

**THE IMPACT OF INSURANCE COMPANIES TOWARDS THE DEVELOPMENT OF
BUSINESS ENTERPRISES:
CASE STUDY OF NATIONAL DEPOSIT INSURANCE CORPORATION (NDIC) YOLA**

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ABSTRACT

This study discusses “The Impact of Insurance Companies towards the Development of Business Enterprises: Case study of National Deposit Insurance Corporation (NDIC) Yola”. The study looks at some challenges faced by insurance companies in the discharge of their duties that contribute to Business Enterprises in Nigeria. The major objective of the study is to assess the impact of insurance company towards the development of business enterprise in Yola of Adamawa State. The research design used for this study is survey research method. The population of this is 53 staff. Therefore, the research tends to carry out research on the whole population; sampling techniques will not be required because of the small size of the population. The instrument used for collecting data from the respondents is the questionnaire, and the data gathered from the respondent was analyzed using simple percentage and chi-square to analyze the data. The findings shows that continual changes in government regulations hindered insurance companies from providing available fund security to business enterprises in Yola. The study therefore, recommended that government should ensure stable and reliable policies and regulations in order to help insurance companies to make appropriate plans towards enhancing and financing business enterprises in Yola and Adamawa state at large.

Keywords: Companies, Deposit, Enterprises, Insurance, Small business

Introduction

Insurance is peculiar by performing slightly different economic functions from other financial services, hence attention is turn on the functions, contribution and requirement that necessary for the sector to flourish and to make tangible contribution to economic growth and

development in Nigeria. The British colonial government introduced insurance business into Nigeria in 1910. Before this time some forms of social tradition insurance had been in existence in every part of Nigeria. This was in the form of mutual and social scheme, which evolved through the extended family system, age grades and clan union of African cultures (Osoka, 1992).

In the view of this, Oshinloye et al (2009), shows that the important of insurance to any Nations economy cannot be undermined, he said that no country can experience a meaningful development without the presence of formidable insurance industry, thereby making insurance business in any nation indispensable irrespective of its quota to the gross domestic product (GDP) or its level of awareness among the populace. According to Oshinloye et al (2009), in a typical market economy of the globe the insurance industry is perceived as an indispensable tool of economic progress, growth and development. It is seen as vital to the well-being of and smooth functioning of a modern economy. Like most financial institutions, is seems as a conduct for mobilizing monetary from the surplus economy agents and channelizing them to more efficient uses.

However there are evidences that suggested that insurance contributes both in numerical growth and otherwise to Nigerian economic by improving the money transmission mechanism and by complementing the role of banks and other financial institutions in an efficient mix of activities than would be undertaken in the absence of risk management instruments (Brainard, 2008).

According to Vayanos and Hammoud (2006) a thriving insurance sector is not only evidence of an efficient financial service sector, but it is also a key barometer for measuring a healthy economy. During the last decades, there have been faster growth in insurance market activity in both developing and transition economies given the process of financial liberalization and financial integration (Brainard, 2008), which raises questions about its impact on economic growth.

Insurance is the cornerstones of modern-day financial services, apart from its traditional role of managing risk, insurance market acts as both as intermediary and as provider of risk transfer and indemnification which enabled it promote growth by allowing different risks to be managed more efficiently, promoting long term savings and encouraging the accumulation of

capital, serving as a conduit pipe to channel funds from policy holders to investment opportunities, thereby mobilizing domestic savings into investment product (Arena 2006).

Given the growing importance of the insurance sector and the increasing number of interlinks to other financial sectors, the evolving role of insurance companies vis-à-vis economic growth and stability should be of growing relevance for policy makers and supervisors. It is observed that the last decades, financial sector has witness fast growing insurance market and activities in both developed and developing economies in the process of financial liberalization and financial integration (Brainard, 2008), which raises questions about its impact on economic growth.

