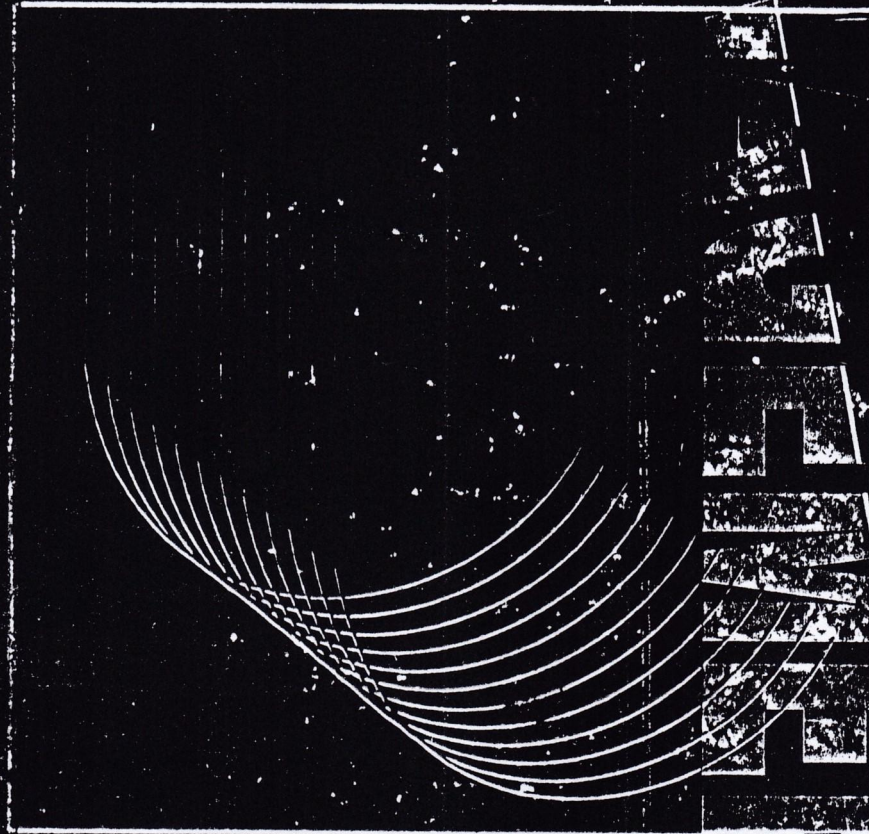


BUSINESS

A Management Approach



DON M. BARIDAM

15

RISK MANAGEMENT AND INSURANCE

INTRODUCTION

Our daily activities are full of risks. Whether we like it or not, and as long as one is living, risks of varying dimensions are inevitable. A home may be destroyed in a twinkling of an eye by fire, flood or tornado. Family income may stop because of the death of the income earner or injuries sustained in an accident. The family vehicle may be stolen. These are likely events. In business, risks generally are inescapable. Every business venture is something of a gamble because the possibility of loss is as real as the prospect of profit. Owing to the perils associated with life and business, mankind has at each stage of her development, continued to evolve strategies for reducing if not eliminating such perils. Despite these efforts a host of risks are more difficult to guard against than others. Examples of such risks are bad weather, natural disasters, strikes, death, law suits, and accidents. These are generally called economic risks because they involve the loss of property and earning power. No matter how lucky or careful one is, economic risks cannot be completely eliminated. But great financial losses accruing from economic risks can be minimized by proper and efficient management.

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This chapter will unveil the various risks common to our day-to-day business activities and their management approaches. Efforts will be made to discuss, in greater detail, one of the approaches (insurance) with a view to x-raying its principles and operations in the Nigerian business context.

RISK AND RISK MANAGEMENT

Risk defined

Williams and Heins¹ defined risk as the variation in the possible outcomes that exist in a given situation. Okereke² defined it as the uncertainty that exists in the occurrence of some events (loss or injury) or the possibility that the actual return will deviate from that which is expected. Risk can also be seen as a doubt, chance of loss, or injury, exposure to danger or loss arising from business variations; or in insurance, the insured object. Business risks can be measured by assigning probability distribution and employing statistical measures of dispersion like the range, the variance, standard deviation, etc.

Risk Management: An Overview

The future of human activities is unknown. This uncertainty makes life and business transactions very risky. The consequences of this risk element inherent in our daily business activities make business firms, families, individuals, groups or societies develop various methods of managing risk. Thus, risk management is the process of reducing the threat of loss due to uncontrollable events. It involves the application of general management concepts and techniques to a specialized area. It requires the drawing up of plans, directing and organising of materials and men for the undertaking, maintenance of activity among people for the objectives involved, co-ordinating all the activities involved and controlling them to

sure that results obtained conform with set objective(s). Thus, risk management is both an art and science.

The objective of risk management is essentially to reduce the adverse effect of economic risks at the least cost consistent with the goals or objectives of the business. Risk management as a process involves a number of steps. Williams and Heins³ identified the steps as follows:

- Establishment of procedures and communication throughout the organisation to allow for a complete inventory and discovery of the potential (economic) risks that may arise in the activity of the business firm.
- Proper measurement of the losses associated with these risks.
- Consideration of the various alternative solutions or tools of risk management and the choice of the best tool or combination of tools.
- Establishment of the means for effective implementation of the decisions made.
- Monitoring and evaluation of the decisions reached.

From the third step, we see that there are many approaches or tools to risk management. They include the

- (i) avoidance of risk;
- (ii) minimization of risks through good management techniques, e.g. safety programme, security patrol in a business premises, say, for 24 hours;
- (iii) absorption of losses, i.e. retaining risk internally;
- (iv) shifting of risk to another party usually insurance companies. That is, the purchase of insurance to pay for losses.

The choice of any one of these approaches should depend on its cost-benefit analysis as well as the objective the business wants to achieve. For the purpose of this chapter, as stated earlier, the fifth approach (insurance) is considered most appropriate, and detailed treatment is given to it here.

Generally, risk management is of great benefit to mankind. It directly or indirectly contributes not only to the business profit, but also to the family and society at large.

CLASSIFICATION AND TYPES OF RISK

Risk can be classified into three categories as follows:

1. *Pure and Speculative Risks.* Mowbray *et al*⁴ pioneered this classification. Pure risks are threat of loss or injury without the possibility of gain. For instance, the fact that there is no fire disaster in a business firm does not in a way contribute to the profit of the business. Thus, the business owner's position remain unchanged. Unlike speculative risks, pure risks are always distasteful. Speculative risks are risks where there is the possibility of losing money in order to make profit. They are more amenable to the insurance law of large numbers.
2. *Static and Dynamic Risks.* This classification is dedicated to Willet.⁵ He described static risks as risks connected with losses caused by the irregular action of forces of nature or the mistakes and misdeeds of human beings. Dynamic risks, on the other hand, are risks associated with changes, especially changes in human wants, improvement in technology and business firm. Static risks affect the entire society, while dynamic risks do not. Static risks are almost

pure risk, whereas dynamic risks include pure and speculative risks.

