in statistical estimates.

For life insurance business, the Deccree provides the following:-

(a) A general reserve fund to be credited with amount equal to the net liability on policies in force at the time of the actuarial valuation.

(b) A contigency reserve - 1% of premium income or 10% of profit whichever is greater.

2.9.1 **Premium Income**

The largest amount of fund available for investment purpose by insurers is realised from premiums paid by policy holders in the different types of insurance business - life and non-life (general accident, fire, motor, marine, oil and gas, and aviation). This income is what is usually referred to as the "Insurance Funds". Policy holders could be individuals, group of individuals or corporate bodies, seeking safety income or other protection objectives.

Life insurance companies generate their funds by selling protection against loss of income from accident, fire, theft, negligence and other unforeseen and unpredictable circumstances. until claims become payable and are paid, insurance companies hold relatively large sums of money in trust for the policy holders.

Although, the volume of premium income for the insurer at any time depends largely on its enterprise, imagination and capital invested, government regulations have assisted in generating or directing premium income to insurance companies, for example,

(a) The compulsory motor insurance legislation such as the Nigerian Motor Vehicles (Third Party) insurance Act of 1950 compels motorists to insure their vehicles and thereby generates increase in premium income.

(b) The Workmens Compensation Decree 17 of 1987 has also tended to give business to underwriters.

2.9.2. Investment of Insurance Funds

Insurance business consists mainly of collection premium from policy holders with a promise to pay certain benefits on the figure occurence of specified events. This leads to the accumulation of funds over and above the share holders' share capital.

Non-life policies are usually for a one year period (with the exception of certain classes of marine inusrance which may extend for up to three years or more), the policy holder paying a premium at inception to cover the risk of losses occuring at any time during the year. This leaves a time lag between the payment of premiums and the settlement of claims which gives the insurer enough funds to cover liabilities (if any occur) to policy holders. In effect, substantial delay often occurs between the occurence of a loss: and the settlement of claims, thus giving the insurer opportunity to meet claims and administrative costs out of current income, so that the funds required to cover its liabilities to policy holders roll forward from year to year and are available for investment.

On the other hand, life insurance policy contracts extend for much longer periods, usually exceeding fifteen years, that is, policy holders pay premiums during the early years of their contract in excess of the amount required to cover the mortality risk, so that fund is accumulated to meet the excess of claims over premiums income in later years. The long term nature of life insurance means that policy holders' funds are far longer in relation to their annual expenditure than in the case of general insurance, thereby leaving substantial amount for investment purposes.

Investment of insurance funds has a big role to play. Increased investment income will go a long way to offset increasing adminsitrative expenses and give insurance companies some scope for paying higher bonus to policy holders.

As would be seen later in this chapter, investment of insurance funds is largely controlled and regulated by law and certain guidelines or principles are followed in building up investment portfolio of any insurance company. These guidelines include security, profitability and the need to match terms of investment with the terms of insurer's liabilities to the insured.

2.9.3. Types of Investment

Mention would only be made of the types of investments available to insurance companies in this chapter. However, the topic would be treated in more detail later in chapter three on "Types of Investment in Nigeria Re/Investment of Reinsurance Funds".

The portfolio of an insurance company in the Nigerian Market would normally be distributed in some or all of the following classes of investments:

(a) Federal Government bonds, treasury bills and certificates; State Governments bonds;

(b) Industrial debentures and unsecured loan stocks;

(c) Preference shares;

(d) Ordinary shares (common stock)

(e) Property (Real Estate) development;

(f) Mortgage loans on property

(g) Life policy loans

(h) Fixed deposits and savings accounts with banks.

Federal government bonds, treasury bills and certificates, states government bonds, unsecured loan stocks, debentures, preference shares, mortage loans on property, life policy loans and fixed deposits/savings accounts, are usually referred to as fixed interest investments (or securities), while investment in ordinary shares and real estate development constitute the variable interest-earning investments.

2.9.4. **Investment Objectives**

For a satisfactory investment portfolio in any insurance company, the following investment objectives should be met.

(a) Maximisation of returns on investment:

This should be pursued in such a manner that the security of shareholders and policy holders funds are not impaired. As stated earlier on, this may necessitate diversification of investment or switching of funds from one type of investment to another in order to take advantage of favourable situation of such area(s), after making allowance for any additionala expenses involved.

(b) Ensuring that the insurer's liabilities to policy holders would be met as and when they arises, at least, the average length of terms of the investments should be about the same as the average length of term of the liabilities.

(c) Ensuring that in as far as possible, that the investments are made in areas which do not negate the goals and social responsibilities of the insurer.

2.9.5. **Guiding Principles of Investment of Insurance Funds**

Apart from governmental regulations, certain basic guiding principles should be considered by an insurer before committing its funds in any investment. These could be classified under the following headings:

Liquidity

Maximization of Returns on Investment (profitability).

Development:

Inflation:

The above factors are so fundamental to the investment of insurance funds, that for the best investment policy, compromise must be made between them. "Like a tightrope walker, management must balance return, liquidity, development, so that the minimum requirements of each are satisfied. Above all, there must be a flexible investment policy, alert to changing economic conditions and quick to adjust to them"

2.9.5.1. **Liquidity**

There is need for liquidity of investment if an insurance company is to fulfil its obligation of meeting any sudden demand for cash as a result of a catastrophe or an adverse cycle of loss experience. This factor may therefore explain why premium from non-life insurance covers are mostly invested in short term bank deposits, money market instruments and corporate stocks, which can easily be converted to cash to most such emergency demands. Sometimes, it is necessary in life insurance policies for certain portions of the insurer's investment to be converted to cash because of the liablility to pay cash surrender values or to grant policy, loans on request would tend to reduce the policy holders' confidence in the company.

2.9.5.2. **Maximization of Returns on Investment:**

The primary objective of any investment venture is to maximize profit and minimize losses. This sometimes necessitates a policy, by investment managers, of diversifying their investments or switching funds from one kind of investment to another in order to take advantage of favourable situations, after due cognisance and allowance has been made for the additional expenses involved. Example is the sudden increase and movement of fixed term bank deposits by companies recently.

Diversification minimises the risk of losses by ensuring that losses in one class of investment do not necessarily afffect the returns on the other class of investment. Insurance companies therefore tend to distribute their risk in a wider area by investing in different kinds of securities, fixed deposits and real estate developments, covering a wide range of enterprises and geographical areas. The need to secure miximum safe return on investment also seeks to ensure that the premium paid by policy holders is reduced. However, maximization of returns should be sought in such a way that the security of the principal sum is not impaired.

2.9.5.3. **Development**

Mention has been earlier on in this chapter of the need or necessisty of using insurance funds to assist in the development of the national economy. it has become necessary that all sectors of the economy contributes meaningfully to the development of the national economy. This the insurer pursues by ensuring, as far as possible, that its investments are in those projects whose goals are socially desirable.

2.9.5.4. **Inflation**

Inflation is a much talked about phenomenon, which little can be done about. It cuts across countries, varying widely from country to country and sometimes within a country. Any good investment policy must therefore consider inflation and its effect on investments. For instance, a purchase of N10 million bond which matures in ten years and yields six percent return annually will result in a loss to the investor, if over the same period the value of money in terms of purchasing power shrinks by ten percent a year.

In summary, competent investment manager should aim at earning a yield as high as possible.

2.9.5.5. **Government Regulatory Control On Investment of Insurance Funds**

The Federal Government of Nigeria, like most other governments, regulates the practice of insurance business in Nigeria, so as to ensure uniformity and compliance in the operations of the business. In furtherance to this, the insurance (Miscellaneous Provisions) Act 1964, and the insurance decree 1976, were enacted.

Of all these, only the insurance (Miscellaneous Provisions) Act 1964 and the insurance decree 1976 made provisions affecting investment. The regulations stipulate what types or classes of assets insurance companies can invest their funds in and what types or classes of assets insurance companies can invest their funds in and what percentage of investible funds should be invested in a particular group of assets. The provisions are clearly stated in section 18 of the Insurance Decree 1976.

2.9.5.6. **Sub-Section 1**

This states that "every insurer shall at all times in respect of the insurance business transacted by it in Nigeria invest and hold investments in Nigeria assets equivalent to not be invested in property and securities except.

(a) Securities specified under the Government and other securities (Local Trustees Powers) Act and the Trustee investment Act 1962.

(b) Shares in or other securities of a society registered under any law relating to co-operative societies.

(c) Loans to building societies approved by the Commissioner

(d) Loans on real property, machinery and plant in Nigeria

(e) Loans on life policies within their surrender values

(f) Cash on deposit in or bills of exhange accepted by licenced bank.

(g) Such other investments as may be prescribed".

2.9.5.7. **Sub-Section 3**

This stipulates that "an insurer shall not be treated as satisfying the requirements of this section unless not less than 25 percent of the total assets of the insurer is invested in the securities mentioned in subsection 2 of this section".

2.9.5.8. **Sub-Section 4**

This states that "no insurer shall:-

(a) in respect of non-life insurance business, invest more than 10 percent of the assets in real property or,

(b) in respect of life business, invest more than 25% in real property".

