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Socio-Economic Indicators Affecting Life Insurance Business in Nigeria

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Abstract
This study is an attempt to analyse some socio-economic factors affecting the operations of life insurance business in Nigeria. Four insurance companies were randomly chosen, categorized into four groups according to the nature of their operations and their characteristics studied using analysis of variance. The result revealed that the poor provision of some basic amenities such as health care services, potable water, high cost of living and poor economy affect the operations of life insurance. However, the general opinion of the public is that the situation could be improved upon if government should provide 60% of the needs of the populace. In addition to providing programmes and incentives to improve the standard of living , the Federal Government of Nigeria should also, as a matter of urgency, map out policies and programmes to educate and convince the public on the need to take out life insurance policies and the benefits derivable therefrom

Keywords: socio-economic factors, life insurance, analysis of variance, programmes and incentives

INTRODUCTION

Evidence from previous researchers such as Smith and Stutzer (1995) and Outreville (1996) have shown that insurance industry contributes immensely to real economic growth and development of any nation by encouraging industrial competitions generating innovations through new ideas to manage risks as well as inventions. The authors also mentioned that the industry provides opportunities for employment creation, thereby culminating in the improvement of the standard of living and quality of life of the people. The federal government of Nigeria in an attempt to promote economic growth and development has put a number of policies, programmes and incentives in place without achieving any significant changes in the economy. Among the programmes put in place are compulsory national health insurance scheme, life insurance policy for all workers and health care services to the grass root level. Hence, the main concern of this study is that, in spite of all the efforts made by the government, the management and development of life insurance policy in Nigeria have been unimpressive, leaving the nation with low industrial production and the entire populace with a low quality of life.

According to Mojekwu (2001), the operators of life insurance industry in the Nigerian business environment continuously complain about the lack of interest and low patronage by the Nigerian public toward contracting life insurance policies. These operators seem to be very myopic in the sense that they have never bothered to investigate the factors behind the non-chalant attitude being portrayed by the general public. However, one would expect that where the basic social amenities are lacking or insufficient, people will devise survival strategies thereby creating in-balances in such society. Nigerian society, irrespective of their abundant resources, is typical of such a society. Hence, there is a great need to critically analyze the socio-economic factors in the Nigerian society creating such in-balance with a view to studying how these factors affect the life insurance industry. Therefore, this study is an attempt to examine the situation and suggest ways to improve on it. The problem can be summarized in a statement: In spite of efforts and programmes put in place by the Federal Government of Nigeria for the development of life insurance policy in Nigeria, such development has remained unimpressive. It has therefore become necessary to investigate the socio-economic factors in the Nigerian society which affect, and perhaps hinder, the development of the life insurance industry in Nigeria. A better understanding of the underlying socio-economic factors affecting the development of the life insurance industry in Nigeria should lead to putting in place the right strategies for national capacity building for sustainable development and poverty alleviation.

THEORETICAL BACKGROUND

Lawler (1971) postulated that an individual's tendency to adopt a specific course of action is determined in part by the expectancy that the action will produce certain consequences and the evaluation of these consequences will be a significant improvement.

According to Mojekwu (2001), life insurance is very important business which seems to have been misconstrued by the insuring public, due to the high inflation in the economy, and the attitude of the general Nigerian public. For example, economic historians with interest in both commercial banking and insurance markets have consistently reported that financial intermediation assisted economic development in the early years of mass industrialization in the eighteenth and nineteenth centuries through, amongst other things, mobilising savings, mitigating risk and uncertainty, encouraging entrepreneurship, accumulating productive capital, and fostering the development of the national financial and legal infrastructure (Pearson, 1993; Smith and Stuzer , 1995, Crothers , 1999, 2004, and Adams,et al.2006). Moreover, Outreville (1990, 1996), Adams and Zou (2004) amongst others argue, for similar reasons, that there is likely to be a strong linkage between insurance and economic growth in today's emerging economies like Nigeria. The insurance market penetrations and densities data were included to describe the underdeveloped state of Nigerian insurance market.