3. *Fundamental and Particular Risks.* Kulp and Hall⁶ classified risks into this form. Fundamental risks are group risks, impersonal in origin and effect, and at least for the individual, unpreventable, whereas particular risks are personal in origin and effect and can easily be controlled.

Types of Risk

There are different types of risk facing business and non-business operators. Each type of risk falls within either of the categories highlighted above. Okereke⁷ identified a number of risks as follows:

Business Risk. This refers to the inherent variability or uncertainty of a business earning before interest and taxes which arise from general economic depression. Thus, business risk is a function of several factors including the business firm's degree of operating leverage, the variability of sales, etc. The higher the variability of sales resulting from economic depression, the higher the business risk.

Financial Risk. This refers to the variability of a firm's returns to shareholders. It is the risk resulting from leverage (business level of debt financing). Thus, financial leverage is one of the several factors that affect financial risk. The use of increasing amounts of financial leverage raises the business firm's fixed financial costs. This, in turn, increases the level of earnings before interest and taxes (EBIT) that the firm must earn in order to meet financial obligations and remain in business. The use of financial leverage

increases the variability of a firm's earnings per share (returns) to common shareholders. The higher the business firm's financial leverage (percentage of a firm's assets financed by debt), the greater the probability of insolvency or bankruptcy, and the greater the firm's risk which is, however, compensated in the form of higher rates of return.

Market Risk. This is the portion of the variability of an individual investment returns that is caused by factors affecting the market as a whole - market conditions/movements. Such conditions or factors include

- (i) changes in purchasing power;
- (ii) changes in interest rates;
- (iii) changes in investors' expectations in the overall performance of the economy;
- (iv) market reaction to unanticipated events, e.g. the death of a president or a surprise sign of war, as was in the case of the 'Abiola Run' in 1994 in Nigeria.

Liquidity Risk. This results from poor cynchronization (either unanticipated or due to inefficient management) of a business firm's cash flows.

Purchasing Power Risk. This type of risk arises from unanticipated increase in the rate of inflation. It is the erosion of capital by inflation. Operationally, the real value of assets, especially financial assets, are seriously affected during the period of inflation. Purchasing power risk affects mostly businesses in fixed income financial assets.

Foreign Exchange Risk. This is the variability of changes (fluctuation) in exchange rate. Essentially, changes in exchange rate are inevitable in a world of more than one hundred national currencies. Business investors may be able to advance their economic welfare by acquiring the assets dominated in currencies they expect to appreciate, and selling assets and insuring liabilities denominated in currencies they expect to depreciate. As business investors revise their holdings of assets denominated in different currencies, exchange rate should change. It is this change that forms the risk.

Default Risk. This risk is as a result of a borrower's inability to service his debt and pay the principal amount as at when due.

Political Risk. This is the variability in investment return arising from political forces, e.g. selective tax laws, discriminatory sanctions, such as compensation claims, indigenization programme, etc.

Natural Risk. This is the variability in a firm's earnings arising from natural disasters, e.g. flood, weather, etc.

Management Risk. This refers to the variability of a firm's earnings arising from management. This type of risk could arise from judgemental errors, inefficiency or fraud on the part of management.

Industry Risk. This arises from unanticipated variations in profit performance caused by particular factors affecting one industry, e.g. commodity prices.

Other types of risk include risk of unplanned obsolescence, Union risk, Transfer risk, Maturity risk, Country risk, Price level risk, etc. In fact, different types of risk inherent in the business world are inexhaustible.

Rachman and Mesca⁸ summarised risk types and their protection as shown in Table 15.1 below.

Table 15.1 Types of Risk and Their Protection

<i>Risk</i>	<i>Protection</i>
Loss of property	Fire Insurance Disaster Insurance Marine Insurance
Loss from legal liability	Liability Insurance Workers' Compensation Insurance
Loss of earning power	Business Interruption Insurance Extra Expenditure Insurance Contingent Business Interruption Insurance Small Business and Key-Executive Life Insurance
Loss from dishonesty or non-performance	Burglary, Robbery and Theft Insurance Fidelity Bonding, Surety Bonding Credit Life Insurance

Source: David J. Rachman and Michael H. Mesca, *Business Today*. 4th ed. (New York: Random House, Inc., 1985), p. 443.

UNINSURABLE AND INSURABLE RISKS

The business firm is surrounded by a number of risks some of which have been identified above. Some of these risks may not be transferred to a third party (insurance company) as a risk management measure, while others can be transferred. Thus, we have uninsurable and insurable risks.

Uninsurable risks are those risks any insurance company will not agree to cover, e.g. insurance of prolonged natural disaster, potential government action, general economic condition, etc.

Insurable risks are those risks for which it is possible to buy insurance from insurance companies, e.g. risk of fire. This risk is insurable because the insurance companies have relevant statistics that informs them how frequently fires occur, under what conditions and how much the damages cost generally. Some people question the insurability of certain risks that are uninsurable. Generally, experience has shown that some uninsurable risks now may be insurable in the future and vice versa. Whichever way, risks are insurable if, and only if, they meet the following requirements:

1. The risk insured against must not be under the control of the insured.
2. There must be a large number of risks in the same risk class. This follows the insurance law of large number or averages. By this law, as the number of risks in a class increases, the number of actual losses in that class moves closer to the predicted risk figures which are based on intuition.
3. Expected losses must be serious enough as to force many people to seek protection through insurance.

4. The losses must be definite, determinate in time, place, cause and amount. This is to avoid loss-adjustment problem.
5. Expected losses must be calculable and the cost of insuring must be economically feasible. That is, the premium must not be too high as to discourage the purchase of insurance for the risks.
6. The risk must be unlikely to affect all the insured simultaneously.
7. The loss must be accidental from the point of view of the insured. Naturally, no insurance company will want to insure a person against an intentional loss.
8. The possible loss must be financially serious. This is to ensure commitment on the part of the insured and the furnishing of the correct value of the insured object. That is why many insurance policies have a deductible clause that specifies that an "insurance company will pay only that part of a loss which is greater than an amount (the deductible) stated in the policy".
9. The insurance company has the right to set standards for accepting risks.

Generally, insurable risks are absorbable by insurance companies. Such insurable risks are called absorbable risks. That is, they can be covered (protected) by insurance companies. But for obvious reasons, some insurable risks of a business may be absorbed by the business itself. This is called risk retention or self-insurance. Thus, insurable risks can be divided into two: Absorbable risks and Retained risks.

INSURANCE DEVELOPMENT: A GLOBAL AND NATIONAL PERSPECTIVE

Insurance business is traceable to the marine policy of 1547. The document was called a 'bill of insurance' and was written in the Italian language. The word 'policy' was also derived from the Italian word 'polizz'. Hence, it is believed that insurance, which is said to have started in Britain came from Italy, as it was the Italian merchants who introduced insurance business to Britain.

