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THE NEXUS OF CLAIMS PAYMENT AND PUBLIC ACCEPTABILITY OF INSURANCE

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Abstract
Insurance is a mechanism created by man to manage the impact of risks in his activities. This is done through a process whereby a party transfers his/her risk to another party with the hope that in the event of a loss, he/she will be compensated. The process of this compensation is called claims payment. Claims payment has been described as the promise purchased by the insured so that when he suffers a loss, he will be indemnified. The study is cross-sectional in nature since findings and conclusions are based on primary data obtained from insurance practitioners, in Lagos State at this point in time. The design enabled researcher to obtain data from respondents at a given time. This research was directed at randomly selecting 250 insurance practitioners in Lagos. The reason for the choice of Lagos is that the State generates more than 65% of insurance revenue and has more concentration of insurance companies and practitioners (Nigeria Insurance Digest, 2020). The results from both the literatures reviewed and analysed that has shown that there is a strong relationship between the payment of claims and the acceptability of insurance by the insuring public. This relationship is affirmed by the result from the analysed data that shows a unit increase in claims payment increases a unit of acceptability of insurance. In this regard the insurance companies in Nigeria should review their claims payment mechanism ensuring that it meets to the needs of their insureds. In this way, they will increase the insurance penetration in the country which is presently very low.

Keywords: *Acceptability, Claims, Insurance, Insureds, Losses, Risk management*

Introduction

Insurance is a mechanism created by man to manage the impact of risks in his activities. This is done through a process whereby a party transfers his/her risk to another party with the hope that in the event of a loss, he/she will be compensated. The process of this compensation is called claims payment. Claims payment has been described as the promise purchased by the insured so that when he suffers a loss, he will be indemnified. According to Okonkwo (2019), the Nigerian insurance industry has been repositioned to provide insurance protection to rising insurable risks of the nation and contribute increasingly to economic growth. Okonkwo further posits that the industry could do more through the introduction of new products and innovative services, which no doubt could also be expanded to the area of claims payment.

The Nigerian insurance industry which generated over N490 billion according to the industry's statistics in 2019, with a breakdown according to the Nigeria Insurance Digest (2019) with life insurance business recording N230 billion and the non-life insurance business recording N260 billion gross premium income for the year 2019.

On the type of business written by the industry, the Nigeria Insurance Digest also reveals that 14 companies in the market are composite companies, 26 companies being general insurance companies, 11 life insurance companies, 2 Takaful insurance companies, 2 micro insurance companies and 2 reinsurance companies.

In the area of claims payment the industry paid a total claim of N182.4 billion in 2019 as against N211.5 billion in 2018, showing a decrease of 13%. The gross premium income when compared with the claims payment has shown that the industry is in a position to meet up with its obligations to the insuring public.

Nevertheless, irrespective of the above, the insurance penetration in the country is very low at less than 0.5%, while the insurance density is also below N3, 000. This means that the level of insurance patronage in Nigeria is very low as compared to what is obtainable in African countries like Kenya, South Africa, Egypt, Morocco and Tunisia. More so, with the country's population and its having the biggest GDP in the Continent, one should have expected a better performance from the insurance sector.

Often times, according to Yusuf &Ajemunigbohun (2017), situations that could arise from the loss events awaken the insuring populace towards the need for prospective measures. Yusuf &Ajemunigbohun further maintain that claims are noted as the most critical channels and a defining link that shape the overall perception of the customers towards their insurer. In the same vein, Capagemini (2011) had noted that claims processing is the mirror to the customer that enable the insurers' drive at improving customers' acquisition, expectation, retention and business' insight for product enhancement and company's profitability. Thus, in a similar manner, IBM (2011) postulates that the drive, accuracy, efficiency and effectiveness of claims managerial procedures is key for cost control, risk management and meeting expectation needed for proper portfolio underwriting. All these point to the fact that claims payment plays and occurs a central role in the insurance business.

The main objective of this paper is to find out if there is a nexus between claims payment and public acceptability of insurance in the country. In carrying out this research,

Conceptual review

In the wild field of management according to Ghalem et al (2007), terminology is a delicate material to use, as each term defines a specific concept, and based on their definitions, concepts can be developed and used in other fields hence the need to restrict ourselves to some of the meanings of the key terms relating to this work.

The primary function of insurance, according to Akintayo (2018) is to act as a risk transfer mechanism while Epetimehin (2016) sees insurance as a risk-financing transfer under which an insurer agrees to accept certain financial burdens arising from losses insured. What this means is that insurance is a financial mechanism for the protection of the effects of losses unforeseen.

In other words, the major role of insurance in any economy is to protect individuals either corporate or real against the negative impact of risks on their existence or survival. This may not be unconnected to the reason that Irukwu (1987) and Adeyemi (1992) among other professionals described insurance as a product purchased by insureds to enable them to mitigate the effect of risks in the future.

