

CLAIM PAYMENT AND PATRONAGE OF INSURANCE PRODUCTS IN NIGERIA

***AGUNUWA EKOKOTU VINCENT (Ph.D); & **JOHNSON-ITABITA PATIENCE (Ph.D)**

**Department of Banking and Finance, School of Business Studies, Delta State Polytechnic, Otefe Oghara. **Department of Business Administration/Management, School of Business Studies, Delta State Polytechnic, Otefe Oghara*

ABSTRACT

The focus of this study is on the effect of claim payment on patronage of insurance products in Nigeria. The purpose is to determine whether the level of claim payment by insurance companies has any effect on patronage of insurance products in Nigeria. The study made use of data on claim payments and premium paid to insurance companies by insured as a proxy for insurance patronage in Nigeria. The data which covered the period of 1995 to 2020, where on claim payment and insurance premium paid for aviation insurance, motor insurance, home insurance, and marine insurance in Nigeria for the period under review. The study made use of descriptive statistics and correlation matrix in an attempt to

Introduction:

Uncertainty of life has been the bane of man right from inception. To this end, man in his ingenuity has devised several means of hedging against the various forms of uncertainties over the age. Thus before what is known today as modern insurance was introduced in Nigeria, there existed some kinds of mutual saving schemes operating in one form or the other, under names such as: age grade associations, clan unions, market women associations, social clubs, extended family meetings etc (Tajudeen, Ayantunji, & Dallah, (2009).

identify possible problem of multicollinearity in the model, after which the ordinary least square (OLS) technique was used to test the hypotheses. Findings show that premium paid on aviation, home, motor and marine insurance impacted positive on claim payment for the period under review in Nigeria. On the basis of the above result, the study recommends amongst others that the government should put in place programmes to encourage people to patronize insurance products as this will be of great benefit to the insureds, the society and insurance companies in Nigeria.

Keywords: *Claim payment, Insurance premium, Insured, Insurer, Descriptive statistics.*

These groups as mentioned above were operating a pool of fund accumulated from the contributions made by their members on a regular basis. From the funds so accumulated, compensations for misfortune, burial cost, social grants or assistance, etc, were given or loaned to deserving members. These forms of informal or traditional insurance are still in practice up till date, existing side by side with the modern system of insurance in Nigeria and other countries in the African region. (Tajudeen, Ayantunji & Dallah, 2009).

However, the focus of this paper is on modern system of insurance in Nigeria, in order to determine whether insurance as a risk transfer mechanism has been proactive enough in response to claim payment, and it's impact on patronage of insurance products in Nigeria.

Statement of the Research Problem

Insurance is a system in which a person or organization can transfer the risk of economic or financial nature to the insured through payment of a fee known as a premium. Once this is done, the risk of the insured on the subject matter is minimized. Thus, the concept of insurance is of major importance to every member of the society. However, as it is, a good percentage of the society has no interest in buying or holding relevant

insurance policies, except those policies that are mandatory by law for the holding and operation of certain assets or businesses.

Insurance policy is a security against the well being of the subject matter insured, which entitled the holder to indemnity or reinstatement when the risk insured against occur. As laudable as this arrangement, patronages of insurance products seem not to have met the desired expectation in Nigeria. Therefore, the importance of this study cannot be over emphasized.

Objective of the Study

The general objective of this study is to determine the impact of claim payment on patronage of insurance products in Nigeria. The specific objectives include.

- a. To ascertain the relationship between total funds from motor insurance and total claims payment by insurance companies.
- b. To determine the relationship between total funds on home insurance and total claims payment by insurance companies in Nigeria.
- c. To evaluate the relationship between total funds from marine insurance and total claim payment by insurance companies in Nigeria.
- d. To investigate the relationship between total fund from aviation insurance and total claim payment by insurance companies in Nigeria.

Research Questions

- a. To what extent has total funds on motor insurance impacted on total claim payment by insurance companies in Nigeria?
- b. To what extent has total funds on home insurance impacted on total claims payment by insurance companies in Nigeria?
- c) To what extent has funds from marine insurance impacted on total claim payment by insurance companies in Nigeria.
- d) To what extent has total funds from aviation insurance impacted on total claim payment by insurance companies in Nigeria

Statement of Hypotheses

- a) There is no significant relationship between total fund from motor insurance and total claims payment by insurance companies in Nigeria

- b) Total fund on home insurance has no significant impact on total claim payment by insurance companies in Nigeria
 - c) There is no significant relationship between total funds from marine insurance and total claims payment by insurance companies in Nigeria
 - d) There is no significant relationship between total funds from aviation insurance and total claim payment by insurance companies in Nigeria.
- The hypotheses are only stated in null forms, the alternative forms are implied

Literature Review

Conceptual and Theoretical Framework

The purpose of insurance is to compensate or indemnify the victim for the financial loss suffered as a result of risks inherent in life. The buying of insurance cover is a purchase of a security, that is, in order for a person to protect himself against a particular risk, he has to buy or take a policy with an insurer (i.e an insurance company) and thereby transferring the risk to the insurer on payment of a fee known as premium and hence become an insured or a policy holder.