Based on the fore-going, this paper tends to investigate the impact of insurance company towards the development of Business Enterprise in Yola north Local Government of Adamawa State .The work tend to identify the importance of insurance company on growth of business enterprises , also to access the challenges for an effective contribution of insurance company toward development of business enterprise . The hypothesis of this work is there is no significant relationship between insurance company and development of business enterprises. This study is made up ten sections. Section one provides an introduction, section two is conceptual framework, and followed by concept of insurance in section three discussed an Overview of Risk and Insurance of Business Enterprise section four look at the Insurance Industry and Nigerian Economy, section five Contribution of Insurance to the Gross Domestic Product (GDP) of Nigeria, section six discuss Penetration of Insurance Density towards Economic Growth section seven discuss Challenges to an effective contribution of insurance company towards development of business enterprises in Nigeria section eight look at The strategies use for improving insurance company to develop business enterprise, section nine underscore the Theoretical Framework , and section ten provides an insight into an empirical Study for the Study

Conceptual Framework

Insurance is one of the cornerstones of modern-day financial services sector. In addition to its traditional role of managing risk, insurance market activity, both as intermediary and as provider of risk transfer and indemnification, may promote growth by allowing different risks to be managed more efficiently, promoting long term savings and encouraging the accumulation of

capital, serving as a conduit pipe to channel funds from policy holders to investment opportunities, thereby mobilizing domestic savings into productive investment (Arena 2008)

According to Vayanos and Hammoud (2006) a thriving insurance sector is not only evidence of an efficient financial service sector, but it is also a key barometer for measuring a healthy economy.

In defining insurance business Scholars has aggregate the fact that insurance business guarantees the entrepreneur and promoters of innovation to take risks that is necessary to make life better and not get burn in the process, Adebisi (2006) added that insurance is a complicated issue which involve economic and social device for the handling of risks to life and property. He explains that It is social in nature because it represents the cooperation of various individuals for mutual benefits by combining together to reduce the consequence of similar risks. As every new area of risks and since with every passing day a new insurance package is amounted to take care of more and more areas of risks, the insurance booms.

Concept of Insurance Business

The definition of insurance has been analyzed by various scholars, for some as a social device, some as a contract, some as an institution etc. Marcus (2002) defined insurance as a risk transfer mechanism, where by policy holder called the insured contributes into common pool, out of which the unfortunate is made fortunate or the insured pay a consideration called premium in view of the insured, so that if loss occurs, the insurer will put the insured in the same position he/she was prior to the loss. Furthermore, Nwite (2007) defined insurance as a profession where people are trained to insure the risk of individual, corporate bodies, government and the general public and also teach them on ways of risk management in the environment.

According to Oluoma (1999) “insurance is a device for the reduction of uncertainty of one party, called the insured through the transfer of particular risk to another party, called the insurer who offers a restoration, at less in part, of the economic losses suffered by the insured.”

Agbaje (2005) defined insurance as the business of pooling resources together to pay compensation to the insured or assured (i.e. the policy holder) on the happening of a specified event in return for a periodic consideration known as premium. He note that an insurance contract is usually evidenced by a document called the insurance policy which is usually signed at the foot by the insurer or assurer or his agent.

An Overview of Risk and Insurance of Business Enterprise

From the findings of some notable works such as Inang & Ukpong (2002), risk is one of the recurrent problems that makes SMEs unattractive to investors. Risk is a part of everyday life. There are many types of risk that will be encountered in business. Some are controllable while others are not. Some are foreseeable while some are unforeseeable. Some have minimal impact on the business while some threaten the longevity of a business. SMEs are businesses in the private sector and they cut across all industries. The nature of risk therefore varies according to the industry in question. The onus is therefore on the owner to identify the risk prevalent in his business and make efforts to embark on good management techniques.

The list of risk that SMEs face is endless because this is one sector where entry and exit is uncontrollable. Having said that, there are some of the risk that SMEs face: changing taste and preferences, start ups business, trend of things in an economy, actions by your competitors, overhead cost, cost of equipments, expected sales volume, salary cost, taxes, obsolesce, flood, fire outbreak, tsunami, earthquake, machine breakdown, cash flow problem, intentionally inflicted damages, potential permanent loss of customers to competitors, management risk, marketing risk, reputation risk (Aruwa, 2004).