Overview of Nigeria Economy and Insurance Industry

Babalola(2008) stated that Nigerian economic planning and development which started after independence in 1960 has experienced setbacks and difficulties due to poor performance of most important sectors of the economy especially the financial service sectors of which insurance plays a central role. Economic growth in Nigeria was marred with dismal performance for the past forty years. However, the return of democracy in 1999 has begun to boost economic recovery and growth with several innovative policies decisions. Indeed, in the first two years of Democracy, (2000 and 2001) real gross domestic product (real GDP) has increased faster than at any time since 1991, when it increased by 4.7 percent. In 2000 and 2001, it rose to 3.83 percent and 4.21 percent respectively. The average real GDP over the period from 1992 to 1998, was just 2.6 percent, well below the rate of population growth of about 2.8 percent (Central Bank of Nigeria Statistical Bulletin, 2006). In the year 2004, the government initiated a comprehensive strategic plan for addressing the country's deep-rooted macroeconomic instability and structural bottlenecks based on the National Economic Empowerment and Development Strategy (NEEDS) document. The NEEDS blue print (covering the four year period from 2003-2007) is Nigerian home-grown Poverty Reduction Strategy Papers (PRSPs) which is crucial towards achieving the Millennium Development Goals (MDGs). The Financial Sector Strategy (FSS 2020) is one of the most important components of NEEDS.

The Federal Government was quite politically committed to a prudent and transparent macroeconomic strategy that supports poverty reduction by achieving economic growth, price stability, sound financial system and monetary policy (NEEDS Document 2007). In fact, both the Federal Government and World Bank have projected a robust growth rate of 9% in the year 2008.
Insurance industry plays a central role in Nigeria through risk bearing, and other financial investment services, employment of labour, payment of tax and provision for vehicle for investors. While the life insurance companies provide cover against risk of life and pensions Funds Administration services, the non-life business provides protection against the risk of loss or damage to property or incurred of a liability. The sources of revenue of an insurance company include premiums for covers granted, investment income from the investment of shareholders and surplus funds, commission from ceding insurance business to other insurance and reinsurance companies, and claims recovery in respect of compensation it receives from reinsuring part of her risks. The Nigerian insurance sector represents the backbone of the Nation's risk management and financing system, ensuring financial security, being one of the most important financial intermediaries, and providing a long term capital for human and infrastructural projects. Moreover, insurance mitigates the impacts of risks and is directly correlated to economic growth as industries and entrepreneurs hedge their exposures; otherwise their risk taking abilities can be hampered. Babalola (2008) stated that a strong and competitive insurance industry is a compelling imperative for Nigeria's economic growth and development. Insurance is continuously undergoing serious reforms and transformation to make it competitive and alive to its customers' expectation and play adequately its risk management role in the Nation's economy. The history of the insurance industry in Nigeria, especially post independence, has showcased among others, a continuous demand for adequate capitalization.

In recent times, we can vividly recall the recapitalisation exercises of 1997 and 2003 in the insurance industry. In 1997, life insurance companies were mandated by law to recapitalize to the tune of ₦20 million while general business insurance companies were to recapitalize with ₦20 million. However, general insurance business companies that underwrote special risks were required to recapitalize with ₦70 million. On the other hand, composite insurance companies had the recapitalisation prescription of ₦90 million while reinsurance companies were expected to recapitalize with ₦150 million. This was successfully implemented.

RESEARCH HYPOTHESES

Based on the objectives of the study, the following hypotheses were formulated

i. There are no variations in the growth of life insurance performance due to lack of annuities.
ii. There are no variations in the growth of life insurance performance due to poor salary.