2.9.5.9. **Sub-Section 5**

This stipulates that "any investment made by an insurer otherwise than in compliance with the provisions of this section shall be treated as non-admitted assets".

Reasons advanced for the above regulations are that:

1. Companies engaged in the insurance business should be allowed to direct their attention to acquiring control of other types of business enterprises.
2. For practical purpose, the insurance company is in the position of a trustee, being entrusted with large sums of money that belong in reality to the policy holders
3. Insurance reserves are a guarantee for the fulfilment of contracts and the assets representing this must be adequate for the purpose.
4. If the insurance company retires from business, a good part of its reserves will be required to reinsure the risks in another company.

Further regulatory powers of the government on investment and management of insurance funds are contained in section 37 of the insurance decree 1976. Thus, subsection 1 gives the Director of Insurance power to appoint and authorise an investigator once every two years, to conduct and examination of each registered insurance for the purpose of satisfying himself as to whether or not the provisions of the Decree or of any regulations made under the Decree are being complied with. Sub-section 2 stipulates the mode of the conduct of the examination and the power of the investigator as:-

(a) Intervene in the checking of the cash in hand, cash accounts and otherwise verify the liquid and other assets of the insurer.

(b) Check all the main auxiliary books of accounts, registers and other papers and correspondences connected with the insurer's business;

In sub-section 3, the investigator is to make a report in his examination to the Director of Insurnace, who is empowered to take such necessary actions in the circumstances as to ensure compliance with the relevant provisions of the Decree by the insurer concerned or such actions as provided for in the other provisions of the Decree.

Sub-section 4 also empowers the Director to cancel the certificate of registration of any insurer who refuses an examination as stipulated under this section or who in purported compliance therewith, refuses to give any information which such insurer may be required to furnish for the purpose of the examination.

Other stipulated penalities in relation to investment for non-compliance with the provisions of the Decree are stated in Section 50. Thus, refusal by an insurer to furnish returns or information to the Director pursuant to the provisions of the Decree shall be guilty of an offence and liable to a fine of N1,000.00 or six months imprisonment or both (Sub-Section 1). Whereas furnishing of fales returns or information attracts a fine of N500.00 or three months imprisonment or both (Sub-Section 2).

Also in section 52, penalties for offences by insurers in relation to dividends and investments are stipulated. Distribution of dividends by an insurer otherwise than in compliance with the Decree carries a fine of N2,000.00, if the insurer is found guilty (sub-section 1). Sub-section 2 states that "any insurer who encumbers or disposes of investments or who does any other thing whatsoever which results in diminishing the security offered by any investments made pursuant to this Decree shall be guilty of an offence and liable on conviction to a fine of N3,000.00".

From the above regulations therefore, it is not surprising that the investment pattern of all direct insurance companies in Nigeria from 1980 to 1987, as shown in the table 11 on page 16 depicts a common pattern, with Federal Government securities taking the greatest share. The mandatory pattern of investments imposed on the insurance companies by the Government has been widely critised within the insurance circle; the main argument being that the legislations unduly restricts the insurance industry in the investment of its funds, thus hampering it from responding to the investment needs of the society. For instance, the Section of the Decree which makes it mandatory for insurance companies to invest only in quoted securities has been criticised on the grounds that these quoted securities are not sufficient and that the Nigerian secuirties market is not as developed as those of Europe or other industrialised nations.

It is also note worthy the fact that, by the very nature of insurance business, funds should be readily available if claims are to be settled promptly. Therefore, only funds in excess of technical reserves are available for investment purposes, and as the Nigerian Insurance Industry is still developing, there is need to keep a reasonable part of its assets in liquid form, on quick calls.

CHAPTER THREE

RESEARCH METHODOLOGY AND HISTORICAL BACKGROUND OF NIGERIA REINSURANCE COPROATION

3.1. HISTORICAL BACKGROUN AND ORGANISATIONAL STRUCTURE

Nigeria Re, as a Federal Governemnt Institution, is affected by the ever dynamic political instability in the country. The Corporation's Board of Director was disolved in January, 1986 by the Federal Military Government. Ever since then, the affairs of the Corporation was being directed by the Managing Director of the Corporation until July, 1989 when the Government partially reconstituted the board, with the former Managing Director, some Assistant General Managers and other management staff being compulsorily retired. As at now, the Corporation has a board consisting of only four Directors, made up of new Managing Director and three Executive Directors, out of eleven members stipulated by the statute establishing the Corporation. These directors are responsible for the overall policy formulation and general management of the Corporation.

To achieve maximum efficiency and effectiveness in the performance of the functions vested on the Corporation by its statute, the organisation is organised into three functional divisions namely,

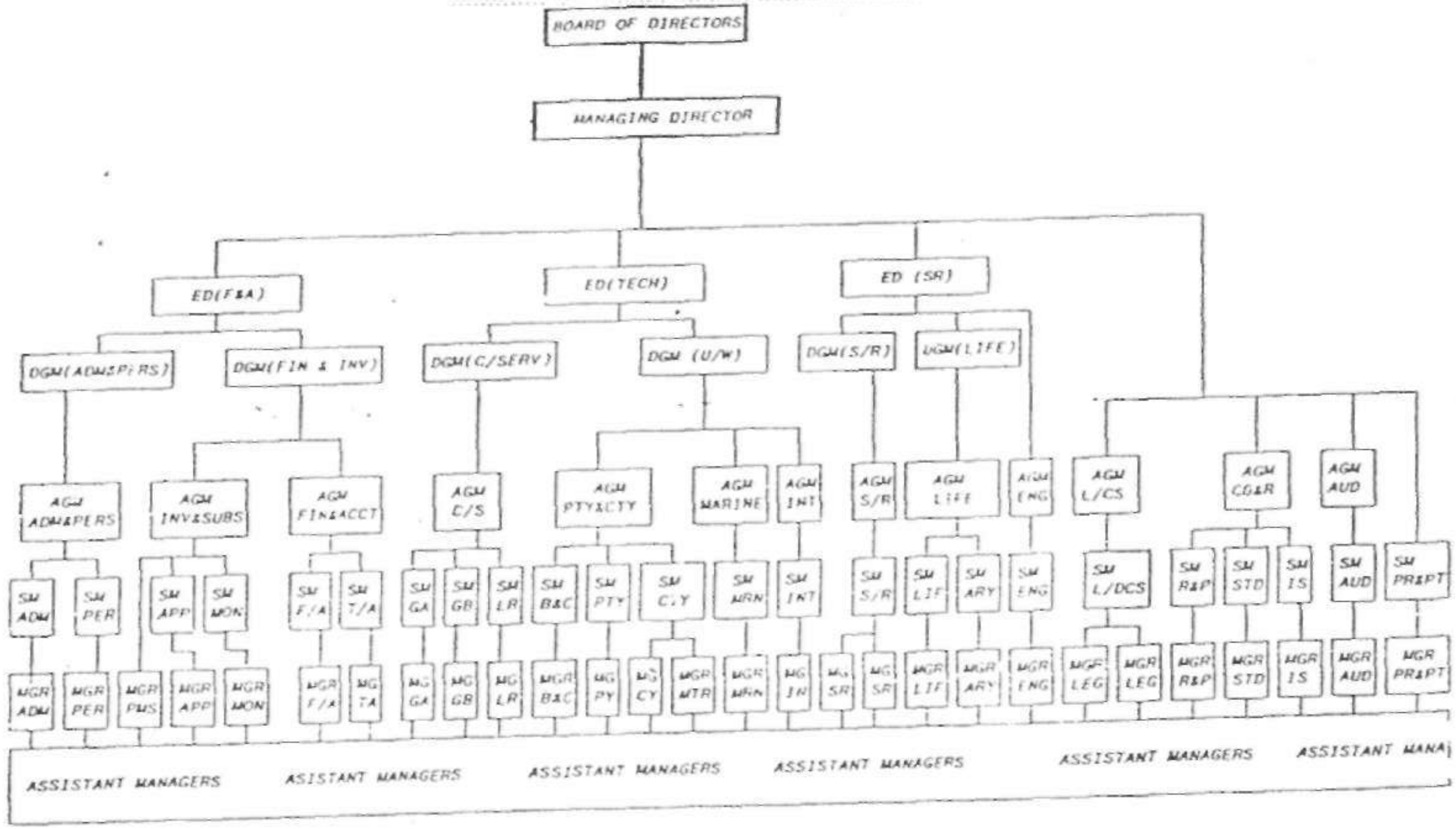
i) Finance And Administration

ii) Technical

iii) Special Risks

Each of the divisions is being headed by an Executive Director. The divisions are further split into various departments, with each department being headed by an Assistant General Manager. The following are the three functional divisions with their departments and functions briefly described.