Insurance cannot stop the disaster or misfortune from happening. What insurance does is to reduce the effect in a purely financial sense by providing monetary compensation to the victim thereby placing him in the same financial position as he was, as much as possible in line with the terms of the policy.

The policy is the document containing written evidence and the terms of the contract between the insurer and the insured. The premium is the fee in monetary value paid by the insured to the insurer in consideration of the risk transfer and on which basis the insured will be indemnified if the event occurs. Indemnity is the term used in reference to the compensation paid to the insured or policyholder in case the event occurs.

The insured or policyholder is the person who purchase or take an insurance cover or policy against a particular risk with an insurer. The insurer is the person or a company, which offers insurance policy or contract to the public as professional risk bearer. Risk refers to the

possibility or probability of the occurrence of unfortunate event which has the implication of economic or financial loss.

Empirical review

Though available research work on the effect of claim payment on patronage of insurance products are a bit scanty, some of the available related ones are hereunder reviewed.

Chizoba, P.E, & Aneke, J. (2019) investigated the effect of agricultural insurance on productivity of the agricultural sector, using the ordinary least square (OLS) statistical tool of data analysis. Findings show that agricultural claim payment has no significant effect on the volume of credit to food stock sector in Nigeria

Ebitu, E.T, Ibok, N.I & Mbum, P. A (2012) examined the factors within insurance institutional framework that affect insurance consumption in Akwa Ibom State in Nigeria, using both descriptive and inferential statistics. Results show that there is existing relationship between insurance consumption and institutional performance in Nigeria.

Kehinde, O.J. (2007) explored the meaning of competitive marketing strategies in Nigeria. Results show that competitive marketing strategies have a positive impact on successful marketing of insurance products in Nigeria.

Gloria, A.F. (2016) explored the social economic and demographic factors that are likely to influence the patronage of insurance in Ghana. Using a probit econometric regression model for the analysis. The result indicates that social economic and demographic determinants are positively related to insurance demand in Nigeria.

Tajudeen, O.Y, Ayantunji, G & Dallah, H (2009) examined the effect of attitude of Nigerians towards insurance services. Results show that demographic factors have negative attitudes towards insurance companies and other services.

Materials and Method

The data to be used in analyzing claims payment and patronage of insurance products in Nigeria are secondary data. The data covered the

period between 1995 and 2020. The data include those on total claims payment by insurance companies in Nigeria, total enrolment on motor insurance, total enrolment on home owner's insurance, total enrolment on marine insurance and total enrolment on aviation insurance. Data were collected from insurance year book, the World Bank, journals, etc.

Model Specification

The model to be estimated is thus functionally stated below:

$$TCP = R (TEM, TEH, TMA, TAV) \dots\dots\dots(1)$$

This could be stated linearly as:

$$TCP = \alpha_0 + \alpha_1 TEM + \alpha_2 TEH + \alpha_3 TMA + \alpha_4 TAV + ut$$

$$\alpha_1, \alpha_2, \alpha_3, \alpha_4 > 0$$

Where:

TCP = Total Claims Payment by insurance companies in Nigeria

TEM= Total Fund on motor insurance in Nigeria

TEH = Total Fund in home insurance

TMA = Total Fund on marine insurance

TAV = Total Fund on aviation insurance

ut = Error term

Model Estimation Technique

The first stage in estimating the model will be to assess the descriptive statistics of the model which looks at the mean, median, standard deviation etc. This will be followed by the correlation matrix which attempts to identify possible problem of multicollinearity in the model. The ordinary least square (OLS) will be used to test the various hypotheses and answer relevant research questions. The OLS include the t-statistic. The t-statistic will be used to test the statistical significance of each independent variable in explaining the dependent variable. It will thus be used to test the individual hypothesis. The F-statistic will be used to test the joint significance of the variables. The R² which is the co-efficient of determination will be used to assess the total variation in the dependent variable that has been explained by the independent variables taken

together. The R^2 which is the adjusted R^2 for degrees of freedom will be used to assess the desirability for including or excluding a particular variable from the model. The Durbin and Watson (DW) statistic will be used to test for the presence or absence of first order serial correlation in the model.