Globally speaking, the existence of insurance is as old as mankind, but the actual exposition of the theory, practice and purpose of insurance can be traceable to the passing of an Act of the British Parliament, during the reign of Queen Elizabeth I in 1601. During this period, there were no insurance companies but what existed were merchants (mostly Italians) who were ready to partake in the underwriting of risks on very much the same lines as in insurance underwriting of today. Ancient guilds also provided some form of mutual insurance to their members who incurred loss.

As pointed earlier, marine insurance is the oldest insurance business, followed by fire insurance, and then life insurance introduced in 1750.

From the national perspective, development of insurance took almost the same global dimension. Before the advent of the modern insurance business in Nigeria, there existed an informal and unorganised insurance business. There were mutual and social insurance schemes - the age grades, family fund pools, women associations, etc. Town Unions operated various insurance schemes but in a crude and primitive form.

The modern concept of insurance business was introduced in Nigeria around the 20th century by the British. The booming business activities in Nigeria during this period occasioned by the

establishment of trading posts attracted many merchants especially British merchants into the country. With time, some British insurers appointed representatives (agents), mainly expatriate banks and merchants, to represent their interests in Nigeria. As time went on Nigerian traders and merchants were appointed as agents. This trend later gave way to full branches of the parent companies abroad with sub-branch offices throughout Nigeria. In this way, the first insurance company, the Royal Exchange Assurance Company (REAC), had its full branch office in Nigeria in 1921. It remained the only insurance company established in Nigeria up till 1949 when three additional ones were registered. These were the Norwich Union Fire Insurance Society (now Guinea Insurance Company Limited), the Tobacco Insurance Company Limited and the Legal and General Assurance Society Limited. From that time, the growth rate has been very tremendous. From 1970 to 1990, insurance companies (life, non-life and mixed) have grown from 43 to 103.

INSURANCE: DEFINITION AND BASICS

Insurance is one of the techniques with which risks can be effectively managed. It can be defined from two viewpoints - the insurer and the insured. From the point view of the insured, insurance is the protection against financial loss provided by the insurer. Thus, insurance is a transfer device. From the insurer's viewpoint, insurance is a device through which the risks of two or more persons or business firms are combined by means of actual or promised contributions to a fund out of which claimants are paid. Thus, insurance is a retention and combination device.

Generally, insurance can be defined as a contractual agreement between two parties, the insured (assured) and the insurer (assurer), whereby one party (the insurer, or assurer)

agrees to provide protection against the happening of an event upon payment of a consideration (called premium) to him by the second party (the insured or assured) over a given period. This agreement must be properly documented and it is this document that is called the insurance 'policy'.

Osbornes⁹ defined insurance as "a contract whereby a person, called the insurer or assurer, agrees in consideration of money paid to him (called the premium) by another person (called the insured or assured) to indemnify the latter against loss resulting to him on the happening of certain events. The policy is the document in which is contained the terms of the contract ...".

From these definitions we find out that every insurance must have a policy; i.e. that every insurance arrangement must be properly documented in accordance with the terms agreed by the parties. The policy is the 'rope' tying the two parties together. An insurance agreement is successfully executed to the extent the parties are able to understand and appreciate the insurance policy. So, in order to get the best out of reading an insurance policy, it is very helpful to seek answers to the following questions:

1. Who is the insured?
2. What kinds of risk are covered in the policy?
3. What property, if any, is protected?
4. What risks or losses are not protected by the policy?
5. What period of time does the policy cover?
6. What condition can lead to the cancellation of the policy?
7. What must the insured pay for the protection?
8. What are the procedures that must be followed in the event of loss?
9. Is there any third party to the policy? What are his limits?

From these questions, risks involved have been defined, conditions and terms of the contract stated, and working procedure explained. However, these questions are not exhaustive. They are only a guide to the understanding of insurance policy as all policies are not the same.

The purpose of insurance business is to indemnify or compensate the insured for his financial losses or loss of life. This implies that insurance neither eliminates nor stops a disaster, misfortune or death from happening. What it does is to reduce the shock from the financial point of view.

Insurance Basics

Insurance basics are the fundamental principles that operate in insurance business. They include:

1. Insurance interest
2. Risk
3. Law of large numbers
4. Utmost good faith
5. Indemnity
6. Subrogation
7. Contribution
8. Proximate cause

Insurance Interest. This is an insurance concept wherein the policy-holder must stand to suffer some financial loss due to the occurrence of an event (fire, death, law suit, etc.). However, for life assurance, a blood relative may have an insurable interest even though no financial loss occurs in the event of the death of the insured.

The law makes it mandatory for every insurer to have an insurable interest in the subject matter of the insurance, absence of

which makes the contract invalid. Insurance interest exists in a peril to the extent of the loss or liability due to that peril being insured against. The following features must be present whenever an insurable interest exists.

- (a) There must be tangible or intangible objects revolving round the insured and capable of being insured against.
- (b) Such tangible and intangible objects must be the subject matter of insurance.
- (c) The policy-holder or insured must bear some relationship, recognised by law, to the subject matter whereby he would benefit by the safety of the objects, and he would be prejudiced by any loss, injury, damage or creation of liability.

There is no insurable interest for the property of competitor or life of an enemy.

Risk. This concept requires that a risk must meet or be present in order for the insurance company to provide protection against its occurrence.

Large Numbers. This concept is a probability calculation of the likelihood of the occurrence of perils on which premiums are based. It is believed that there must be a large number of independent insured units exposed to the same risk being insured against in any insurance.

Utmost Good Faith. This is one of the principles guiding the insurance business. By this concept, the insurer should be able to disclose all the relevant information concerning the period being

insured. This is because the insurer is ignorant of the period being proposed by the insured (proposer), as he (proposer) knows all the risks involved in the object being insured. So the insurer relies on whatever information given by the insured for the assessment and calculation of risk in the object. Thus, insurance business is a contract of utmost good faith or contract of *uberrimae fidei*, which implies that each party must refrain from actively misleading the other and must not conceal any information relevant to the proposed insurance. Relevant information here is one which would affect the decision of a prudent insurer on whether or not to accept the insurance proposal and on what terms he would accept.

Indemnity. This is another important principle in insurance business. It is believed legally that all insurance policies, except those of life and personal accident, are contracts of indemnity. By this principle, it means that in the event of any loss arising from an insured risk, the insured shall be kept in the same position he was immediately before the occurrence of the event being insured against. This implies that payment for the loss insured against must not be more than the actual cash value of the loss. The actual cash value here means the cost of repair or replacement, less an allowance for physical depreciation and economic obsolescence. Sometimes, actual indemnity may not be recovered. This is unconventional but will only happen when there is an under-insurance by the insured. Practically speaking, no insured gets more than an indemnity. Insurance contracts promise to pay the insured no more than his or her insurable interest at the time of the loss.

Subrogation. This principle tries to ensure that the principle of indemnity is not violated by the insured. Subrogation as applied in

the insurance business is the right of an insurer, who has satisfied the indemnity principle, to recover liabilities against a third party of the insured. This right may reduce or extinguish the insurer's loss position. Subrogation is a corollary to the indemnity principle. By this principle, common law states that "after paying the insured, an insurer is subrogated to the insured's rights of recovery from anyone (third parties) causing the loss. However, this right is limited to the extent of its payment, i.e. to the extent of the satisfaction of the indemnity principle.