NIGERIA REINSURANCE PLC - ORGANOGRAM



KEY

ED	EXECUTIVE DIRECTOR
F&A	FINANCE AND ADMINISTRATION
SR	SPECIAL RISK
TECH	TECHNICAL
DGM	DEPUTY GENERAL MANAGER
AGM	ASSISTANT GENERAL MANAGER
SM	SENIOR MANAGER
MGR	MANAGER
INV&SUBS	INVESTMENTS & SUBSIDIARIES
ON	ON SHORE
C/S	CLIENT SERVICES
U/W	UNDERWRITTING
O & E	OIL AND ENERGY
M & A	MARINE AND AVIATION
OFS	OFF SHORE
ADM&PRS	ADMIN AND PERSONNEL
GA	GROUP "A"
LIF	LIFE
ARY	ACTUARY
MRN	MARINE
AVT	AVIATION
ENG	ENGINEERING
LEG	LEGAL
R&P	RESEARCH & PUBLICATION
CD&R	CORP. DEV. & RESEARCH
L/CS	LEGAL ADVISER AND COMPANY SECRETARY
LEG	LEGAL
P&P	PUBLIC RELATIONS AND PROTOCOL
GB	GROUP "B"
IS	INFORMATION SYSTEMS
AUD	AUDIT
PMS	PREMISES
B&C	BONDS AND CREDITS
F/A	FINANCIAL ACCOUNTS
T/A	TECHNICAL ACCOUNTS
DCS	DEPUTY COMPANY SECRETARY
SDT	STAFF DEV. AND TRAINING
PR&PT	PUBLIC RELATIONS & PROTOCOL
LR	LARGE RISKS
PLS	POOLS
INT	INTERNATIONAL
PTY	PROPERTIES
CTY	CASUALTIES
APP	APPRAISALS
MON	MONITORING
MTR	MOTOR

3.1.1. Finance and Administration Division

This division is made up of the following six departments:

3.1.1.1. Administration Department

This department is headed by an Assistant General Manager. The department is responsible for all the administrative matters of the Corporation, such as the day to day running of the organisation. It oversees the maintenance of the Corporations non-investment properties, such as Corporation's Guest Houses, staff accommodation, stationeries etc. The Managing Director's office and the transport unit and security are under this department.

3.1.1.2. Corporate Affairs Department

This is a recently established department with the following three units. Although newly established, its units had been existing either as full fledged departemnt or units under the Administration Department.

3.1.1.3. Research and Development Unit

This unit has at its head a Senior Manager. Basically, the Unit is responsible for the production of the Nigeiran Insurance Year Book, colletion of statistical information or data for use in the insurance market. It compiles, computes and analyses statistical data collected from the Minsitry of Finance, Insurance division. It also gathers economic and financial information and analyses same for use by the Corporation. Research and Development unit also assists the Managing Director in preparing Seminar, Symposia, Workshop, Conferences and interview papers when their needs arise. The Corporation's library services are overseen by this unit.

3.1.1.4. Protocol Unit

Protocol unit sees to the social affairs of the Corporation its functions include the following:

i) Arrangement for staff of the Corporation undertaking official trips locally and international trips. This includes obtaining travelling approval from the Federal Secretariat, obtainging estacode allowance from the Central Bank, arranging for passports, and visas for the staff undertaking such trips, buying of airtickets and ensuring proper checking of all the staff.

ii) Staff relations

iii) Staff Welfare

iv) Giving information and advice on the corporate image of the Corporation to the staff and general public.

3.1.1.5. Publication Unit

This unit has the primary responsibilities of putting in print work all the affairs of the Corporation. The unit helps in educating the public about insurance industry and awakens insurance consiousness to the widest possible scale. It serves as a medium of exchange of views among experts and eminent dgnitaries in the insurance industry on insurance matters generally. It is worthy to note that the "Risk Bearer", an international journal of the Corporation which goes a long way in projecting the corporate image of the Corporation to the ceding companies and the Corporation's business associates all over the world, is a brain child of the publications unit. Also, the Nigeria Re Newsletter, which focuses on insurance news, insurance features and insurance matters within the local market is being published by this unit. The publications unit serves as a platform to dig into materials for research bordering on insurance for students of Acturial Science and Insurance in our Universities and Polytechnics, who make use of its publications.

3.1.1.6. **Personnel and Manpower Development & Training Department**

This Department is headed by an Assistant General Manager. The department is responsible for the recruitment and training of personnel who come into the Corporation. The department receives applications, shortlists applicants for interview, arranges for their interviews/test, writes and sends appointment letters to successful applicants. On assumption of duty by the applications, the personnel department processess their credentials and opens personal files for them. The department also arranges for the new employees to undergo medical examination to determine their physical fitness.

Apart from the function of recruitment, this department is also responsible for the manpower development and training of the Corporation's staff and staff of the ceding companies as required by the statute establishing the Corporation. It organises conferences, seminars, workshops locally and internationally, induction courses and lectures at the Corporation's Training School at Jibowu Street, Yaba.

Other functions of this department include:-

(a) Disciplining of staff

(b) Recommendation of policy relating to personnel to the Executive Management

(c) Staff Welfare bordering on medical (health), recreational, sport etc.

(d) Industrial Relations.

3.1.1.7. **Accounts Department**

Accounts Department, like other departments is headed by an Assistant General Manager. It undertakes all the accounting matters of the Corporation, including disbursement of the funds of the Corporation. The department is divided into two units.

3.1.1.8. **Financial Accounts Unit**

This unit is concerned with the day to day financial transactions of the Corporation, as the name implies. It keeps all cash books, both receipts and payments.

The unit is further divided into the following various sub-units

3.1.1.9. Financial Accounts

This sub-unit maintains the journal books, posts the various sub documents to the nominal ledger, extracts trial balance from the nominal ledger, prepares schedules and analyses for use by the Corporations' appointed external auditors.

3.1.1.10. Treasury Management

This sub-unit is responsible for receipt of cash and cheques paid to the Corporation. It also issues receipts to the payees and codes such receipts. The sub-unit is also responsible for raising cheques.

3.1.1.11. Banking

The function of the banking sub-unit is to enter all the cheque and cash payments into their various cash books. It also prepares bank reconciliation statements and weekly cash balance for management use.

3.1.1.12. Staff Accounts

This sub-unit maintains a record for each staff of the Corportion who has a loan. The sub-unit liaises with the salaries unit to ascertain deductions made from individual.staff salary and reflects same in the staff's loan record.

The various loans which staff of the Corporation could benefit from include:-

(a) Land acquisition loan

(b) Building loan

(c) Vehicle/Motorcycle loan

(d) Rent loan

(e) Correspondence loan

(f) Compassionate loan

(g) Salary advance

3.1.1.13 **Fixed Assests**

This sub-unit maintains the fixed assets register and prepares schedule of fixed assests.

3.1.1.14. **Foreign Exchange**

The sub-unit deals with foreign exchange remittance to the Corporation's retrocessioners overseas.

3.1.1.15. **Salaries and Wages**

As the name implies, this sub-unit is responsible for preparing monthly staff salaries and wages.

3.1.1.16. **Vote Control**

Vote control sub-unit ensures that the Corporation's budget limits is not exceeded.

3.1.1.17. **Technical Accounts Unit**

The activities of the Technical Accounts Unit is overseen by a Senior Manager. The unit keeps transactions/documents on accounts relating to reinsurance transactions; that is, the unit maintains records of returns made by ceding companies in the different classes of reinsurance business, which would show the gross premium, commission, loss and net accounts. Technical Accounts Unit batches these returns at the end of the financial period which may be quarterly, bi-annually or annually and posts them to the various control accounts.

Technical Accounts Unit is further sub-divided into three namely;

1. Compulsory Legal Cession
2. Treaty, which is further sub-divided into
   (a) Local Inward Treaties
   (b) Overseas Inward Treaties
   (c) Local Outward Treaties
   (d) Overseas Outward Treaties.

3. Facultative, which is also further sub-divided:-

(a) Facultative Inwards

(b) Facultative Outwards

There is always reconciliation between the Technical Accounts Unit and the underwriting departments, such as Fire, Accident, Marine Aviation etc.

3.1.1.18. Investment Department

This department, like others, is headed by an Assistant General Manager. It manages all the Corporation's investments. The department is divided into two units, Portfolio management and Real Estate Development. Each of these units is overseen by a Senior Manager. Detailed description of the functions of this department is given later in this chapter.

3.1.1.19. Information System Department

Information system department is a newly established department, concerned with the processing of corporation's information. It gathers data from the various departments on computer video screen or on paper. Information derived assist management in the day-today decision making process.

The department is divided into three viz:-

1. Systems Development Management and Training
2. Data Administration and control
3. Computer Operations.

3.1.1.20. System Development Management and Training

This unit is concerned with designing and developing application system such as reinsurance package, general ledger, payroll. It is also concerned with the training of the various end-users, for example, departments, including staff of information systems department. It also ensures end-users security control, maintenance and enhancement of existing application systems.

3.1.1.21. Data Administration and Control

This unit is concerned with the various data resources. It liaises with the various departments, that is, the end-users.

3.1.1.22. **Computer Operations**

The unit is concerned with the following:-

- Computer operations and related equipment
- Efficiency necessary security measures
- entry of data into the computer system
- Keeping library of information specifically on magnetic tapes.

Presently, information systems department is headed by a Manager.

3.1.2. **Technical Division**

This division consists of the following departments:-

3.1.2.1. **Accident Department**

The department is headed by an Assistant General Manager. It underwrites a wide range of business, grouped under four major units.