Presentation and Interpretation of Results

The result of the descriptive statistics is shown in the table below:

Table 4.1: Summary of Result of Descriptive Statistics

	LTCP	LTEH	LTEM	LTMA	LTAV
Mean	13.22372	2.049824	4.371106	3.814734	4.430848
Median	13.21230	2.079442	4.360364	3.785093	4.404752
Maximum	13.60193	2.639057	4.917057	4.226834	5.076423
Minimum	12.85698	1.547563	3.964615	3.370738	4.080922
Std. Dev.	0.231958	0.235129	0.261785	0.232614	0.257667
Skewness	-	0.447540	0.707204	0.251708	0.982647
Kurtosis	0.080019	4.145694	2.777314	2.254750	3.699432
	1.862997				
Jarque-Bera	1.318388	2.113784	2.050142	0.808825	4.351582
Probability	0.517268	0.347534	0.358771	0.667369	0.113518
Sum	317.3692	49.19578	104.9065	91.55362	106.3404
Sum Sq. Dev.	1.237505	1.271569	1.576226	1.244510	1.527018
Observations	24	24	24	24	24

Source: Author's Computation

The mean for TCP has a mean of 13.22 which is greater than the mean of 13.21 which indicates that the TCP will increase over a period of time. The maximum value for TCP is 13.60 while the minimum value is 12.85. The standard deviation of 0.23 shows only a marginal deviation. The average value for TEH is 2.04 which is lower than the median with a value of 2.08. An indicative that house insurance patronage will reduce over the study period which calls for worry. The highest value for TEH is 2.63 while the lowest value is 1.54. The standard deviation of 0.23 is marginal. The mean

and median for TEM are 4.37 and 4.36. Since the mean is greater, the TEM will increase over the foreseeable future. The maximum value for TEM is 4.92 while the lowest value is 3.90. The standard deviation of 0.26 is negligible. The average value for TMA is 3.81 which is greater than the median of 3.80. This indicates that the TMA increased overtime. The highest and lowest values are 4.22 and 3.37. The standard deviation of 0.23 is negligible. The mean of TAV is 4.43 which surpasses the median of 4.40 implying that the TAV will increase overtime. The highest and lowest values for TAV are 5.08 and 4.08. The standard deviation of 0.26 is marginal.

The result of the correlation matrix will be shown in the table below:

Table 4.2: Result of Correlation Matrix

	LTCP	LTEH	LTEM	LTMA	LTAV
LTCP	1	-0.02880160971	-0.21888919061	0.12419803206	-0.19320866174
LTEH	-0.02880160971	1	-0.80563077226	0.39769064080	0.11695774003
LTEM	-0.21888919061	-0.80563077226	1	-0.50477512877	0.29173000277
LTMA	0.12419803206	0.39769064080	-0.50477512877	1	-0.49408732210
LTAV	-0.19320866174	0.11695774003	0.29173000277	-0.49408732210	1

Source: Author's Computation

The correlation coefficient between TCP and TEH is -0.03 which indicate weak correlation. The correlation between TCP and TEM is -0.22 which also indicates a weak correlation. The correlation coefficient between TCP and TMA is 0.12 which indicates a weak correlation. The correlation between TCP and TAV is -0.19 which is also a weak correlation, the result indicates overall, that there is no multicollinearity among the variables and therefore, no need to drop any variable.

The result of the Ordinary Least Square estimate is shown in the table below:

Table 4.3: Summary of OLS Result Dependent Variable: LTCP

Variable	Coefficient	Std. Dev.	t-Statistic	Prob.
LTEH	0.921335	0.519746	1.772664	0.0923
LTEM	0.800825	0.111635	7.173580	0.0000
LTMA	0.957946	0.172693	5.547104	0.0000
LTAV	2.928828	0.672224	4.356921	0.0002
C	15.84807	1.965986	8.061130	0.0000

$R^2 = 0.88$, $R^2 = 0.86$, Probability of F-Statistic = 0.000, t-critical = 1.96, DW = 2.02

Source: Authors Computation

The R^2 indicates that 88 percent of the total variation in the TCP has been explained by the TEM, TEH, TMA, and TAV taken together. This is a good fit. The R^2 with a value of 86 percent justified the inclusion of the TEM, TEH, TMA and TAV in the TCP equation.

The result shows further that the TEM, TEH, TMA and TAV have positive relationship with the TCP. An increase in the TEM, TEH, TMA and TAV by 1 unit each increased the TCP by 0.92, 0.80, 0.95 and 2.93 units respectively. The F-Statistic with a value of 41.06 and probability of 0.0000 indicates the validation of the joint alternative hypothesis suggesting that the TEM, TEH, TMA and TAV are important factors to be considered when explaining the changes in the TCP.

The t-statistic suggests that the TEM, TMA and TAV with values of 7.17, 5.55 and 4.36 and probabilities of 0.0000, 0.0000 and 0.0000 are statistically significant in explaining the changes in the TCP the TEH is not statistically significant.

The Durbin Watson value of 2.02 did not show evidence of first order correlation in the model.

Test of Hypothesis

The hypotheses to be tested and research questions are restated below:
 H_{01} : There is no significant relationship between total funds from motor insurance and total claims payment by insurance companies.