Contribution. The concept of contribution is not very common in insurance policies. It is applied only in special cases; for instance, where there is more than one insurance covering the same subject matter, the same interest and the same peril (double or multiple insurance). In practice, there is no law forbidding an insured from effecting two or more insurance policies of the same interest, but the law is interested in ensuring that the total of the insured's recoveries under all the policies does not in any way exceed his or her actual financial loss. Irukwu¹⁰ described contribution as "the right of an insurer who has paid under a policy, to call upon other insurers, equally or otherwise liable for the same loss, to contribute to the payment". Contribution principle is applied when the following are present:

1. More than two policies are in force at a given time.
2. Each of these policies must insure the same subject matter and the same interest of the same insured.
3. The same peril must be covered in the policies.
4. All the insurance policies must be contracts of indemnity.

Proximate Cause. This doctrine checks the excesses of the insured in terms of carelessness on the insured peril. By this principle, the cause of the loss must have direct bearing on the insured peril. Thus, the insurance company employs it as a guide in determining whether or not a loss which is the subject of the claim was caused by an insured risk. If the proximate cause of the loss is an insured risk, the insured must be indemnified by the insurer, but if on the other hand, the proximate cause of the loss is an expected or an uninsured risk, the insured cannot be indemnified, as the insurer is not liable for the loss arising from such peril. Thus, for the insured to be indemnified, the proximate cause must not only be the latest cause, but also the direct, dominant effective and efficient consequence of risks insured against.

INSURANCE AND GAMBLING

Insurance and gambling, as business activities, are sometimes erroneously said to mean the same thing because they share one characteristic. In both cases money changes hands on the basis of chance event happening. That is, the insured and the gambler may collect more naira value than they pay out, the outcome being determined by some chance event occurring. But they are practically and theoretically different and should not be used interchangeably. The truth is that in gambling, you create the risk (speculative) of loss by making a bet. You are not subject to losing your money until you make a bet. But in the case of insurance, whether you buy the insurance or not you are faced with the possibility of losing your property or earning power.

INSURANCE INTERMEDIARIES

Insurance business cannot be effectively carried out without the recognition and use of insurance middlemen, otherwise called

insurance intermediaries. They include brokers, agents and adjusters. In Nigeria, however, the insurance market recognises the independent functions of the brokers and agents, and not those of adjusters. We will briefly look at these intermediaries.

Insurance Agents

Every insurance policy placed with an insurance company in Nigeria must go through an insurance agent, broker or directly with the insurer. The choice of any one depends on the discretion of the proposer. If he chooses an agent, other intermediaries are eliminated.

An agent is a person under contractual agreement to act for another, called the principal, at a commission. Legally, the agent's function is to bring to the principal a third party for insurance business. Once that is accomplished, he drops out. The principal, the insurer, is held liable for all the actions of the agent within the context of the terms of his appointment.

Insurance agents may be independent or exclusive¹¹. Independent agents are agents who may be among the many others employed by the insurer to sell insurance policies to third parties at a percentage of the amount involved (commission) in recognition of their services. This type of agent has legal ownership of all the data regarding the customers, and this makes the insurance company to solely depend on the agent for information concerning clients. So, in the event of termination of the relationship, the insurer suffers more than the agent as his ownership of clients' records and details can easily make him have closer relationship with other insurance companies. The success of an independent agent very much depends on the reputation of the various insuring companies he represents. The higher the standing of an insurance company in the opinion of the insuring public, the more the agent

is accepted by them, and more business for the agent. Independent agents are also called part-time agents. They are very common in the Nigerian insurance business practice.

Exclusive agents are agents employed to sell insurance services to third parties for a commission based on the business obtained, and whose allegiance to the insurance company is total. Thus, an agent can only work for one company and no other. He cannot take up employment with any other insurance company as long as the relationship exists. This is unlike the independent agent who can take up agency employment from many companies at the same time. Under this relationship, expiration information and policy records are legally owned by the insurance company. Exclusive agents are also called full-time agents, which, in practice in the Nigerian business environment, is very rare.

An agent may also be a cash agent or credit agent¹². The practice is to initially appoint a person as an agent on cash basis and when he proves productive (measured by the number of policies attracted to the insurance company) he is converted to a credit agent, who as a matter of rule, has wider powers although within the scope of the terms of agreement.

In addition to the above classes of agents, we have another one called own case agent, who may be an individual, a firm or a company. From the name, he does not bring outside insurance business; he only receives commission on his own policies.

Generally, insurance agents are not skilled. They do not require sound technical knowledge of the insurance business before being appointed. This is the main difference between them and insurance brokers.

Insurance Brokers

The origin of brokers can be traced back to the early European traders, who, because of their ignorance in the marine insurance technicalities, employed the services of experts to act for them. Since then, these brokers have continued to extend their service beyond the marine insurance.

Insurance brokers are by law and practice independent full-time insurance professionals appointed by an insurance company to act on its behalf on insurance matters. Thus, insurance brokers are agents, but agents are not brokers. As a specialist, an insurance broker offers professional advice on the choice and intricacies of insurance policies. He also recommends and arranges for an insurance cover. He handles all insurance problems of the insured.

Insurance brokers, unlike agents, possess high level professional and technical skill. This enables them to offer expert advice not only on the relative merits of different insurance brands, but also on how, if necessary, a client can claim against his policy. By virtue of their close contact with their clients, brokers are able to monitor closely trends in customer needs and preferences and can feed this information back to insurance companies as marketing intelligence and strategy.

Legally speaking, insurance brokers are agents of the insured as well as of the insurer. The former applies if he handles policies of his principal (the insured) and brings him into contractual relationship with a third party (the insurer). The latter applies if he is appointed to collect insurance premium on behalf of his principal (the insurer) from a third party (the insured).

Adjusters

These are people who work on claims against insurers. Claims are the money or material item due to the policy-holder on the occurrence of the event insured against, while to the insurer, it is the cost of the policy.

Adjusters can take the form of agents or sales representatives, staff, adjustment bureaus, independent adjusters, or public adjusters. Agents or staff adjusters are common in the Nigerian insurance practice.

Insurance intermediaries facilitate the insurance process. This is illustrated in Figure 15.1 below.