(a) Motor Vehicles

(b) General Accident

(c) Bonds

(d) Agricultural Insurance

The General Accident is further sub-divided into about twelve sub-units viz:

Contractors - All Risks, Engineering, Personal Accident, Burglary, Good-In-Transit, Cash-In Transit, Public/Product Liability, Fidelity Guarantee, All Risks, Class Insurance.

In keeping with the provision of the Nigeria Reinsurance Decree No. 49 of 1977, Accident department has the responsiblity of administering 20% compulsory legal cession of business underwritten by registered insurance companies falling under the General accident class. It also accepts places faculative reinsurance both locally and overseas. There is also separate cessions on bonding. Recently, agricultural reinsurance has been added to the protfolio of Accident

Department. The contribution of this department to the total premium income of the Corporation as at 1987 is about 35.5%.

3.1.2.3. Fire Department

This deparrment is also headed by an Assistant General Manager. It reinsurers direct insurance companies underwriting fire insurance business. Its area of operation covers the following sub-headings.

1. Recovering of premium bodereau, covering
2. Fire and Miscellaneous periods
3. Consequential loss
4. House holders/House owners

Premium bordereau is a form submitted by the ceding companies to the reinsurer, showing all transactions of the companies. The form indicates the insureds, types of transactions or risks, the 20% legal cession. The commisions, and the premiums due to Nigeria Re. The forms are scritinized by the department to determine correctness of the entries.

2. Twenty percent legal cession, in keeping with the stipulation of decree No. 49 of 1977.
3. Facultative: The department accepts and places facultative reinsurance locally and overseas.

3.1.2.4. Marketing Department

This department is charged with both the sales and marketing function of the Corporation. It may be regarded as the nucleus of the Corporation's business operations. The department administers the 20% compulsory legal cession on all classes of insurance business. It accepts reinsurance, both from the local and international markets. It also monitors the reinsurance activities on programmes of all insurace companies in Nigeria.

Marketing department is made up of the following four sections:

1. Inward overseas: This section handles acceptance of reinsurance business from the international markets.

2. Inward Local: The section handles acceptance of reinsurance from the local market.

3. Outward Section: This section is charged with the responsiblity of placing the 20% legal cession both locally and internationally.

4. The Pools (WAICA and Third World).

   The Pools were mainly set up to conserve foreign exchange, increase retention capacity, and to ensure better spread of risks and improve insurance/reinsurance business relations within the sub-region.

3.1.2.5. **Inspectorate Department**

This is a newly established department whose function is primarly concerned with the recovery of debts in the form of outstanding premium owed Nigeria Re by ceding companies. To facilitate the work of the department, it undertakes physical inspection of the books of the ceding companies to ascertain whether or not their activities conform with the provision of the decree No. 49 of 1977. The department also acertains the correctness of the accounts of the ceding companies. It also liaises with the federal Ministry of Finance (Insurance Division) so as to update the Corporation's records on the registration of new insurance companies, cancellation or voluntary liquidation of existing insurance companies.

3.1.3.1..**Special Risks Division**

This division comprises of the following departments:

3.1.3.2. **Marine Department**

This department reinsures losses or damages to ships cargo or goods. These cover hull risks, passengers risk, baggage risk, hull-war risk, captain and crew personal accidents. The department also administers the 20% compulsory legal cession on insurance falling under Marine business. It accepts facultative reinsurance business and retrocedes part of the risks it cannot carry. The department is headed by an Assistant General Manager.

3.1.2.3. **Aviation Department**

As the name implies, this department is concerned with the reinsurance of aeroplanes in Nigeria. The department is divided into two sections, namely:

(a) National fleet.

This is made up of Nigeria Airways fleet or aircrafts which are about 16 in number. The department covers these fleets against hull risk, that is the body of the aircarft and equipment, hull war risk and liabilities against passenger accident, missing luggages, pilot and crew personal accidents, hire purchase agreement, and third party liability.

(b) General:

This consists of all private airlines operating in Nigeria such as Okada, Flash, Kabo. It also includes NITEL, NNPC and the Presidential fleets. The risks covered under General Aviation are the same as those under the National fleet.

The department also administers the 20% compulsory legal cession, accepts facultative reinsurance business and retrocedes part of the risks it cannot carry to other reinsurance companies, both locally and overseas. The department is headed by an Assistant General Manager.

3.1.2.4. **Oil and Gas Department**

Oil and Gas department is peculiar to Aviation department in that their reinsurance, unlike the other departments, are not placed through marketing department. This is due to their special nature.

The department handles reinsurance of all oil business in

Nigeria. Oil business is classified under the following three headings:

Offshore: This refers to reinsurance of risks in relation to drilling activities in the high seas, that is, drilling activites off the land. Risks covered under this business include floating barges, storage vessels, pipelines, etc.

Offshore Risks: This covers reinsurance of all those oil risks on land. They include oil refineries, storage tanks, pumping stations, metering stations, jetties, petrochemical plants etc.

General Third party: Specifically, this section covers reinsurance of third parties whose properties might be damaged in the process of drilling or its associated works by oil companies.

Oil and Gas department also covers the reinsurance of the National Fertilizer Company of Nigeria Limited (NAFCON) because of its special nature, the statistics of which could distort the general risks trend if covered under the technical departments.

Oil and Gas department is headed by an Assistant General Manager.

3.1.2.4. Life Department

This department is responsible for granting life assurance cover to local life assurance companies in respect of individual, group and assured pension schemes accepted by the Corporation. The department prepares legal treaties of each ceding company, similar to the legal treaties the ceding companies were getting from their overseas reinsurance companies when these ceding companies were reinsuring their life business abroad. It is pertinent to mention here that before 1986, Nigeria Re was following life assurance policies issued to overseas reinsurers by accepting only 20% compulsory legal cession and giving attestation to ceding companies to take their life reassurance covers abroad. This 20% was later increased to 40% but from January 1, 1990, Life reassurance business has been domesticated, that is, reasured 100% locally.

Other functions performed by the department include:-

(a) Issuance of treaties, preparation and documentation of terms and conditions as agreed between the parties.

(b) Underwriting of treaties; assessment of risk to be reassured under the treaty.

(c) Administration of treaties: Preparation of treaty, that is, drafting the legal agreement of the treaty.

(d) Preparation of treaty accounts.

Two other reinsurance companies in Nigeria are actively involved in life assurance business; these are Globe Reinsurance Company and Continental Reinsurance Company Limited.

The purpose of life assurance is to provide compensation for the dependants of a bread winner in the event of his premature death. It also encourages compulsory thrift (saving), which can be accepted as a lump sum repayable at specified time period. The head of Life Department is an Assistant General Manager.

3.1.3. Internal Audit Department

The department, which is headed by an Assistant General Manager, audits the accounts of the Corporation for internal purposes. It appraises, evaluates and ensures that the internal controls in the Corporation, mainly in three principal areas (Personnel, Revenue, Expenditure) are adhered to. It carries out regular checks to ensure property of payments and accurals of liabilities payments are properly authorized. In this regard, the department carries out claims verification before payment is made and reconciliation of technical accounts. It also verifies and reconciles financial accounts, such as staff salaries, investment income and expenditure, management expenses.

The head of Audit Department reports directly to the Managing Director, without passing through the Executive Director, Finance and Administration. This is as a result of the peculiar nature of the department. To suplement the efforts of the Audit department and for public consumption, external auditors are usually appointed, in line with the provisions of the decree establishing the Corporation.

3.1.4. Legal Department

This department principally handles all legal and allied matters for the Corporation. Its functions include the following:-

1. Writing legal opinions and giving legal advice generally.
2. Drafting legal documents, such as, mortgage deeds, lease agreements, and other contractual agreements.
3. Representing the Corporation in court, either as lawyers holding, watching briefs or as counsel, especially in small matters.
4. Liaising with external solicitors in cases where matters are not directly handled by the Corporation's legal Department.
5. Vetting legal documents prepared by external solicitors and advising the Corporation accordingly.
6. Conducting searches and filing legal documents.
7. Responsible for enforcement of the 20% compulsory legal cessions from ceding companies.
8. Ensure that the Corporation functions within the scope of the powers given to it by decree No. 49 of 1977.
9. Undertakes any other assignment as may from time to time be given to the department by the Managing Director.

Legal department is headed by a Legal Adviser, who incidentally is also the Secretary to the Corporation. In this regard he performs the Secretarial duties of the Corporation in addition to the above functions.

The Legal Adviser, like the head of Audit department reports directly to the Managing Director.

By the present setting, the various departmental heads (Assistant General Managers) could, from time to time, be given responsibilities by the Chief Executive without strictly routing such jobs through their respective Executive Directors. In the same manner, accountability sometimes flows from them to the Chief Executive without going through the Executive Directors. Hence the attached organisational chart (figure 1) represents what obtains in theory but not necessarily in practice in the Corporation. However, serious efforts are made to minimise the deviations.

The organisational chart can be described as a tall one in which there is centralization of authority at the top and this flows down the hierarchy vertically. This is more vertical than horizontal referrals for decision making. Consequently, the structure sometimes leads to information overloads, work delays and organisational disfunction.