This is just part of the in exhaustive list of possible risk for SMEs. Some here are predictable and to some extent controllable while others are unpredictable and uncontrollable. It is proper to manage the ones that are predictable and take cover on the unpredictable ones. The first step to effective risk management is to identify them (Azende, 2011).

You can identify them by taking a closer look at what your business does and then intelligently asking yourself what could possibly impede the realization of objectives of the business. Answers will definitely come up and when appropriate actions are taken, it will help mitigate risk. Risk can be avoided by simply not undertaking that activity likely to generate the risk. This should be done when there are no readily available control measures or there are not strong enough to reduce it to an acceptable level (Inang & Ukpong, 2002).

According to Inang & Ukpong (2002) uncontrollable or inappropriate risk avoidance may lead to organizational avoidance, resulting in missed opportunities and an increase in the significance of other risk. Taking cover on the other hand will be for the owner to visit insurance outfits and then hand over all insurable risk to them. Even if there are some that are not readily

insurable, you can approach an insurance agent to help you access the impact of a foreseeable loss on the type of business you do. It is with the agent's expertise and experience that will aid this analysis hence impossible to overlook any exposures. Small business could self-insure by saving money for possible future losses. This in itself is not enough in so far as it is not to the knowledge of investors that such a business is doing this (Azende, 2011).

The Insurance Industry and Nigerian Economy

Akanro (2008) wrote that the significances sector is a key part of the financial services sector. In other emerging economics, it has been identified as being critical to the ability of those markets to grow and develop, simultaneously providing an opportunity to hedge against possible risks of private, social and economic investments. Insurance companies also serve a base for collecting relatively small premiums from millions of policy holders, into a pool to support term financing for economic growth.

The Nigerian insurance industry has evolved over the past five years following the announcement of new capitalization requirements for companies operating in the sector with the conclusion of the consolidation exercise, the number of players dropped from 103 to 49. Activities in the sector have, however, noticeably increased, with enhanced public awareness of the sector and their operations, rapid expansion and strategic business acquisitions, improved visibility and strict supervisory regulation (Abayomi, 2011).

Contribution of Insurance to the Gross Domestic Product (GDP) of Nigeria

Insurance has always played a positive role in stimulating activities in all areas of investment ranging from capital, real estate and money markets. Just as no modern economy can survive without insurance protect so also, no national economy can grow without investments (local and foreign). Of all sectors of the economy, insurance industry plays the most important role in the promotion of all forms of investment, first as facilitators and secondly as institutional investors (Babalola, 2008).

The principal sources of insurance companies funds are the premium collected from the sale of insurance policies. Life assurance companies generally put their funds in long term investments (primary mortgage loans, corporate bonds and stocks). As a major catalyst in the development of large industrial undertakings, the insurance industry plays important role in the

development of the capital market through underwriting support, provision of required capital and active participation in secondary market (Babalola, 2008).

Penetration of Insurance Density towards Economic Growth

John et al (2002) tried to examine whether banks, life and non-life insurance individually and collectively contribute to economic growth, to do this they used data from 55 countries for the period 1980-1996. The result of this research is that the penetration of life insurance is significantly positively correlated with economic growth and the relationship is reciprocal. In addition, they stated that there is no link between economic development and non-life insurance.

Haiss, (2008) studied the impact of insurance on economic growth, on a sample of 29 European countries. They conducted an analysis of panel data over the period 1992-2005 , the total sample and then they split into two groups, one consisting of 15 EU countries and the other includes the new member states the EU (such as Turkey and Croatia). They found a positive impact of life insurance on the growth of GDP for the first group of countries, for the second group, they found a greater impact of the non-life insurance (liability insurance). In addition, their results highlight the impact of the real interest rate for the bond insurance growth.

Han et al (2010) studied the relationship between insurance development and economic growth using a dynamic panel data model on 77 countries for the period 1994-2005. The insurance density is used to measure the development of the insurance; they concluded that the development of insurance is positively correlated with economic growth. The estimated sample is then divided into developed and developing countries. For developing economies, the development of insurance is more important than that played in the case of developed economies assurance role.