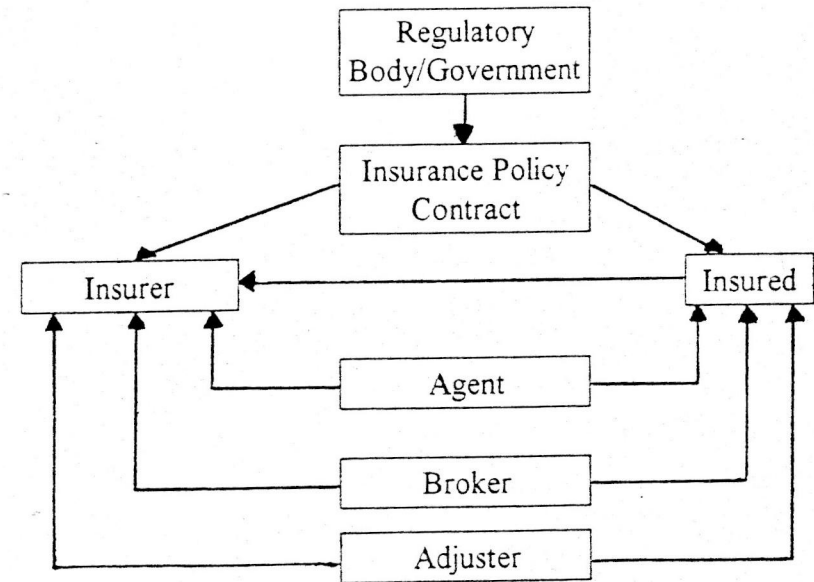


Figure 15.1 Insurance Intermediaries in the Insurance Process

TYPES OF INSURANCE COMPANY

Two main types of insurance company can be identified.¹³ They are the mutual insurance companies and stock insurance companies.

A mutual insurance company is one owned by its policy-holders. It is a non-profit organisation. The surplus funds earned are returned to the policy-holders in form of dividend or premium deduction after all deductions.

Stock Insurance companies are companies operated for profit. Stockholders of the company do not have to be policy-holders.

Insurance companies, whether stock or mutual, are interested in the objective of minimizing the premiums necessary to cover operating expenses and to pay for personal and property losses.

The Nigerian insurance industry operates the stock insurance company type. The business environment in general and the financial system in particular encourage the operation of this type of insurance company. However, the mutual type of insurance is in existence but at an informal and crude level and, therefore, not officially recognised in the Nigerian formal business environment.

TYPES OF INSURANCE

Various classification methods have been adopted in classifying insurance. Some classify it into the following groups:

- (a) Life and Non-life insurance.
- (b) Those that are contracts of indemnity and those that are not.
- (c) Absorbable insurance and self-insurance.

Others classify insurance according to the subject matter as follows:

- (a) Those covering the person, e.g. assurance.

- (b) Those covering liabilities, e.g. workers' compensation.
- (c) Those covering other rights, interests or contingencies, e.g. burglary insurance, fidelity insurance, etc.
- (d) Those covering property, e.g. marine insurance, fire insurance, disaster insurance, etc.

Practically speaking, insurers have, on their own, classified insurance business into 4 categories:

1. Marine Insurance
2. Fire Insurance
3. Life Assurance
4. Accident Insurance

Each of these four categories of insurance business is departmentalised within an insurance company and each department is further subdivided to take care of other types of insurance within the department. For example, in the Life Department, other sub-divisions like Term Insurance, Whole Life Insurance, etc., exist. For our purpose here, we will briefly discuss insurances in the Nigerian business environment. However, knowledge of the various types of insurance and their protection is important. Hence, they are summarised below.

Table 15.2 Types of Insurance and their Protection

<i>Types of Insurance</i>	<i>Protection</i>
Fire Insurance	Losses due to fire.
Automobile Insurance	Losses due to automobile accident, theft, fire or collision; claims resulting from damages to other property due to collision or injury or death of another person resulting from an automobile accident.
Burglary, Robbery and Theft Insurance	Losses due to the unlawful taking of the insured's property either by force or through burglaries.
Health Insurance	Medical and surgical expenses and partial salary payment for workers injured on the job.
Marine Insurance	Losses due to property that is being shipped from one location to another.
Fidelity, Surety, Title and Credit Insurance.	Misappropriation of fund (Fidelity Bond); failure to perform a job (Surety Bond); loss due to a defective title to a land (Title Insurance); failure to repay loans (Credit Insurance).
Public Liability Insurance	Claims against property owner for injuries or damage to property of others caused by falls, malpractice, negligence or faulty products.
Life Assurance	Claims against loss of life.

Source: Louis E. Bowe and David L. Kurtz, *Contemporary Business*, 3rd ed. (Chicago: The Dryden Press, 1982), p. 526.

Marine Insurance

In the course of shipping goods from one location to another on the sea, the owner of the ship and/or goods are exposed to very

many hazards, which he cannot naturally control. Marine insurance provides protection against those hazards. Thus, marine insurance is the type of insurance that provides cover against accidental loss of the property that is being shipped from one location to another, or to the ship itself. It is popularly used in international business transactions. Essentially, marine insurance has the following subdivisions:

1. Ship Insurance. Insurance against a ship by the shipowner.
2. Cargo Insurance. Insurance against goods carried by a ship.
3. Freight Insurance. Freight is the money paid to a shipowner for carrying goods and freight insurance is the cover against loss of freight.

Fire Insurance

Property belonging to individuals, companies, or firms is always exposed to the damages by fire outbreak which may lead to its loss or damage. Fire insurance accommodates such loss. Thus, fire insurance is a fire policy that provides protection against loss or damage to the insured peril resulting from an accidental fire. Some risks may not be related to fire but are insured under fire insurance. Such an insurance is called special risk insurance. Other insurances under fire insurance include:

1. Ordinary fire insurance which provides cover against accidental fire damage or loss to property being insured, e.g. building and/or its contents. Two kinds of policy can be identified here. They are private dwellings and their

contents and business premises and their contents, the former being wider in scope.

2. Loss of profit insurance. This provides cover against loss of profit that would have accrued to the insured if fire had not destroyed his business. Usually, ordinary fire insurance does not provide cover up to this level. Loss of profit insurance can be called consequential loss insurance:
3. Combined or comprehensive insurance which is a policy that covers private houses and households, furniture fixtures and fittings as well as personal effects.

Life Assurance

Income earners are always exposed to the risk of accident or death which may lead to a stop in the flow of income to the family or firm. To cover this stoppage of income flow arising from the death or injury of the income earner, a life policy is purchased from an insurance company. Thus, life assurance is an insurance policy that provides protection against loss of future income arising from the premature death of the income earner or his involvement in an accident. Different groups of customers are available for the life assurance business giving rise to two divisions:

1. Ordinary Life Assurance.
2. Industrial Life Assurance.

This basic distinction is in terms of mode and frequency of payment. Unlike in ordinary life assurance, in industrial life, premiums are paid at more frequent intervals, say weekly or

fortnightly. This practice is not common in the Nigerian insurance business and so our discussion is on ordinary life assurance.

Different types of life assurance can be identified but the most fundamental are:

- (a) Term Assurance.
- (b) Whole Life Assurance.
- (c) Endowment Assurance.

Other types are variations of these three types.

Term Assurance. This is an insurance coverage protecting the individual for a specific period of years that has no value at the end of the period. It is the oldest in the life assurance business. Term assurance is not very popular in the Nigerian insurance business like other permanent insurance contracts.