The insurance industry has been in Nigeria over a century. According to Irukwu (2001), the first insurance agency was established in Nigeria in 1900. It later became a branch office of the Royal Exchange Assurance in 1921. With a humble beginning the industry has grown to a multi-billion industry, although insurance penetration and density as still very low (Swiss Re, 2021). Nevertheless, the industry has been providing different classes of insurance products, ranging from the conventional products, micro insurance products to Takaful insurance products in the recent times so that different categories of Nigerians irrespective of their status or religion are catered for. It is equally pertinent to note that the industry has undergone series of reforms in form of recapitalization and consolidation targeted at improving the ability of the companies to meet up with their claims obligations to the insuring public.

The customers buy insurance so that they will be compensated in the event of a loss. While insurance does not guarantee that the insured event will occur, it does ensure financial compensation in the event of a loss from an insured peril. By assuming the liability of the individual, insurance helps to reduce the aggregate risk in the economy, thereby ensuring peace and equilibrium within the society (Ngwuta, 2015).

According to Yusuf and Dansu (2014) a good claims management mechanism will portray the insurer as being proactive in recognizing and paying legitimate claims, assessing accurately the reserve associated with each claim, reporting regularly, minimizing unnecessary costs, avoiding protracted legal dispute, dealing with claimants courteously and handling claims expeditiously. This will entail that the company will put in place machinery including Claims Reserves to enable it pay a genuine claim much delay.

It is in this regard that Adeyele (2020) observed that there could be factors that could affect insurer's reputational risk, which is mainly centered on its ability to pay claims. Adeyele further revealed that failure to pay valid claims promptly could affect the reputation of the industry and its operators. Thus, the manners in which claims are being handled by insurance companies affect their reputation. As such, an organization's reputation depends not only on how it acts, but also on how the action is perceived by various stakeholders with different interests and distinct preferences (Kamiya, Schmit, & Rosenberg, 2007). Thus, insurers must behave as expected by stakeholders to maintain their reputation through ensuring that they meet up with their obligations as promised at inception of each insurance contract.

On the issue of performancewhich is key to the existence of insurance business, we will attempt, first of all, to identify what performance is all about in general before relating same to the insurance industry.

Ion &Criveanu (2016) are of the view that the concept of performance has gained increasing attention in recent time and it has become pervasive in almost all spheres of the human activity. Performance, in other words, according to Ion &Criveanu is a subjective perception in reality, which explains the multitude of critical reflections on the concept and its measuring instruments.

Similarly, Folane, Browne &Jagdev (2015) argued that performance is subject to a wide variability being somewhat an imprecise word when it functions as a placeholder in research. The authors identified the characteristics of performance which includes it being a subjective entity that is non-random in character; while it is governed by its relevance to a particular environment. Thus, Folane, Browne &Jagdev maintained that performance contains elements that are both static and dynamic, among other features.

In addition, Sonnentag&Frese ((2002) identified that individual performance is highly important for an organization as a whole and for the individuals working on it. This can also be construed to corporate entities too. Little wonder then that Sonnentag&Frese had posited that performance comprises both a behavioural and an outcome aspect, adding that it is a multi-dimensional and dynamic concept.

According to Verbonu&Zalman (2015) performance is a particular result obtained in management, economics, marketing, etc. that features in competitiveness, efficiency and structural components of organization.

The above diagram has helped us in agreeing with Verbonu&Zalman that performance can be regarded as the equivalent of competitiveness.

It is in line of this that we cannot say whether the Nigerian insurance industry has performed well without first of all looking at the public perception of the industry.

Coming to the issue of public perception of insurance, Okwandu (2022) posited that the problem of maintaining favourable consumer perception of insurance is a world-wide one. This means that it is not just a Nigerian problem; however, Okwandu observed that this problem is more pronounced in the developing countries than in the developed countries.

It is the low perception of the products that have affected its acceptability by most Nigerians (Chowdhury, Rahman &Afza, 2007; Sagagi, Ekperi Nwadike, 2019; &Akpan, 2021).

This low perception has been a major barrier of public acceptability of insurance. According to Carter (1986) the intervention of government in the operations of the insurance industry has been justified on the grounds that it is an industry affected with public interest, and as Berliner (1982) had asserted that if the industry wishes to defend its reputation in the eyes of the public it must uphold "the idea of insurance and insurance ethics". He further argued that it is in long-term interest of individual insurers and of the industry that insurance should be provided only if it is consistent with public policy.