Kjosevski, (2011) examined the impact of insurance on economic growth using the insurance penetration as a measure of insurance development, three variables were used: life insurance penetration, penetration non-life insurance and total insurance penetration. The analysis used data for the period 1995-2010 of the Republic of Macedonia using the OLS technique, followed by an analysis of the variability in order to identify the effects of each variable. The result of this analysis shows that the development of total insurance sector positively affects economic growth; this result is confirmed in non-life insurance, while the results show that life insurance negatively affects economic growth.

In this study as a measure of insurance development, the authors took into account two variables, the insurance penetration and insurance density. They found that the insurance density is significantly positive while the insurance penetration is not significant. In addition, they showed that the quality of a country's legal system and the protection of property rights have a positive effect on the relationship between insurance and economic growth (Kjosevski, 2011).

Challenges to an effective contribution of insurance company towards development of business enterprises in Nigeria

In the face of bearing risk for the insured the insurance companies are faced with numerous problems and according to NDIC Quarterly (2006) these are as follow;

- i. **Liquidity Problem:** The economic effect of restructuring the ailing economy posed a serious liquidity problem to the insurance industry and institutions. From the economic problem, there are contractions of business due to reduction in investment as a result of poor saving. This manifest on the rate of demand for possible claim settlement as against the usual registering of new insurance business proposal the effect of this, lead to reduction of income as there should be shortage of funds. This problem arises when the state of fund cannot meet up with the pressing financial needs.
- ii. **Under Insurance Property:** As a result of high rate of commodities the sum insured in respect of properties under insurance policies do not reflect the correct or true market value of such properties. To avoid under insurance, the country re-insurance corporation has advised to revalue their insured properties to streamline the current market price. In effect, enough the change in the economy and the need to structure it for better results. The customers need be informed of possible advantage if he/she revalue his/her policy to reflect the line value of property in the market (Okonkwo, 2000).
- iii. **Reduction in Marine Insurance Premium Income:** In days of economic boom, marine business recorded good premium generation when compared to what exist todays. Marine insurance as a part of transport insurance policy is among the earliest insurance business that attracted huge amount and mutual development. Since the introduction of second tier foreign exchange market as a major structural Adjustment programme (SAP) by value of premium earned by marine insurers, this posed a problem in the sense that the revenue generated in this aim of insurance business failed considerably unless there is a

concentrated attempt to restructure the economy, the marine insurance business will continuously attract low business undertaking (Okonkwo, 2000).

- iv. **Government Instability:** Accord to NDIC (2001), No meaningful investment can be made in an area where there is constant crisis or continual changes of government regulations. It is understandably true that in the process of picking leaders to succeed their predecessor, wrong leader may emerge and this means that the already mapped out programme may be reserved to suit the government in power in pursuance of the stated objectives, a counter government regulations and laws may originated thereby fostering the aim and aspiration of the insurance industry example, the structural Adjustment programme (SAP) paralyzed most of the business activities including that of insurance industry.
- v. **Lack of Corporation within the Industry:** the lack of corporation or disunity among the groups of insurers may breed a problem and disharmony example, the multiple associations under this umbrella of insurance industry via-the Nigeria Insurance Associations. The insurance institute of Nigeria and the Accident Assurance committee to mention but a few portray the industry as a dividend house as they duplicate the functions of the industry (Sumegi, 2008).
- vi. **Government Control and Regulation:** The NDIC Quarterly (2004) Vol. 3 is of the view that the several ways through which government exercises control of insurance business constitutes a problem. The government enactment such as the insurance decree of 1976 and the current government amendment of insurance requires insurance companies to keep large reserve in meeting their obligation. The insurance companies Act 1961, the National Insurance Corporation of Nigeria Decree of 1st July 1968 were promulgated between 1960 to 1970 to regulate and control the excess of insurance business. Beside, the insurance law now requires the insurer to be financially viable and professionally qualified before entering or registering to carryout genuine insurance business. Nevertheless, the government worsened the liquidity position of the most insurance companies thereby reducing their capacity for effective operations.
- vii. **Inflation:** In 1986, an urgent call for restructuring the economic was made as the Nigeria economy was witnessing persistent inflationary trend and general recession in the Cross Domestic product, the inflation made the bank based scheme to be administered by the

central bank as its possess the power to manage the country's foreign exchange resource in keeping with the needs of the country's economy. In fact in the insurance business, there was a great deal of buying and selling and this was affected by the inflationary trends that hamper the exchange of money both locally and internationally to pay insurance and re-insurance premium and investment (Nwankwo, 1999).