A variation of term insurance is the Credit Life Assurance which is a special type of insurance purchased by persons who are buying a home or other major item, and which repays the balance owed on these items if the policy-holder dies. Another variation is the convertible term whereby the policy-holder is given the option to convert to another type of policy at any time during the policy term, even if his health deteriorates.

Whole Life Assurance. This is one of the commonly used life assurance policies in Nigeria. It has some element of investment. It is the type of policy that provides protection and savings for the individual who pays premium throughout life and builds up cash surrender value in the policy. Surrender value is the savings portion of the policy that can be borrowed by the policy-holder at low interest rates or paid to the policy-holder if the policy is

cancelled. The premium of whole life policy is paid monthly, quarterly or yearly, depending on the specifications in the policy.

Variations of whole life assurance include:

- (i) *Limited Payment Life Assurance.* This is the type for which the policy-holder pays all premiums within a designated period, say, 10 years or 20 years.
- (ii) *Single Payment Policy.* This is the type of policy that consists of a large premium paid in a lump sum at the time the insurance is purchased.

Endowment Assurance. This is a type of life assurance policy that provides coverages for a specified period after which the face value of the policy is refunded to the policy-holder. This implies that the policy-holder may or may not die before the assured sum is paid back to him. This singular feature makes the policy more popular in Nigeria than any other life assurance policy. Endowment policy is also preferred to others because of the following:

- (i) It provides savings for a given purpose;
- (ii) Used to make financial provision against old age or sudden disability;
- (iii) Offers protection for dependants and/or policy-holder;
- (iv) Used to make provision for the education of the policy-holder's children.

Accident Insurance

Accident insurance is a type of insurance that provides protection against loss due to mishap which is neither looked for nor designed by the policy-holder. It is the most recent among the four main

categories of insurance and very wide in its scope of coverage. Accident insurance is called casualty insurance in the U.S.

Different types of accident insurance can be identified. They include:

Personal Accident Insurance. This policy provides protection against injury or loss to the person insured. In the event of an accident of the form recognized by the insurance contract, the insurer makes payment of specified sums to the insured person. A company can take up personal accident insurance on behalf of another, usually a customer or client. This is an indirect personal accident insurance. The ABC Transport Company, for example, has its passengers covered by personal accident insurance in the event of any accident. Thus, personal accident insurance can be direct or indirect.

Employer's Liability Insurance. Employers of labour are legally liable to their employees for any injury or disease arising from industrial or environmental hazards. To protect themselves against these perils, an employer's liability insurance is purchased. Unfortunately, the negative attitude of Nigerian employers to their employees has affected the use of this policy.

Public Liability Insurance. This policy aims at indemnifying the policy-holder against all claims made on him by the public (hence, the name) which suffers damage as a result of the policy-holder's acts or negligence. The Nigerian level of business development has not encouraged the use of this policy.

Burglary Insurance. This is a type of accident insurance policy that provides protection against loss or damage of the insured

property due to burglary. Some theft insurance is included under the burglary insurance cover.

All Risks' Insurance. As the name implies, this type of accident insurance covers various areas of accidental damage or loss due to fire, theft, or burglary. The name notwithstanding, the insurer must make sure that all risks covered in the policy are specified and quantified.

Motor Insurance. This policy covers the wide range of risks insured by the motor owner. Motor in the context of this policy includes private cars, commercial vehicles, vehicles of various uses, and motor cycles. The type of insurance is named according to the type of motor. Motor owners essentially seek protection against two kinds of risks: the risk of damage to, or destruction of, the car itself, and the risk of damage to a third party arising from the use of the car. This gives variations in motor insurance business. Most outstanding in the variations include:

1. *The Third Party Policy.* This protects the insured against any liability due to damage or destruction of other people's property arising from the use of a motor vehicle.
2. *The Comprehensive Policy.* This is an insurance against loss of, or damages to, the insured vehicle, medical expenses of the insured and occupants of the insured car at the time of the accident, and legal fees.
3. *The 'Act' Policy.* This provides protection against accidents on public roads and highways, rather than within private property. It is made compulsory by law for every car or vehicle owner. Hence, the name 'Act' policy.

4. *The Third Party Fire and Theft Policy.* This policy covers the insured against the risks of fire and theft.

Indemnity of the insured in any of the motor insurance variations is limited to the terms of the policy; e.g. accident outside the geographical coverage of the vehicle will not attract any indemnity.

Other types of accident insurance include the Fidelity Guarantee Insurance, Engineering Insurance, Professional Insurance, Livestock Insurance, and Aviation Insurance.

REINSURANCE

This is a special type of insurance as it involves the insuring of the insurer. Basically, an insurer can incur excessive losses, because of the magnitude of protection offered the insured, or because many insured are affected by the same event. Thus, the insurer's uncertainty is increased and this consequently jeopardizes its financial solvency.

It is conventional for the insurer to maintain a certain maximum level of loss it thinks it can comfortably absorb. This maximum level is called the *line, net line, line limit* or *retention*. The net line varies with the size of the insurer, its financial conditions, its management philosophy, the characteristics of the risk involved, etc. Any loss above the maximum level of the insurer is insured. This process is called *reinsurance*. The originating insurer (i.e. the insurer who obtained the policy from the insured person) is called the *ceding insurer* or *direct insurer*, and the accepting insurer (i.e. the insurer to which the policy is transferred) is called the *reinsurer*.

The purpose of reinsurance is to make the effect of certain business and non-business contingencies less hazardous on a few by spreading the risks or contingencies among a greater number of

individuals, companies, societies and/or states. Reinsurance does not reduce the size of risk or loss, but makes it easier for insurance companies to withstand the material consequences of insurance policies.

Reinsurance may be arranged in two broad forms:

1. Facultative reinsurance.
2. Treaty reinsurance.

The second form has a number of variations, like Quota Share Treaty, the Surplus Treaty, Catastrophe Agreement, and the Excess of Loss Treaty. It is the Excess of Loss Treaty variation that is commonly practiced in the Nigerian insurance industry. Reinsurance is essential in any successful insurance activity.

It is important to note that the contract of reinsurance is between the direct insurer and the reinsurer, and not between the reinsurer and the policy-holder under the direct company's policy, as there is no contractual relationship between them.

STRUCTURE OF INSURANCE COMPANIES IN NIGERIA

The development and growth of the insurance industry is best appreciated from the structure of insurance companies. Essentially, insurance companies can be structured in terms of type of business, number, and ownership. However, each of the structures has other variations.

Structure of Insurance Companies by Number and Type (Class of Business)

This structure identifies the numerical strength of the companies in the insurance industry and the type or class that constitutes this number on yearly or quarterly basis, depending on the choice of scope or coverage. This is illustrated in Tables 15.3 and 15.4 below.