3.1.5. Summary of the Chapter

Relevant literature on the concepts and theories relating to the research topic was reviewed in this chapter. A brief historical background on the development of insurance in Nigeria was examined. The contributions of the insurance industry to the national economy were highlighted. The various sources through which insurance companies generate their investible funds and the types of investments insurance companies undertake were equally examined.

Three major sources of investible funds were identified. There are:-

(a) Initial Capital

(b) undistributed Capital

(c) Premium Income

Principles guiding the investment of insurance funds were classifed as :-

1. Liquidity
2. Maximisation of Returns on investment (Profitability)
3. Development and
4. Inflation.

Government exercises a lot of regulatory control on the investment of insurance funds, primarily to ensure that the interest of the insured is adequately protected. The various stipulations contained in the Insurance Decree 1991 were either highlighted or restated. As a result of this regulatory control by the government, investments in the insurance industry seem to follow a particular pattern.

3.2. Descriptive Research Instrument

The information used in this study were extracted from the various sources such as different insurance and reinsurance textbooks of well know authors, journals of the Nigeria Reinsurance Corporation, the Nigeria Insurance Year Books, the annual account and reports, newspapers etc.

Information also came from both primary and secondary data sources. the primary data was from the personal interviews held with various personnel at the managerial level and also from the information supplied by the respondents on the questionnaire designed for the employees of the Corporation. Figures were extracted from record books of accounts of the Corporation. Data was collected from the senior staff cadre in the Corporation. Anybody below that status will not have their views and opinions sampled due to the complex nature of the subject matter.

3.3. Restatement of the Research Questions:

i) To what extent has sources of restatement enhanced reinsurance business in Nigeria?

ii) Are there factors prevailing in the Nigeria Reinsurance Corporation to militate against funds generation in the Reinsurance business?

iii) What are responsible for the exploitation of funds generated in the Reinsurance business?

iv) How are the generated funds managed by the Corporation?

v) What areas of investment are available to Nigeria Reinsurance Corporation?

3.4. Design of the Questionnaire

The questionnaire designed by the researcher is to be administered personnaly to the respondent. In view of time contraints, the questionnaire distributed was the same despite the fact that there are various categories of people (position in this cadre - Insurers, Accountants, Secretaries, Lawyers, Administrtors, etc. The respondents were given a reasonable length of time to complete the questionnaire - say a period of 14 clear days from the day the questionnaire were distributed. This was due to the non-challant attitude of workers towards filling of questionnaire. The questionnaire probed into a number of issues that could improve our knowledge of the subject matter. Date for the research were collected from the management and senior staff of Nigeria Reinsurance Corporation. The choice for the above categories of staff was based on the ability to provide required information.

3.5. Method of Data Collection

Information were collected form both primary and secondary sources. Primary data consisted of personal interview of some key personnel of management cadre, personal observations and the administration of well structured questionnaire. The questionnaire was designed in such a way that the questions were brief, precise and clear to understand by the respondents. Four types of questions/responses were used in the questionnaire.

(a) These were multiple choice questions in which the respondents were expected to choose only one right anwser from among the alternatives provided.

(b) Two-way questions which restricted the respondents to either, 'Yes' or 'No' response.

(c) Scale questions, that is, like type of questions which measured the respondents' degree of intensity response.

(d) Open-end questions, which gave the respondents opportunity to air their views on particular issues.

A total of fifty (50) questionnaire were administered to Nigeria Re staff, from supervisory grade to executive management cadre, in the selected departments, taking into consideration their level of involvement in the activities relating to revenue generation and management.

The use of personal interview technique was necessary in order to cover those areas not adequately covered by the questionnaire so as to enable the researcher obtain information which the respondents might not likely give in writing. Also, some respondents, especeially those high up in the management cadre hardly have time for completing questionnaires; the questionnaires could even be misplaced by the respondents to the research topic were interviewed to get additional information on vital issues not raised in the questionnaire. Secondary sources of data collection were also use to supplement information collected from primary sources. These included, extraction of figures from the Corporation's Annual Reports and other official Records, Magazines, Year Books and Journals.

The researcher also visited the departments connected with revenue generation, collection and management, and physically inspected the ledger in order to appreciate how information relating to the Corporaion's funds were recorded and kept.

3.6. Procedure Adopted In the Selection Of The Sample Population

The population of interest consisted of all employees of the Corporation from supervisor grade to executive management level. Due to time and cost constraints, it was not possible to interview or administer questionnaire to every member of the population, hence the necessity to draw a sample that was representative for the entire population.

3.6.1. Sampling Frame

This refers to the list of the sampling units used. The sampling frame for this research was the list of all employees of the Corporation, from supervisory level to executive management level. But, as it was difficult and labourious to compile the list of these staff for use as sampling frame, the list of all the departments to which these staff belong was used as the sampling frame.

3.6.2. Sample Size

A sample size of 50 staff were selected from among the above mentioned departments on the basis of their relationship to the research topic. Thus the sample size was drawn from the aforementioned departments

The Technical and Special Risks Departments (that is, Accident, Fire, Marketing, Life, Marine, Aviation, Oil and Gas) are responsible for the generation of funds through their underwriting and marketing fuctions. They are also involved in the collection of the revenue (premiums) which they underwrite, and then pass it on to the Accounts Department. Investment Department is involved in the management of the generated funds by investing it in profitable ventures. This department also generates revenue resulting from profits made from the investments. Accounts Department is involved in the collection, recording and disbursement of funds; while Internal Audit and Information Systems Departments serve as the Internal

Control Units. Inspectorate department is responsible for the collection of what would have been otherwise termed "bad debts".

3.6.3. Sampling Techniques

Purposive and stratified sampling techniques were used to select the employees from the different departments of the Corporation.

3.6.4. Research Subject

The subjects for the research were the employees of Nigeria Re of supervisory to executive management grades selected from the above mentioned departments.

3.7. Procedure For Processing Of Collected Data

The collected questionnaires were arranged and edited to check for accuracy and consistency in the responses. Information contained in them were extracted and classified. Analytical tables were drawn in presenting the information in numerical form to aid analysis.
The table were then interpretated.

3.8. Limitation Of The Methodology

The method used in obtaining required information for this research was not without problems. Time and financial constraints were the most pressing. More detailed questions could not be asked to cover all areas relating to the research topic due to time and financial constraints. However, these short-comings were overcomed by the use of interview techniques. Other problems encountered in the process of data colection were as follows:-

3.8.1. Primary Data

(a) **Questionnaire Administration**

The researcher made serveral repeated visits to the respondents' offices, both during distribution and collection of the questionnaires. The period of distribution coincided with the time when Assistant General Managers and Senior

Managers of the Corporation were attending a one week Stress Management Course outside the Corporation's environment. Some were even on their annual vacations. As such, many of the respondents were absent from their respective offices. the "call back" and "not-onseat" syndrome also contributed to the repeated calls of the researcher on the respondents.

Some respondents outrightly refused to complete the questionnaires while some who accepted to complete the questionnaires were very skeptical about giving out information on questionnaires. Some of those who willingly supplied information gave so scanty information that hardly helped the researcher in analysing the data. In some cases, many of the questions contained in the questionnair were left unanswered. Some of the reasons advanced by respondents for non-response or reluctance in completing the questionnaires included misconception of the purpose of the research and fear of victimisation for giving official information, lack of time for completing the questionnaires because of very tight schedules of work, and the questions being technical. This ignorance on the information required was exhibited even by some staff who work in those departmnets where funds are generated, collected, utilized disbursed or controlled.

Thus, out of a total of fifty (50) questionnaires administered, only thirty-five (35) were received, representing a 70% response.

(b) **Interview Techniques**

This method also presented its constraints. Some information required by the researcher were not given due to the fact that they had not been published, and therefore were not yet for public consumption.

The use of interview technique became necessary since many top managers do not have time to complete questionnaires, because of the pressure of their jobs. In addition, it allow for deeper probing into information by the interviewer, if the need arises.

3.8.2. Secondary Data

The researcher also encountered problems in extracting information from the Corporation's official records such as ledgers, annual reports. This was due mainly to lack of proper records keeping and non-recording of some information vital to the research topic. Some ledgers were not made available to the researcher. The Corporation's Financial Statement for 1997 which is the end of the research period, was not available for use because it was not yet published for public consumption. Tables contained in the latest volume (1996) of the Nigeria Insurance Year Book from where information were extracted were not up-to-date.

Despite the above-mentioned problems encountered by the researcher during the conduct of the filed work, conscientious efforts were made by the researcher to obtain as much available information as possible to enable a meaningful analysis of the subject matters be carried out. Secondly, the exercise was interesting and had nevertheless provided the researcher with a practical aspect of the theoritical knowledge on the Research Seminar Course, especially as it relates to the collection of data.

3.9. ANALYTICAL TOOLS USED

3.9.1. Statistical Models

"Statistics is concerned with scientific method for collection, organising, summarising, presenting and analysing data, as well as drawing valid conclusions and making reasonable decisions on the basis of such analysis".