METHODOLOGY

Four insurance companies were randomly selected from the population of insurance companies carrying out life policy business in Nigeria. Structured questionnaires were designed and distributed to the randomly selected members of the chosen insurance companies. A total of 458 respondents who completed the questionnaires from these companies were also engaged with oral interviews to cross examine some of their views. In an attempt to achieve the objectives of the study, the respondents were grouped into three categories as shown in tables 2 and 3. Furthermore, an analysis of variance test was applied to the data sets to buttress the variations on the perception of the public on socio-economic variables identified. These three groups were based on annual wage and length of life insurance policy before allowing it to lapse.

DISCUSSION

As the lack of basic social and economic amenities have been identified as one of the major factors, the federal government of Nigeria should as a matter of urgency, map out some programmes to educate and convince the public on the need for life insurance policy. In addition, government should formulate policies aimed at improving the standard of living as well as controlling the inflation rate to encourage the public to contract life insurance policies. However, it is believed that some socio-economic indicators such as poor salary structure, standard of living, lack of social amenities will definitely bring out some variations in the society which will impede the growth of life insurance business as shown on table 1, appendix I.

The results above confirmed the postulations made by the general public. Furthermore, the result seems to support that there are some indirect relationships between some socio-economic variables and low performance of the Nigerian life insurance sector. This can be deduced from the significant differences observed amongst the groups of their respondents used in the study. This is not surprising as it is well known that the poor provision of some basic socio economic amenities had serious effect on attitudinal change towards life insurance policy. Although, contracting life insurance policy is a formidable task, it is obviously of practical importance that attitudes towards life insurance policy can be changed. If consumers can be persuaded to reduce the expenses on the numerous societal activities, then enough money can be saved to contract life insurance policy no matter how harsh or poor the economic situation would be.

CONCLUSION

The result shows that $P < 0.05$, which implied that there seem to be variations due to length of period the use policies lasted before they are allowed to lapse. However, when the effect companies are combined with the duration of life policies, the results seem to suggest that effect of companies is not significant. Hence, one can conclude that the observed variations due to duration of life policies before lapse observed might have occurred by chance. See the tables in Appendix 11. The observed variations in the duration of life before lapse are further presented with bar chart as shown in figure 1. The effect of annual incomes in the decision to contract life-insurance policy is significant with P-value of 0.000358. However, when the effects of different companies are brought in, there seem to be variations although the variations are not as pronounced as in the case of duration of life policies before lapse. Bar chart in figure 2 shows that there are variations in the Annual Incomes of the life policy-holders for the four selected companies. In conclusion, the effects of annual incomes of the life policy holders on the decision to contract life insurance policy are fairly strong. See the tables in Appendix 111.

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APPENDIX 1

Table 1: Factors Mentioned by the Respondents for Poor Insurance Growth

Reason for Lack of Interest	No. of Respondents	Percentage of Total respondents
Poor salary	266	58
Standard of living	357	78
Cost of living	321	70
Lack of awareness	92	20
Poor economy	348	76
Poor investment	137	30
Lack of trust	366	80

Table 2: Annual Wages of the Life Policyholders Classified by Company

Annual wage / Company	₦ <120,000	₦ ₦120,000 ≤ X ≤ N200,000	₦ X ≥ 2000,000	Total
A	23	59	40	122
B	12	54	39	105
C	10	49	53	111
D	14	55	49	118
Total				**456**

Table 3: Duration of the Life Policy before Lapse by Company

Duration of Policy / Company	Less than 2	2 ≤ X < 5	X ≥ 5
A	48	30	12
B	50	25	17
C	35	28	20
D	45	42	13
Total			

APPENDIX 11

Anova: Single Factor

Sumarry

Groups	Count	Sum	Average	Variance
Less than 2	4	59	14.75	32.91667
2 ≤ × < 5	4	216	54	20.66667
× ≥ 5	4	181	45.25	46.91667

Anova

Source of Variation	SS	Df	MS	F	P-value	F crit
Between groups	3396.5	2	1698.25	50.69403	1.26E-05	4.256495
Within groups	301.5	9	33.5			
Total	3698	11				