RQ₁: To what extent has total funds on motor insurance impacted on total claims payment by insurance companies in Nigeria?

The decision rule is to accept the alternative hypothesis if the t-calculated > t-critical

The t-calculated for total fund on motor insurance as shown in table 4.3 with value of 7.17 is greater than the t-critical. This indicates a validation of the alternative hypothesis that there is a significant relationship between the total funds on motor insurance and total claims payment by insurance companies in Nigeria. This gives an affirmative response to the research question that the total fund on motor insurance contributed to total claims payment by insurance companies in Nigeria.

Test of Hypothesis Two

H₀₂: Total fund on home insurance has no significant impact on total claims payment by insurance companies in Nigeria.

RQ₂: To what extent has total fund on home insurance impacted on total claims payment of insurance companies?

The t-calculated of 1.77 < t-critical of 1.96. Thus we accept the null hypothesis that total fund on home insurance has no significant impact on total claims payment by insurance companies. This gives a non-affirmative answer to the research questions that funds from insurance has not contributed to the total claims payment by insurance companies.

Test of Hypothesis and Research Question 3

H₀₃: There is no significant relationship between total funds from marine insurance and total claims payments by insurance companies.

RQ₃: To what extent has total funds from marine insurance impacted on total claims payment on insurance companies?

Since the t-calculated of 5.55 > t-critical of 1.96, the alternative hypothesis that there is a significant relationship between total funds from marine insurance and the total claims payment by insurance companies. This gives an affirmative response to the research question that total funds on marine insurance has contributed to total claims payment by insurance companies in Nigeria.

Test of Hypothesis Four

H₀₄: There is no significant relationship between total funds from aviation insurance and total claims payment by insurance companies in Nigeria.

RQ₄: To what extent has the total fund from aviation insurance impacted on total claims payment by insurance companies in Nigeria?

The alternative hypothesis that there is a significant relationship between total funds from aviation insurance and total claims payment by insurance companies is validated since the t-calculated of 4.36 > t-critical of 1.96. The research question response indicates that aviation insurance has contributed to total claims payment by insurance companies.

Policy Implication

The result has implications on claims payment and the patronage of insurance products. The result indicates that the patronage of motor insurance has been of beneficial impact of claim payments by insurance companies in Nigeria. The patronage of home insurance has not played an important role in claim payment by insurance companies. The patronage of aviation and marine insurance has incremental impact on the ability of insurance companies to pay their claims in Nigeria.

Summary of Findings

The research has been on claims payment and patronage of insurance products in Nigeria. The research covered the period between 1995 and 2018. The research comprises five sections. Section one is the introduction and section two is the literature review. Section three focused on the research method while the fourth section analyzes the result. The fifth section concludes the research. The ordinary least squares were used to analyze the data. The result indicates that a total fund from motor insurance has a positive and significant impact on total claims payment by insurance companies. An increase in total funds from motor insurance by 1 unit increases the claims payment by 0.80 units. The funds for home insurance have a positive but insignificant impact with the claims payment. An increase in total funds from home insurance by 1 unit increased claims

payment by 0.92 units. The funds from marine insurance have positive and significant impact on claims payment. An increase in funds from marine insurance by 1 unit increased the claims payment by 1.00 units. The funds from aviation insurance have a positive and significant impact on claims payment by insurance companies. An increase in funds from aviation insurance by 1 unit increased claims from insurance by 2.93 units.

Conclusion

The research centers around claims payments and package of insurance products in Nigeria. Insurance is used globally to reduce or even eliminate the burden of risks. While the industrialized world has benefited tremendously from the services of insurance companies, it has been used as a source for one sided revenue generation by insurance companies in Nigeria. The claims have grossly been underpaid or not even know how to assess their insurance claims. It concluded that the patronage of motor insurance in Nigeria improved the claims paid by insurance companies in Nigeria. Study also concludes that the level of home insurance in Nigeria has not been satisfactory. The study concludes that the patronage of marine insurance has played a beneficial impact on the ability of insurance to pay for claims. The patronage of aviation insurance has been beneficial to the payment of claims by insurance companies in Nigeria.

Recommendations

The following recommendations are made from our result:

- 1) The government should develop a program to encourage people to patronize home insurance. This will be beneficial to both the insurance companies and the government.
- 2) Insurance companies who refused to pay for damages to those that patronize motor insurance should be sanctioned. This will bring the benefits of motor insurance to the citizens.
- 3) Enlightenment campaign should be made to the riverine communities in Nigeria to intimate the people of the benefit from marine insurance.

This will increase patronage which will benefit the people and increase insurance companies' ability to pay for claims.

- 4) Aviation insurance should be further improved upon. The duration it takes to pay for claims to those that patronize aviation insurance should be reduced.

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