The Chi square test was considered the most suitable statistical method for the test of restated two hypothesis, since it is a non-parametric test used in determing the significance of the discrepancy existing between the observed and expected frequencies of a set of data Chi-square is defined by the following test satistic:

$$X^2 = \sum \frac{(fo - fe)^2}{fe}$$

Where x^2 = Chi square value

fo = Observed frequencies

fe = Expected frequencies

The value of $X^2 = 0$, when there is perfect agreement of the observed with the expected frequencies.

For the purpose of this research, a 55 or 0.055% level of significance was used.

The critical value of Chi-square (x^2) test was read off the relevant table for 5% level of significance. The Ho was accepted whevere computed X^2 value less than X^2 critical value; otherwise, Ho was rejected.

3.9.1.1. Limitation of X^2

Since a X^2 is only an approximation to the true discrete distribution of X^2, the X^2 test should only be used when the approximation is good. An approximation is said to be satisfactory provided that the expected frequencies in all the cells are at least as large as 5. If the expected frequency in a cell is not as large as 5, the cell can be combined with one or more cells until the condition is satisfied.

3.9.1.2. Algebraic Models

For the performance appraisal of Nigeria Re, the following algebraic models were used:-

i) Current Ratio

This was calcuated as

$$\frac{CA}{CL}$$

Where CA = Current Assets

CL = Current Liabilities

This ration give a measure of the Corporatiion's short-term solvency. It showed how much of the Corporation's current liabilities was covered by its current assets. An acceptable ideal current ratioa is usually 2:1, but much depends on the quaility and character of current assets.

ii) Return on Capital Employed (ROCE)

This was defined as

$$\frac{\text{Profit before tax}}{\text{Capital Employed}}$$

The ratio showed the profitability of the Corporation.

CHAPTER FOUR

DATA ANALYSIS

4.1. INTRODUCTION

This section is mainly concerned with the analysis of data collected from both the primary and secondary sources. It attempts to analyse data gathered from questionnaire, interview response, annual accounts and reports of Nigeria Reinsurance Corporation. The analysis of data starts with the personal and official data of the respondents based on the information contained in number 1 to 8 of the questionnaires. This will be followed by the analysis of the data gathered from numbers 9 to 26 of the questionnaire. This section contains the major research questions and supportive questions.

4.2. Table 4.1. Classification of Respondent

It would be recalled that out of seventy questionnaires administered, 50 copies wre retrieved which is the researcher's sample . The table below therefore attempts to classify the respondents on basis of Sex, Religion, Marital Status, etc.

		Actual Responses	Percentage
Sex	Male	41	82%
	Female	9	18%
Religion	Christian	41	82%
	Muslim	8	16%
	Others	1	2%
Marital Status	Single	23	46%
	Married	27	54%

Length of service in the Corporation	Under 1 year	10	20%
	1 - 5 years	17	34%
	5 years and above	23	46%
Divisions	Special Risks	5	10%
	Techical	6	12%
	Client Service	12	24%
	Finance/Admin	27	54%
Position the in Corporation	Executive Management	3	6%
	Management Staff	5	10%
	Senior Staff	42	84%
Education Qualification	WASC/HSC/Diploma	40	
	B.Sc/M.Sc.	20	
	Professional/MBA	25	
Number of Insurance Companies in Nigeria	50 - 100		
	100 - 120		
	120 and above	50	100%

Source: Questionnaire Response:

The above table shows tht the number of male and female respondents were 41 and 9 representing 82% and 18% respectively. Although male respondents are more that female respondents, the females were relativbely represented. Table 4.1. above also shows that the single respondents were 23 or 46% and married respondents were 27% or 54%. The number of christians, muslims, and other religions respondents were 41 or 82%, 8 or 16% and 1 or 2% respectively. From the above table, only 10 respondents had spent less than one year in the Corporation, the rest had spent one year and above. This shows that the respondents (about 80%) were quite knowledgeable about the operations of the Corporation. The table also shows the responses from the various divisions and the different levels the respondents occupied in the Corporation.

Educational qualification of the respondents varied from WASC/HSC/Diploma to professional qualifications. It would be noted that the sum of the different qualifications did not give 50, because, some of the respondents had more than one qualification. All respondents that indicated WASC/HSC/Diploma also held other higher qualifications. Some of the respondents did not even indicate WASC/HSC/Diploma in their responses, but it was assumed that anybodym who had a higher qualification than WASC/HSC/Diploma had WASC/HSC/Diploma.

4.3. **Table 4.2**

The table below will provide an insight into the Annual Gross Premium Income of Nigeria Re by class of business for the past 5 years (1992 - 1996) - in N million

Class of Business/ Year	1992	1993	1994	1995	1996
Fire, General Accident and Motor	324.5 35.18%	402.23 32.01%	615.4 50%	1,248,566 39.06%	1,281,219 41.1%
Marine and Aviation	594.4 64.44%	846.43 67.36%	622.4 49%	1,885,956 59%	1,767,521 56.7
Life	3.4 0.36%	7.9 0.63%	24.4 2%	62.012 1.94%	68,581 2.2%
	922.3	1,256.56	1,262,215	3,196,335	3,117,322

Source: Audited Annual Accounts of Nigeria Re 1992 - 1996.

Nigeria Reinsurance Corporation, was following life assurance issued to overseas reinsurers by accepting only 20% compulsory legal cession and giving attestation to ceding companies to take their life assurance covers abroad. But from 1st January, 1990, life assurance business has been domesticated, that is, reassured 100% percent locally, this new dimension in life assurance business has improved its annual contribution to premium income; for instance, between 1993 and 1996, it has increased from N7.9 million to N68.6 ;million.

Table 4.3

The table below illustrates respondents anwers to growth in volume of business in most classes of insurance.

	Sample	Actual Responses	Percentage
Volume of Business	50	-	-
About N200 Million	-	-	-
Over N1 billion	-	50	100%
Less than N1 billion	-	-	-
Total	50	50	100%

Source: 1995 Annual Report and Accounts. From the above table 4.3, it is evident that the volume of business and premium is growing yearly in most classes of business.

Table 4.4

The table below illustrates responses on the problems encountered in the proces of revenue generation.

Response	Actual	Percentage
Yes	42	84%
No	8	16%
Total	50	100%

Source: Questionnaire response:

From the table above, it was a consensus opinion that there were some problems encountered by the Corporation in the process of revenue generation.

These problems as enumerated by the respondents were summarised as follows:

i) Debt management of ceding companies cession to the Corporation
ii) Government policies/regulations
iii) Political interest
iv) General economic situation
v) Ineffective monitoring of investments due to inadequate qualified personnel
vi) Bad investment
vii) Political instability

A cusory look at the above, revealed that debt management of the ceding companies cession to Nigeria Reinsurance Corporation had in its revenue generation. Many ceding companies did not pay the 20% compulsory legal cession. Premium income accounts for about 96% of the Corporation's total revenue, but this had been frustrated by the indebtedness of the ceding companies to Nigeria Reinsurance Corporation. Among the tactics employed by these ceding companies to defraud the Corporation include:

i) False declaration of the actual business underwritten
ii) Late submission of returns.

Other relatively major problems in revenue generation were given as follows:-

General economic situation in the country and government policies/ restrictions. Government regulations bordered mainly in investments whereby the statute establishing the Corporation and the Insurnace decree of 1991 stipulated the percentage of its total premium income that would be invested in particular area of investment. In addition, there were a lot of administrative bottleneck in getting approval from the supervisory Ministry before the Corporation could embark on projects. Bad investments is due to political interest also contributed to low revenue yields from investments.

Some solutions to the problem of revenue generation were profered by respondents.

These included the following:

i) Establishment of credit control department to assist the inspectorate department in the collection of outstanding debts from ceding companies, and also to collect outstanding rents from tenants in the Corporation's properties.

ii) Make representation to the Federal Government to review Nigeria Reinsurance Corporation Decree No.49 of 1977, particularly on the sections pertaining to investment and recovery of unpaid premiums from registered ceding insurance companies.

iii) Reduction in government intervention.

iv) Making inspectorate department more functional.

v) Additional training to be given to staff, especially on technical areas, and motivation of staff.

vi) Imposition of premium warrantees.

vii) Engagement of professionals and the right calibre of personnel in investment matters.

viii) Effective and innovative management.

Table 4.5

In this table, areas of investment of Corporation's funds which amongst others include, Companies Equity Debentures, Government Stocks/Bonds, Real Estate, Pension Funds etc., and the ratios in which these are made would be analysed

	Percentage
Fixed deposits	21%
Purchase of shares	7%
Debentires	6%
Government Securities	35%
Real Estate	25%
Mortage Loans	2%
Pension Funds	4%
Total	100%

From the above table, the areas in which the Corporation invests its funds include the following-

i) Companies' equity

ii) Debentures

iii) Government Stocks/bonds

iv) Short term money market instruments

v) Fixed deposits with the banks

vi) Real Estate

vii) Mortgage Loans

viii) Subsidary companies

ix) Pension funds

The following were given as the Corporation's criteria for choice of its investments.

i) Government policies/guidelines

ii) Political consideration

iii) Viability of the investments/nature of investment.

iv) Expected rate of returns or yield (profitability)

v) Liquidity

vi) Balancing of investment portfolio

vii) Social consideration.