The strategies use for improving insurance company to develop business enterprise.

Johnson (2006) asserts that there is no enough information about the ERM initiative by insurance companies. Hence, there is no consistent understanding and framework of ERM in the global insurance industry. Risk – intensive nature of insurance business according to Wang & Faser (2006) makes the risk dynamics very different from other sectors like manufacturing, processing or constructing services. Therefore, ERM in insurance according to Acharyya (2008) is a structured approach to analyze risk – returned based decision making.

Wang & Faser (2006) assert that the causes (drivers) of insurance failure that necessitate adoption of ERM in insurance industry include;

- i. Under-reserving
- ii. Under-pricing
- iii. Unsupervised delegation of underwriting authority
- iv. Rapid expansion (especially into unfamiliar markets)
- v. Misuse of reinsurance and mismanagement.

Acharyya (2008) further added investment, poor internal control and natural and man-made catastrophes. Hau, Gao & Feng (2009) broadly categorize these risks into external risks factor and internal risks factor. While the internal risk factors are factors within the control of insurance companies, external risks factors are beyond the control of insurance companies.

Standard & Poor's (2005) posits that ERM practice takes place when insurance company commits to risk management for all of its important risks. This involves linking risk capital values to the actual risk – taking activities for the insurer to assess the projected and historical performance of its different risk – taking activities in proportion to the economic capital required to support those activities.

Hau, Gao & Feng (2009) assert that insurance enterprise risk management system is in accordance with the steps to complete the following four links: develop an enterprise risk

management strategy, the course of the mission is to link strategic objective and linking risk management to ensure the integrity of the identification and awareness of the enterprise insurance companies are facing, constructing the risk management infrastructure and gradually formed an enterprise risk management environment.

Theoretical Framework

Theoretical studies and empirical evidence have shown that countries with better-developed financial systems enjoy faster and more stable long-run growth. Well-developed financial markets have a significant positive impact on productivity, which translates into higher longrun growth. Merton (1995) citing Solow's (1956) noted that in the absence of a financial system that can provide the means for transforming technical innovation into broad implementation, technological progress will not have significant and substantial impact on the economic development and growth".

A well functioning financial system is a key enabler of economic growth. SMEs are an important part of Nigeria's economic growth and development and bank lending is the primary source of external finance for SMEs. Therefore, it is important that the banking sector responds efficiently and effectively to the needs of SMEs. There are a number of features of lending generally which potentially could affect the efficiency of the market for lending (Ohanga, 2005).

Information Asymmetry is a situation where business owners or managers know more about the prospects for, and risks facing their business than do lenders. Where information asymmetries exist, bank lending theory predicts that lenders may respond by increasing lending margins to levels in excess of that which the inherent risks would require (Hau, 2009).

Bank lending theory also suggests that banks may also curtail the extent of lending – credit rationing – even when SMEs would have been willing to pay a fair risk-adjusted cost of capital. The implication of raising interest rates and/or curtailing lending is that firms will not be able to finance as many projects as otherwise would have been the case. Information asymmetry is more acute in case of SMEs because their relative size makes them economically unattractive to banks since they are unable to accurately gauge the level of risk involved in lending to SMEs (Standard & Poor's, 2005).

Empirical Study for the Study

Similar study carried out by Babalola (2008), this sector represents the backbone of Nigeria's risk management, ensures financial security, serves as an important component in the financial intermediation chain, and offers a ready source of long term capital for infrastructural projects. It mitigates the impacts of risks and positively correlates to growth as entrepreneurs cover their exposures; otherwise risk taking abilities are hampered.