Okonkwo (2022) observed that insurance acceptability in Nigeria is low as compared to what is obtainable in countries like South Africa, Egypt, Morocco, and Kenya. A review of public acceptability of insurance in Nigeria with an insurance penetration which is below 1% shows that it is very low. This acceptability may have been caused by some factors which will be addressed by this study.

Empirical review

In an empirical study titled Determinants of claims handling techniques and non-life insurance companies' market penetration in Nigeria, Adeyele (2020) found that the Nigerian insurance companies are facing difficult time in terms of market penetration among the insuring public due to poor image of the industry. According to him, quick response to claim investigation and payment of valid claims are public relations efforts to drive market penetration but have not been closely examined by many studies in Nigeria. This study therefore investigated the determinants of claim handling techniques and their impacts on insurance business, anddetermined how insurance companies' reputation lead to market penetration in Lagos State, Nigeria. The study used a total of 121 valid copies of questionnaire distributed to 13 insurance companies using expo facto method and that both claim handling techniques and companies' reputation have strong and significant impact of market penetration. The study concludes that timeliness in claim handling enhances insurance reputation as well as market penetration.

Similarly, in another empirical study using industry data, titled: Impact of claims settlement on the development of Nigerian insurance industry (2007-2017), Nwite, Okparaka& Okeke (2020) found that claims payment are crucial to the survival of insurance. The study then recommended that: Insurancecompanies should have effective and efficient claims department equipped with moderntechnology and qualified claims manager(s) to oversee the management and settlement ofvalid claims of their policyholders in order to increase insurance penetration in Nigeria; Nigerian Insurance Industry regulators should enhance its supervisory frameworks to ensurethat genuine claims are promptly settled by insurance companies and defaulter adequatelypunished. Nwite et al argued that this would have positive impact on insurance density because more Nigerians will beencouraged to buy insurance policies. In line with the theoretical framework adopted for thisstudy, and in addition to settlement of valid claims, the study added that insurance companies should periodicallycarry out marketing research to discover the insurance needs of their customers as well asprospective customers through product revitalization and new product development toincrease customers' expected utility for buying insurance. Nwite et al then concluded that this would encourage Nigerians topurchase more insurance, and in turn enhance the development of Nigerian Insuranceindustry.

This poor claim payment may be a major factor in low insurance penetration in the country. In an empirical examination of the insurance penetration rate and growth in Nigeria: 1981-2017, Okonkwo (2022) found that the Nigerian insurance industry has contributed the low penetration of insurance in the country among other contributors like the government, insureds, etc. This study recommends that the industry should repackage itself, create awareness and streamline effective and efficient prompt claims administration.

Methodology

Descriptive survey research design was used for this study to empirically investigate the impact of claims payment on public acceptability of insurance in Nigeria. Due to the consideration of the objectives of the study and the nature of data needed to achieve the objectives, survey method is considered appropriate to generate the required primary data. This is most preferred because of the size of the study population which consists of over 50 insurance companies in Nigeria. In addition, survey technique is suitable for generating conclusions that represents the entire population from a sample.

The study is cross-sectional in nature since findings and conclusions are based on primary data obtained from insurance practitioners, in Lagos State at this point in time. The design enabled researcher to obtain data from respondents at a given time.

This research was directed at randomly selecting 250 insurance practitioners in Lagos.The reason for the choice of Lagos is that the State generates more than 65% of insurance revenue and has more concentration of insurance companies and practitioners (Nigeria Insurance Digest, 2020).

The size of the sample of the respondents in this research was established by applying the formula of Yamane (1967) as provided through Singh and Masuku (2014). The formula of the statistics expresses that:

$$n = \frac{N}{1+N(e)^2}$$

The maximum error margin selected is 5%.

For:

n = The preferred size of sample to be ascertained

N = The study area total Insurancepractitioners.

e = Accepted error limit 0.05 based on confidence level of 95%.

For this study, primary data was made use of. The advantage of sourcing primary data and using it is that the researcher is allowed to collect precise data from the appropriate sources, and it provides the opportunity to understand the respondents better.

Both structured questionnaire and interview schedule were adopted in this study. The questionnaire allows the collection of personal views of respondents by the researcher on issues, and to reach a large pool of respondents within a short period. The items in the questionnaire were developed by the Researcher based on the characteristics of the variables and extensive review of conceptual, theoretical, and empirical literatures from other studies. Questions in the questionnaire and interview guide were drawn in focus with the study objectives.

Reliability of the research instrument entails measurement of the degree to which an instrument yields consistent results or data. The researcher subjected the questionnaire to test of reliability. To scientifically test the questionnaire's reliability, reliability internal consistency method was used in the study. To establish the reliability of a measure, the internal consistency is used by assessing the responses to the within-scale consistency of the items of the measure. The instruments of measurement of multiple items is applicable to (as far as this study), Cronbach's alpha coefficient is extensively employed for the internal consistency assessment. A coefficient of > 0.7 but < 1 score of Cronbach's Alpha for a questionnaire is pronounced to be dependable (Hair, Black, Babin& Anderson, 2018). To revalidate the instrument validity, the composite reliability is made use of and this method was used to test the degree to which the instrument's items are homogeneous which reflect the same underlying constructs with each question formulated. The nearer the Cronbach's alpha result is to one, the better the reliability of the internal consistency.