However, the Corporation's investment had not been made without problems and were listed by the respondents as follows:-

i) Government restictions and ministerial bottleneck.

ii) Political motivation

iii) *Inadequate skilled investment personnel*

iv) Misplacement priorities

v) Delay in land acquisition and projects competition periods

vi) Under utilisation of assets.

Solutions of how best to solve the Corporation's investment problems were proffered by the respondents. These were:

i) Removal or reduction of government intervention in the management of the Corporation's investments.

ii) Efficient utilisation of labour

iii) Employment of skilled manpower in investment department

iv) Prudent investment of funds, especially in joint ventures.

v) *Critical assessment of companies past financial performance* before investments are made in them, so as to avoid making bad investments.

Other areas of investment suggested by respondents included:

i) Establishment of subsidiary companies in the insurance (e.g. captive insurance company), banking (e.g. acquring distressed banks), industries and real estate development.

ii) Establishment of agricultural and agro-allied industries/farming

iii) Investment in equipment leasing

iv) Establishment of sporting acivities

v) Foreign investment in properties subsidiary companies.

Table 4.6.

The Corporation manages its gerated fund by investing in profitable insurance ventures as can be seen in the table below:-

	Actual Responses	Percentage
By investing in profitable Insurance venture	49	98%
By undertaking appropriate Insurance programme	1	2%
Total	50	100%

Source: Questionnaire responses:

Table 4.6 showed respondets' responses on the question of funds management. This was also in line with the personal interview responses. The Corporation gave priority to expenditure according to needs, urgency, availability of funds, benefits and type of expenditure. Prominent items of expenditure according to respondents' responses included the following

i) Management expenses

ii) Insurance claims

iii) Investment expenses

iv) Assets maintenance expenses

v) Medical bill

Priority is usually given to the following expenditures:-

i) Staff salaries and wawges - to avoid labour unrest.

ii) Settlement of insurance claims - these are contracted obligations that must be honoured.

iii) Investment expenses - these are made in anticipation of minimum returns.

iv) Management expenses - these are unavoidable as they are daily expenses which have to be made to ensure the smooth running of the Corporation.

From the questionnaire and interview responses, financial losses in the Corporation resulted from the following areas.

i) Claims settlements to insurance and reinsurance companies

ii) False declaration of accounts and non payment of premiums to the Corporation by ceding companies

iii) Bad or unprofitable investment due to political motives or poor feasibiality studies.

iv) Delay in taking action on some investment matters

v) Government fiscal policies for instance, 1986 government directive to withdraw fixed deposit of parastatals from commercial and merchant banks. This resulted in loss of revenue to the Corporation.

vi) Foreign exchange losses.

In order to minimise or prevent financial losses in the Corporation, the respondents suggested the following:

i) Engagement of loan adjusters.

ii) Effective monitoring of ceding companies by the Corporation's Client Service Department; to avoid falsification of accounts by these companies.

iii) Establishment of credit control department to handle outstanding debts.

iv) Critical analysis of project and prudent approach in making investment decisions.

v) Legal action against defaulting ceding companies

vi) Expediting action on urgent investment matters.

vii) Redefinition of Corporation's social responsibility vis-as-vis investment decision.

viii) Establishment of well equiped property maintenance department to oversee maintenance of the Corporation's properties.

ix) Insistence on advance payment by business associates

x) Change in societal values with respect to bribery.

The following were suggested solutions by respondents to funds management improvement in the Corporation:

i) Prompt investment of funds in excess of immediate requirement.

ii) Avoid the uses of working capital for long term projects.

iii) Restricting investment to viable project with relatively high expected yield.

iv) Diversification of investments

v) Disposal of unprofitable real estate.

vi) Allowing investment managers free hand in managing investment portfolio (suggest to executive management supervision).

vii) Employing more professionals

viii) Removal of government restrictions.

x) Effective and productive use of human resources and adequate manpower training and development.

xi) Adopting more effective cost-saving techniques.

xii) Reduction on maintenance expenses.

Table 4.7

	Actual Responses	Percentage
Good	42	84%
Fairly good	8	16%
Poor	-	-
Total	50	100%

Source: Questionnaire responses.

From the above table, it can be seen that 84% of the total respondents rated the success of the Corporation in helping to conserve the foreign exchange good while 16% of the total respondents rated it fairly good and more of the responses agreed tht the Corporation is doing badly in this respect. This shows that the Federal Government is achieving its aim of setting up the Corporation.

Table 4.8

The table explains benefits received by ceding companies from the Corporation, taking into cognisance respondent' answers.

	Actual Responses	Percentage
No local markets	2	4%
Market situated	4	8%
Further spread of risk	36	72%
Business exchange	8	16%
Total	50	100%

Source: Questionnaire response

From the above table 4% of the total respondents said that the Corporation still places business abroad because there no local markets, 8% sasid that the local market is saturated, 72% of them said that it is for further spreading or risk while 16% said that it is for business exhcange or reciprovity.

Table 4.9

This table shows the Gross premium income

	Actual Responses	Percentage
About 5%	50	100%
Less than 5%	-	-

Source: Questionnaire responses.

All the respondents indicated that the volume of income received by the Corporation fromm business placed abroad is about 5%.

Table 4.10

The table shows the gross premium income.

	Actual Responses	Percentage
Training	30	60%
Underwriting Guidelines	9	18%
Technical aids	9	18%
None of the above	2	4%
Total	50	100%

Table 4.11

	1992	1993	1994	1995	1996
Gross Premium	N408.2m	N611.5m	N919.8m	N1.16b	N1.26B

Source: Nigeria Reinsurance Corporation published " Annual Reports and Accounts 1992 - 1996

The yearly increases would certainly be larger if returns were received from all the ceding companies in the country. This reason was also confirmed from the responses and information got from the personal interview held with the various managers in the Corporation. Do you agree that many of the world's reinsurance have abondoned any thought of continuing to write business in the Corporation as a result of insufficient foreign exchange?

Table 4.12

Respondens	Executive Management	Management Staff	Senior Staff	Total
Yes	2	4	25	31
No	1	1	17	19
Total	3	5	42	50

Source: *Questionnaire responses.*

Computation of expected value from the observed value on the above table.

Where '0' = Observed value

'E' = Expected value

'O'						'E'
2	=	$\frac{3 \times 31}{50}$	=	$\frac{93}{50}$	=	1.86
4	=	$\frac{5 \times 31}{50}$	=	$\frac{155}{50}$	=	3.1
25	=	$\frac{42 \times 31}{50}$	=	$\frac{1302}{50}$	=	26.04
1	=	$\frac{3 \times 19}{50}$	=	$\frac{57}{50}$	=	1.14
1	=	$\frac{5 \times 19}{50}$	=	$\frac{95}{50}$	=	1.9
17	=	$\frac{42 \times 19}{50}$	=	$\frac{798}{50}$	=	15.96

Calculation of Chi-square (X^2)

$$\sum \frac{(0 - E)^2}{E}$$

0	E	$(0-E)^2$	$(0-E)^2$	$\frac{(0-E)^2}{E}$
2	1.86	0.14	0.0196	0.0105
4	3.1	0.9	0.81	0.2613
25	26.04	- 1.04	1.0816	0.0415
1	1.14	- 0.14	0.0916	0.0172
1	1.9	- 0.90	0.81	0.4263
17	15.96	1.04	1.0816	0.0678
	50	0	3.8224	0.8246

Calculated Chi-square (X^2) = 0.8246

Degree of freedom 'V' = (R-1) (C-1)

= (2-1) (3-1)

= (1) (2)

V = 2

The value of the cut-off print of X^2 for 2 degrees of freedom at 5% level of significance is 5.991. As the caulculated value (0.8246) is less than the table value (5.991), indicates that the insufficient foreign exchange currencies in Nigeria has regrettably meant that many of the world's reinsurers have abandoned any though of continuing to write business in Nigeria Reinsurance

Corporation. Looking at this from a reinsurer's point of view, the greatest signle problem within the Corporation is the shortage of foreign exchange even within national markets is leading to a situation on facultative reinsurance where business is dealt with largely on the basis of exchange of credit and debt notes.

Appraisal of the Effectiveness of Management of Nigeria Reinsurance Corporation Funds:

Current ratio - This is defined as

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

From the Corporation's annual and accounts report.

$$1995 \quad \frac{CA}{CL} = \frac{1,084,649,000}{795,534,000} = 1.363$$

$$1996 \quad \frac{CA}{CL} = \frac{754,910,000}{398,101,000} = 1.896$$

This ratio indicates how much the Corporation's current liabilities is covered by its current assets. It indicates how the Corporation meets its financial obligations when due. The acceptable ratios is 2:1.

From the above, the current ratio of 1996 total current assets, The Corporation was able to meet its day to day running expenses effectively in the year 1996.

CHAPTER FIVE

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1. SUMMARY

The research study on the "Management of Reinsurance Funds" was conducted on a population of about 550 staff, out of which 100 of them who occupy the Executive Management post, Management post and Senior Staff were in the technical division, taking a sample size of 70.