Despite the importance of insurance to economy development it said to faced some problems which among them include lack of corporation within the Industry: the lack of corporation or disunity among the groups of insurers may breed a problem and disharmony example, the multiple associations under this umbrella of insurance industry via-the Nigeria Insurance Associations. The insurance institute of Nigeria and the Accident Assurance committee to mention but a few portray the industry as a dividend house as they duplicate the functions of the industry (Haiss & Sumegi, 2008).

Both Babalola and Sumegi in their research did very well by pinpointing numerous importance and challenges of insurance company towards Nigerian economy development, but this research tends to make different as the researcher looks at the problems from different angles and proffers some recommendations to enhance the smooth operation of insurance company in Nigeria.

Methodology of the Study

The researcher used survey research design. The data used in this study were obtained from both primary and secondary sources. The primary data was obtained through questionnaire and oral interview, and secondary from journals, textbooks, and periodic. The population of this study comprises both senior and junior staff of National Deposit Insurance Corporation (NDIC) and some selected business entities in Yola. Therefore, the total population of the study is 53 staff of NDIC. And analyses were done using percentage while the study hypothesis was tested

$$\frac{(\sum O - e)^2}{e}$$

using Chi-square statistical tool. As: $X^2 = \frac{(\sum O - e)^2}{e}$ (Malcolm 1998).

Where:

O = observed frequency

e = expected frequency

Σ = summation

Result from Hypothesis Tested

H_0 : There is no significant relationship between insurance company and development of business enterprise in Yola.

Crosstabs

Gender distribution of respondents * Insurance has always played a positive role in stimulating activities in all areas of investment ranging from capital and real estate Cross tabulation

Count

		Insurance has always played a positive role in stimulating activities in all areas of investment ranging from capital and real estate				Total
		Strongly		Strongly		
		agreed	Agreed	Disagreed	disagreed	
Gender distribution of	Male	31	7	0	0	38
respondents	Female	0	5	6	4	15
	Total	31	12	6	4	53

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	38.626 ^a	3	.002
Likelihood Ratio	46.852	3	.001
Linear-by-Linear Association	35.985	1	.000
N of Valid Cases	53		

a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is 1.13.

$$X^2(3) = 38.626, P \leq 0.002$$

The decision is that the null hypothesis was rejected, since P-value ≤ 0.002 is less than 5% level of significance and $X^2 = 38.626$ and 3 degree of freedom, therefore the alternate hypothesis which states that there is a significant relationship between insurance company and development of business enterprise in Yola.

Research Findings

The major findings of this study have been derived from the analysis and presentation of data for this paper.

- i. Based on the data analysis, insurance companies have contributed immensely to the growth of business enterprises through provision of financial security.
- ii. It has also been revealed that insurance companies play a positive role in stimulating activities in all areas of investment ranging from capital and real estate management in Yola metropolis.
- iii. It is evident from the study that under insurance of property is another major problem that limits the smoothness of insurance company towards business development in Yola metropolis.

Conclusion

This study has succeeded in establishing that a direct or positive relationship exists between investment in insurance companies and business growth of Yola north. This means that insurance companies immensely boost business enterprises and tremendously played a positive

role in stimulating activities in all areas of investment ranging from capital and real estate management.

Consequently, lingering problems affecting insurance companies include under insurance of property and continual changes in government policies and regulations, the federal government use policy actions to protect both the insurers and the insured in the country and encourages people to patronize insurance companies.

Recommendations

From the above analysis, research findings and hypotheses tested, the study was able to develop some recommendations:

- i. Insurance companies should ensure continuous contribution to business enterprises through financial security to foster economic growth of Yola and Adamawa State at large.
- ii. It recommended that insurance companies should continue promoting their activities in the areas of insuring investment, capital accumulation and real estate management in Yola metropolis.
- iii. It recommended that insurance companies should educate population on the advantage of properties insurance in order to avoid under insurance of property so as to enable them contribute greatly to business development in Yola metropolis.

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