The ordinary least square method was used to examine the statistical significance of the variables, correlation analysis and descriptive statistics were also utilized in the study. The correlation analysis gives the relationships between the variables both in terms of strength and direction. The study utilized spss software to generate the regression results.

The model for the study is based on a functional relationship between claim payment and public acceptability of insurance variables. The model showing this relationship is specified below:

$PAI = f(CP)$.

Where:

PAI =Public Acceptability of Insurance,

CP =Claims Payment.

The regression expression of the model is as follows:

$PAI = \beta_0 + \beta_1 CP + \varepsilon$

The *a priori* expectations are as follows:

$\beta_0 > 0, \beta_1 > 0$.

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Presentation and Interpretation of Descriptive Statistics

The descriptive statistics describes the distribution of the data. This is to assert if the output from the data should be relied upon or not. The descriptive statistics measures such as mean, standard deviation and skewness describe the behaviour of the data in relation to magnitude and direction. The results of the descriptive statistics are presented as follows:

Table 1: Descriptive Statistics on Claim Payment and Public Acceptability of Insurance
PAI, CP

	CP	PAI
Mean	.80	4.05
Maximum	1	5
Minimum	0	1
Std-Dev	.402	1.300
Skewness	-1.505	-.917
Kurtosis	.267	-.779
Observation	154	154

Source: SPSS Output, 2022

The descriptive statistics show a high mean value CP and PAI.
The PAI has a mean value of 4.05 while CP has a mean value of .80 which makes PAI have higher mean than CP and this is accompanied with standard deviation values of .402 and 1.300 for CP and PAI respectively. This implies that these variables clustered around the mean point. CP and PAI are negatively skewed in the distribution as far as this study is concern.

Presentation and Interpretation of Correlation Results

Table 2: Correlation Results of the Relationships between Claims Payment and Public Acceptability of Insurance

Correlations

		CLAIMS PAYMENT	PUBLIC ACCEPTABILITY OF INSURANCE
CLAIMS PAYMENT		1	.842
			.000
		154	154

Source: SPSS Output, 2022

The probability values of the correlation revealed that the independent (claims payment) variable is significantly related to dependent (public acceptability of insurance) variable. Judging from the correlation values, CP is positively related to PAI with a strong relationship.

Presentation and Analysis of the Ordinary Least Square Estimation

Hypothesis 1

H_0: There is no significant relationship between Claims Payment and Public Acceptability of Insurance

Table 3: Regression Results of the Relationships between Claims Payment and Public Acceptability of Insurance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.842	.709	.708	.703

a. Predictors: (Constant), CLAIMS PAYMENT

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	183.523	1	183.523	371.155	.000
	Residual	75.159	152	.494		
	Total	258.682	153			

a. Dependent Variable: PUBLIC ACCEPTABILITY OF INSURANCE

b. Predictors: (Constant), CLAIMS PAYMENT

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.871	.126		14.814	.000
	CLAIMS PAYMENT	2.723	.141	.842	19.265	.000

a. Dependent Variable: PUBLIC ACCEPTABILITY OF INSURANCE

The regression model obtained is:

Public Acceptability of Insurance= 1.871 + 2.723claims payment.

This implies that a unit increase in claims payment will increase public acceptability of insurance by 2.723 and significant since p-value < 0.05, we therefore reject H_0. This implies that There is no significant relationship between Claims Payment and Public Acceptability of Insurance. The $R^2 = 0.709$, which implies that claims payment accounts for 71% of public acceptability of insurance.

Conclusion

The results from both the literatures reviewed and analysed that has shown that there is a strong relationship between the payment of claims and the acceptability of insurance by the insuring public. This relationship is affirmed by the result from the analysed data that shows a unit increase in claims payment increases a unit of acceptability of insurance. In this regard the insurance companies in Nigeria should review their claims payment mechanism ensuring that it meets to the needs of their insureds. In this way, they will increase the insurance penetration in the country which is presently very low.

Recommendation

In view of the above findings, the following recommendations are hereby made:

- There is need for practitioners in the industry to have a system of peer mechanism on claim payment of the operators in the market.
- There should be more publicity on large claims paid by the operators as a way of creating the needed awareness of benefits of insurance to the insuring public.
- The statutory period of 90 days after acceptance of discharge from the insured should downwardly be reviewed.

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