Table 15.3 Structure of Insurance Companies by the Type of Business and Number

CLASS OF INSURANCE	1983		1984		1985		1986		1987		1988		1989		1990		1991	
	No. of Cos.	% of share Total	No. of Cos.	% of share Total	No. of Cos.	% of share Total	No. of Cos.	% of share Total	No. of Cos.	% of share Total	No. of Cos.	% of share Total	No. of Cos.	% of share Total	No. of Cos.	% of share Total	No. of Cos.	% of share Total
Wholly Life	2	24	3	3.4	4	4.6	4	4.5	3	3.3	3	3.3	3	3.1	3	2.9	3	2.8
Wholly Non-life	60	70.6	62	70.5	60	69.0	58	65.9	59	64.8	60	65.2	65	66.3	67	68.0	67	62.6
Life & Non-life	23	27.1	23	26.1	23	26.4	26	29.6	29	31.9	29	31.5	30	30.6	37	29.1	37	34.6
Total	85	100	85	100	88	100	88	100	91	100	92	100	98	100	107	100	107	107

Source: CBN Economic and Financial Review of various volumes & numbers, 1983-1993

Table 15.4 Structure of Insurance Companies by Types of Business and Ownership

CLASS OF INSURANCE	1983		1984		1985		1986		1987		1988		1989		1990		1991	
	No of Coys	% of share Total	No of Coys	% of share Total	No of Coys	% of share Total	No of Coys	% of share Total	No of Coys	% of share Total	No of Coys	% of share Total	No of Coys	% of share Total	No of Coys	% of share Total	No of Coys	% of share Total
1 LIFE	2	100	3	100	4	100	4	100	3	100	3	100	3	100	3	100	3	100
2 NON-LIFE																		
A Nigerian	53	88.33	53	85.5	51	85.00	49	84.5	50	84.7	51	85.0	55	84.6	60	85.7	58	86.6
B Joint	7	11.67	9	14.5	9	15.00	9	15.5	9	15.3	9	15	10	15.4	10	14.3	9	13.4
3 LIFE AND NON-LIFE	23	100	23	100	26	100	26	100	29	100	29	100	30	100	30	100	30	100
A Nigerian	10	78.26	17	23.9	17	73.9	20	76.9	22	75.9	22	75.9	23	76.7	23	76.7	28	75.7
B Joint	5	21.74	6	26.1	6	26.1	6	23.1	7	24.1	7	24.1	7	23.3	7	23.3	9	24.3
4 ALL COMPANIES	85	100	87	100	88	100	91	100	91	100	92	100	98	100	103	100	107	100
A Nigerian	71	83.53	69	79.3	70	79.5	73	80.2	73	80.2	74	80.4	79	80.6	84	81.5	87	81.3
B Joint	14	16.47	18	20.7	18	20.5	18	19.8	18	19.8	18	19.6	19	19.4	19	18.4	20	18.7

Source: CBN Economic and Financial Review of various volumes and numbers, 1983-1991

INSURANCE MARKETING

Insurance marketing is as important as entering into the insurance business. Unfortunately there is less emphasis on this critical aspect of insurance. Essentially, insurance business is successful to the extent the operators are able to market their products successfully. The understanding of insurance marketing must start with the understanding of marketing concept. Nwankwo¹⁴ defined marketing as a management process which identifies, anticipates and satisfies consumer requirements profitably. Okereke¹⁵ defined it as the recognition of the satisfaction of customers' needs through proper identification of such needs.

From these definitions we can describe insurance marketing as deliberate and concerted efforts of insurance companies aimed at identifying and satisfying profitably the needs of the insured. These objectives of insurance companies can only be achieved through the identification of possible marketing mix strategies and their outcome.

Insurance marketing is far different from the marketing of manufactured goods. This is because of the type of product involved. While manufactured products are tangible in nature, insurance products are intangible. Principally, insurance product (service) can be grouped in two broad categories: General Insurance (marine, fire, property, liability insurance, etc.) and Life Assurance.

A thorough and detailed treatment of insurance marketing requires a whole text of its own. This is not the objective of this section. Having given the conceptual view of insurance marketing, we will also highlight the need for insurance marketing, factors affecting it, and the steps to a successful insurance marketing programme.

Need for Marketing of Insurance Services

This is the *why* of insurance marketing. Basically, insurance marketing is necessary, because of a number of factors:

1. The insurance industry operates in a continuously changing economic, technological, social, political and cultural environment. As this environment changes, the market served by the insurance companies is automatically affected. Hence, the need to meet the changing tastes and preferences of the insured public.
2. There is increased competition in the industry occasioned by increase in the number of insurance companies and other bank and non-bank financial institutions. Apart from internal competition, there is the competition from other financial institutions that are beginning to render some insurance services. Thus, it is only prudent for the insurer to effectively market its products.
3. The real value of income earners is grossly decreasing in the face of hyper-inflation occasioned by wobbling economic policies. This has left the income earner with little or nothing to save. It requires a lot of conviction before he can appreciate investment in the insurance business. It is only through an effective marketing strategy that an insurer can break through under this uncompromising condition.
4. Insurance companies in the same business class offer almost the same service and this makes them operate in a near perfect market. It is only through marketing that the

insured public can distinguish between the services of the various insurance companies.

Other reasons for insurance marketing include the desire to increase market share, maintain public's perception about the status of the company, etc.

Factors Affecting the Insurance Market

Insurance market refers to the actors, instruments or facilities that are available for the placing of insurance. It comprises

1. the buyers of insurance (insured)
2. the sellers of insurance (insurer)
3. the middlemen, otherwise called the insurance intermediaries.

Before insurance policies can be effectively marketed and a marketing programme designed, some major factors that affect the market have to be identified and considered. These factors are:

1. Size and distribution of population and national income.
2. The impact of legislation
3. Inflation
4. Competition
5. Level of development
6. Literacy level
7. Economic policy
8. Tax concessions

Steps Toward Developing the Insurance Marketing Programme

Meidan¹⁶ identified the following 5 steps:

1. Marketing Research - to identify the needs and wants of the market.

2. Product Development - to develop insurance policies which will meet the needs of the market.
3. Pricing - to determine the level of the premium for these policies and how it should be paid.
4. Advertising and Promotion - to create widespread awareness and understanding of what the policies offer.
5. Distribution - the selection of suitable channels through which to distribute the policies to the customer and sales management.

The last 4 steps comprise the insurance marketing mix, or the 4Ps (product, price, promotion, and place) of insurance.

REGULATIONS OF INSURANCE COMPANIES

Regulations of insurance companies is the direct supervision and control of the activities of insurance companies in order to ensure that policy-holders are adequately protected against possible exploitation of unscrupulous or unqualified insurance companies. It innovates, guides and sometimes directs the explicit and detailed affairs of insurance companies for the purpose of accomplishing objectives that may not directly enhance the short-term profit prospects of insurers.

The earlier practice of modern insurance business in Nigeria took a *laissez-faire* form. It was a free-for-all business with almost a complete freedom of operation among insurance companies. What was needed for any individual to operate an insurance business was to register (incorporation) under the commercial laws of the land.

With time, there was a total abuse of the practice of insurance because of lack of supervision from the government. This informed the regulations of insurance companies in Nigeria.