The response received from the questionnaires sent out was about 855. All the questionnaires sent out for the sample size were completed and received. About 85% of registered insurance companies in Nigeria transact business with Nigeria Reinsurance Corporation. 100% of the premiums received by the Corporation is invested by way of fixed deposits, purchase of shares, debentures, government securities, real estate and the like. The Corporation has also succeded on conserving the foreign exchange of the country to a large extent. However, part of the premium received are remitted abroad for further spreading of risk, whereas only a little income is generated from the business placed abroad. It was also noted from the analysis that each force is playing a dominant role on credit management of the Corporation.

The responses showed that the task force has not achieved much success in collection of substantial amount of premium from ceding companies because it does not liaise with the Accounts Department of the Corporation. It also revealed that the Corporation has not succeeded in collecting much premiums because the defaulting companies have not been prosecuted, and the volume of work in the Corporation has grown to the extent that the manual system being used could no longer cope with. Moreover, foreign exchange difficulty is responsible for the inability of the remitting the premiums as and when due.

Some financial ratios indication the liquidity position and profitability of the Corporation were also computed and used. From the study, it was possible to establish that the investment problem of Nigeria Reinsurance Corporation were not caused by inadequate funds, that government fiscal policies among others affected the Corporation's maximization of its investible funds. The Corporation has also succeeded on conserving the foreign exchange of the country to a large extent.

5.2. CONCLUSION

The Nigeria Reinsurance Corporation was established to carry out reinsurance business in Nigeria in order to achieve certain objectives. One of those objectives is to help in the spreading of risks that have been insured by registered insurance companies in Nigeria and to conserve some of the nations foreign exchange which would otherwise have been remitted abroad to overseas reinsurers/brokers as reinsurance premiums which had been achieved within its short perod of existence. It was also charged with the responsibility of investing in profitable ventures. This called for aggressive revenue generation and judicious utilisation and management of available resources for maximization of profit. Two main sources of revenue generation for the Corporation are premium and investment incomes, which are managed through investment in profitable business ventures.

In line with Decree No. 49 of 1977 establishing Nigeria Reinsurance Corporation, the premium income generated were largely invested in various securities. The Corporation's funds have so far been well managed, its investments having grown steadily over the years with good margin of profits. Despite the numerous achievements being made by the Corporation within its twenty years of existence, there had been certain controllable and uncontrollable factors hampering its effective operation, such problems as late submission of account and debts owed the Corporation by ceding companies. These have affected the Corporation's liquidity position and cash flow.

Other major problems include inadequate qualified investment staff to manage its investments, and government's intervention in the operations of the Corporation, especially in the areas of it investments. The Corporation's criteria for choice of investments had mainly been based on profitability, security, liquidity, and government regulations.

For its aims to be achieved, it is necessary if the management of funds of the Corporation is critically looked into for the Corporation not to die a premature death by way of insolvency. Certain machinaries should be put in place to see that all necessary premiums are received as and when due and put into a judicious use. This is even more important now that the nation is undergoing economic structural changes which put all the sectors into financial hardship.

5.3. Recommendations

The following recommendations based on the findings of this research work:

1. The task force team should put more effort towards ensuring that majority (if not all) of the premium are collected from the ceding companies. Their liaising with the Corporation's Accounts Department in getting a detailed information about the amount owed and other necessary information will in no small way help in achieving this task.
2. The Client Service Department established and charged with the responsibility of reconciling the accounts of the ceding companies and collection of outstanding debts owed Nigeria Reinsurance Corporation by these comapnies, should be reinsforced and made functional. This could be achieved by recruiting adequate and qualified personnel to enable the department cope with the it functions. Recruitment of qualified personnel could be done by internal trasfer of staff from other departments in the Corporation where necessary.
3. A credit control department may also be established to assist the client services department with adequate working material

such as vehicle, furniture, stationaries, calculators and good working environment.

4. The Corporation can generate additional revenue by establishing more subsidiary companies in the areas of banking and insurance such as establishing a captives insurance company, brokerage firm or floating a merchant or commercial bank.
5. The operations of the Corporation should be computerised. If this is done, a more up-to-date information about the ceding companies can be obtained without much effort at any time.
6. Eventhough the decree which established Nigeria Reinsurance Corporation gave it the powers to prosecute the defaulting ceding companies this should be cautiously done so as not to force many of them to go into compulsory liquidation which may affect the fortune of the Corporation.

Further Studies

Further studies on how best to manage the Corporation's funds is therefore necessary. But vision plays a central role in life. Another abroad implication for research suggested by the present paper is that the study of adaptations to new or modified environments may prove to be more valuable than investigations which begin after adaptations have taken place. This will provide a useful guide for the Corporation's management of its funds and other resources.

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RESEARCH QUESTIONNAIRE

PERSONAL INFORMATION

1. Name (Optional): Chief, Dr, Alhaji, Mr. Mrs. Miss ....
....

2. Sex: Male /__/ Female /__/

3. Marital Status: Married /__/ Single /__/
Divorced /__/ Widowed /__/
Separated /__/

4. Religion: Christainity /__/ Muslim /__/
Others /__/

5. How long have you been in the service of the Corporation?
Under 1 year /__/ 1 - 5 years /__/
Over 5 years /__/

6. Indicate your Department ....

7. What is your position in the Corporation?
Executive Management Staff /__/
Management Staff /__/
Senior Staff /__/

8. Educational Qualification(s) 1. ....
2. ....
3. ....
4. ....
5. ....
6. ....

SECTION A.

REVENUE GENERATION

1. What are the source(s) of revenue in the Corporation?

a) ....

b) ....

c) ....

d) ....

e) ....

f) ....

2. What percentage of the Corporation's total revenue does each of the above source(s) contribute?

a) ....% b) ....%

c) ....% d) ....%

10. e) ....% f) ....%

3. How would you rate the revenue yeilds from the existing source(s)?

Very high /   / high /   /

fair /   / poor /   /

4. How do you consider the existing source(s)?

very adequate /   / adequate /   /

11. fairly adequate /   / not adequate /   /

5. As a fully owned Federal Government establishment, does the Corporation get any subvention from the Federal Government?

yes /   / No /   /

6. If you answer to question 5 above is yes; what percentage of the Corporation's revenue does it represent?

.............%

7. Do you think that the above subvention from the Federal Government is adequate?

Yes /___/ No /___/

8. How is the subvention utilized by the Corporation?

....

....

....

....

....

9. Are there problems encountered in the process of revenue generation?

Yes /___/ No /___/

10. If you answer to question 9 above is 'yes', specify what the problems are

....

....

....

....

....

11. From which of the source(s) are such problems encountered?

....

....

....

....

12. Do you think the Corporation is aware of these problems?

Yes /___/ No /___/

13. If your answer to question 12 is 'yes', what steps has the Corporation taken to solve the problem(s)?

....

....

....

....

14. What additional solutions can you offer to the problems enumerated above?

....

....

....

....

....

15. Do you feel that the Corporation can generate additional funds to supplement the existing ones?

Yes /___/ No /___/

16. If your answer to question 15 is 'yes', please suggest other possible sources of revenue available to the Corporation?

....

....

....

....

....

SECTION B.

FUNDS MANAGEMENT

17. How does the Corporation manage its generated funds?

....

....

....

....

18. In your opinion, do you think the generated funds are managed

Excellently /___/ very well /___/ well /___/

fairly well /___/ poorly /___/ very poorly /___/

19. In what areas does the Corporation invest its funds?

....

....

....

....

....

20. Which of these investment(s) is/are given greater attention and why?

....

....

....

....

....

21. What are the criteria for the choice of investments:

....

....

....

....

....

22. How are the returns on the investments?

Excellent /___/ very good /___/ Good /___/

23. Are there problems encountered in the Corporation's investments?

Yes /___/ No /___/

24. What are these problems? Please specify.

....

....

....

....

25. How best do you think these problems can be solved?

....

....

....

....

26. Are there restrictions imposed by Government on the management of Corporation's funds vis-a-vis investment?

....

....

....

....

27. What are these restrictions?

....

....

....

....

....

28. Suggest other areas you feel the Corporation can invest in

....

....

....

....

....

29. What are the areas of expenditure in the Corporation?

....

....

....

....

30. Which item(s) of expenditure feature(s) more prominently on the list?

....

....

....

....

31. Which one of these carries the highest expenditure?

....

....

....

....

32. What percentage of the Corporation's total expenditure does it represent?

..............................%

33. What form(s) of financial statement(s) is/are prepared in the Corporation.

....

....

....

....

34. How often is/are the financial statement(s) prepared?

Monthly /__/ Quarterly /__/

Bi-annually /__/ Annually /__/

35. How often are the Corporation accounts audited?

Monthly /___/ Quarterly /___/

Bi-annually /___/ Annually /___/

36. The accounts are audited by: Appointed external auditors /___

Internal auditors /___/ Both /___/

37. Are there areas of financial losses to the Corporation? (please specify)

....

....

....

....

38. Can you suggest how the losses can be minimised or it possible, prevented?

....

....

....

....

39. Please suggest ways of improving funds management in the Corporation.

....

....

....

....

40. Please give any other suggestion(s) that you think would assist me in carrying out on in-depth and meaningful study of the above topic.

....

....

....

Additional sheet(s) could be used if space provided is inadequate.