Anova: Two-Factor without Replication

SUMMARY	*Count*	*Sum*	***Average***	***Variance***
A	3	122	40.66667	324.333
B	3	105	35	453
B	3	111	37	553
C	3	118	39.33333	490.3333
Less than 2	4	59	14.75	32.91667
2 ≤ × < 5	4	216	54	20.66667
× ≥ 5	4	181	45.25	46.91667

Anova Results

Source of Variation	***SS***	***df***	***MS***	***F***	***P-Value***	***F crit***
Rows	56.66667	3	18.88889	0.4629	0.718521	4.757063
Columns	3396.5	2	1698.25	41.61811	0.000304	5.143253
Error	244.8333	6	40.80556			
Total	3698	11				

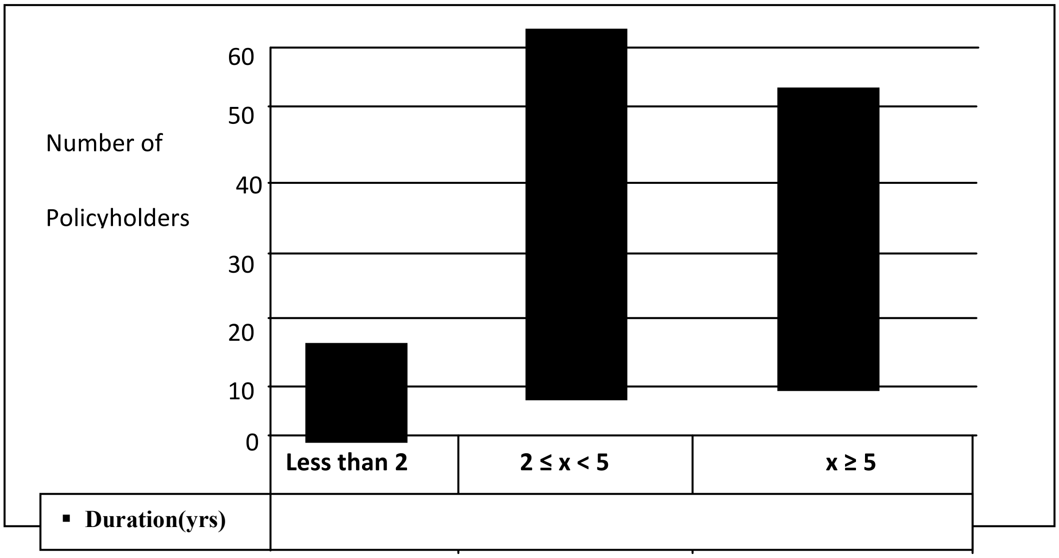

Fig 1: Duration of life-policies before lapse

Appendix II1

Anova: Single Factor

Summary

Groups	Count	Sum	Average	variance
Less than 120	4	205	51.25	44.25
120 ≤ × < 200	4	163	40.75	58.91667
× ≥ 200	4	90	22.5	13.66667

Anova Results

Source of Variation	SS	Df	MS	F	P-value	F crit
Between group	1693.167	2	846.5833	21.73823	0.000358	4.256495
Within groups	350.5	9	38.94444			
Total	2043.667	11				

Anova: Two-Factor Without Replication

Summary	Count	Sum	Average	variance
A	3	111	37	324
B	3	113	37.66667	296.3333333
B	3	114	38	93
D	3	120	40	301
Less than 120	4	205	51.25	44.25
120 ≤ × < 200	4	163	40.75	58.91666667
× ≥ 200	4	90	22.5	13.66666667

Anova Results

Source of Variation	SS	Df	MS	F	P-value	F crit
Rows	15	3	5	0.089418778	0.963226	4.757063
Columns	1693.167	2	846.5833	15.14008942	0.004523	5.143253
Error	335.5	6	55.91667			
Total	2043.667	11				