Thus, the purpose of insurance regulations according to Kopcke and Randall,¹⁷ is to help insurance consumers get back the most for their money. Within this broad purpose, they identified three specific objectives:

1. Insurance must be made available to all who want and need it.
2. The insurance product should be of high quality and reliable.
3. Insurance prices should be as low as possible, not subject to large and sudden change, and fair among policy-holders.

Williams and Heins¹⁸ also identified the objectives of insurance regulations as:

1. reserving the financial solvency of insurers;
2. regulating rates to avoid excessiveness, inadequacy, or unfair discrimination in pricing; and
3. controlling trade practices to encourage fair competition and marketing.

Generally, regulation of insurance business or governmental control of insurance, arises because of a number of reasons:

- (i) The nature of insurance business. Insurance transaction involves a 'payment' by the insured for a 'promise' by the insurer to compensate the former in the event of loss, which may or may not happen. The fulfilment of the 'promise' depends on the type of persons involved in the business. Therefore, to ensure that the group of persons who sell the promises are men of integrity and who can be relied upon to honour their obligation as they fall due, the

government had to intervene by promulgating laws to guide the operations of the business.

- (ii) Reparation of profit abroad to the detriment of the Nigerian economy.
- (iii) Avoid the proliferation of unqualified insurance companies.

Regulation of insurance companies in Nigeria was first introduced in 1961 with the enactment of the Insurance Companies Act, 1961, by the Federal Parliament. Other regulations followed from here. They include the promulgation of Insurance Decree No. 59, 1976, which was repealed by the promulgation of Insurance Decree No. 58, 1991. A supervisory board called the National Insurance Supervisory Board (NISB) was also established in 1991, and every insurance company is under compulsion to make annual returns on a common questionnaire to the Board.

For purpose of brevity, let us highlight a number of fundamental issues addressed in the 1991 decree.

1. The decree increased the paid-up share capital from ₦300,000 - ₦500,000 to a minimum of ₦5 million for each life and non-life insurance business and ₦50 million in the case of life and non-life re-insurance. Compliance date has already expired for existing companies.
2. The decree provides that an insurer shall in respect of its business, other than life, maintain at all times a margin of solvency being in excess of the value of its admissible assets in Nigeria, over its liabilities which should not be less than 15 per cent of the gross premiums paid out during the immediately preceding accounting years.

3. Under the decree, payment of insurance premium is a condition required for a valid contract of insurance. It is referred to as *No Premium, No Cover*.
4. The decree introduced the innovations of the establishment of a security fund for the compensation of victims of uninsured or unidentified motorists and for the settlement of their claims, where the insurer concerned is in liquidation. The funding and management of the scheme would be the responsibility of the Nigerian Insurers Association (NIA).
5. The decree also made membership of the professional associations compulsory in recognition of the vital role these bodies could play in enforcing the code of conduct and self-discipline amongst their members (CBN, 1993).

FUNCTIONS AND PROBLEMS OF INSURANCE COMPANIES

Functions of Insurance Companies

Insurance companies perform a number of functions which benefit not only the insured, but also the insurer and the society at large. Traditional (conventional) and non-traditional functions can be recognized. However, for purposes of convenience, this distinction is not followed in this chapter. Rather, the functions have been itemised as follows:

1. Fair and equitable distribution of financial losses among the insured public.
2. The compensation paid to the insured helps him to alleviate his financial problems as well as assist him to engage in investments which by extension helps in the development frontiers of the nation.

3. Insurance companies encourage and promote the growth of money and capital markets by their active participation in investment in the markets' instruments.
4. Insurance companies provide loan scheme which makes for easy accessibility to investable funds. This contributes immensely to the growth of entrepreneurial development.
5. The cover or protection given by insurance companies makes the insured feel secured, thereby encouraging him to embark on risky investments which by extension enhances economic progress.
6. Insurance companies themselves assist in sanitising the entire financial system by performing traditional and non-traditional functions.
7. They provide job opportunities for the teeming unemployed youths. This has gone a long way in ameliorating the perennial unemployment problem.
8. They render managerial services to their clients by assisting in the packaging of insurance proposals or any other related investment proposal, as may be requested by the client. They also give investment advice on the best investment option among alternative options.
9. Insurance companies provide a ready source of revenue for the government through the tax, value added tax and capital gain tax they pay.
10. They also provide physical risk control measure for their clients through advice on the best methods or devices of avoiding or reducing risks, e.g. safety measures.
11. Insurance companies provide a strong and reliable basis for credit transactions. This is through the use of some insurance certificates as collateral for business transactions.

Problems of Insurance Companies

Despite the significant roles played by insurance companies in the Nigerian socio-economic development, they still face a number of problems which render the industry inactive and inefficient in achieving their broad and specific objectives. Some of these problems include:

1. *Lack of public confidence.* This problem arises from the insurer's attitude to claim settlement over time and it has consequently affected the public's acceptance of insurance companies' services. It takes the insurer a longer time to convince his prospective policy-holder on the reliability and sincerity of its policy.
2. *Lack of insurance consciousness.* Most people either because of ignorance or mere negligence, are not conscious of the activities and services of the insurance business. This has made the insurance companies have a large market size but a very small market share insufficient to make them profitable. Complaints of non-payment of claims originate from this problem. Insurance is a business of number. Therefore, the higher the market share, the higher the chances of success and vice versa.
3. *Non-payment of insurance claims.* In the past, some insurance companies made it a convention not to settle their claims. This has affected the image of the industry and it has been difficult to regain this lost image. In fact, most people tag insurance business as a 'legalised' robbery and this is negatively affecting the industry in prospecting for policy-holders.

4. *Lack of proper information.* Insurance companies suffer from the problem of non-supply of sufficient information from the insured public. Such information is necessary for accurate quantification of risks inherent in the insured object as well as the calculation of premiums.
5. *Insufficient trained personnel.* There is an acute shortage of trained personnel within the industry. However, if the current intensive training programmes among insurance companies and the mounting of insurance courses in some Nigerian tertiary institutions is sustained, this problem will soon fizzle out. Thus, the dearth of skilled personnel in the industry will be got rid of.
6. *Increased capital base.* The new decree for insurance companies (Decree No. 58, 1991) increased the capital base of insurance companies. This has affected the operations of most of them. Some of them are finding it extremely difficult to stay in business. Apart from increased capital base, other specifications of the decree pose a serious danger to insurance companies' operations and survival.
7. *Problem of restrictive regulation.* Insurance companies are restricted to operate within a certain scope. This has affected their performance, because they cannot fully take advantage of investment opportunities with surplus funds at their disposal.

8. Sometimes, insurance companies face the problem of non-disbursement of funds collected by the agents, brokers, corporate bodies or even individual clients.
9. The interference of banks in the performance of some functions of insurance companies leaves the latter in a very tight corner.

Review Questions

1. Define the following terms:
 - (a) Insurance,
 - (b) Risk, and
 - (c) Risk management.
2. Discuss the different classification and types of risk.
3. Insurance basics are the fundamental principles that operate in insurance business. What are they?
4. What are the factors affecting the insurance market?
5. What are the functions of an insurance company?
6. What are the problems confronting insurance companies in Nigeria?

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