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GROSS PREMIUM INCOME AND CLAIMS SETTLEMENT: EMPIRICAL EVIDENCE FROM MOTOR INSURANCE BUSINESS IN NIGERIA

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Abstract
This study used data from the Nigerian Insurers Association's (NIA) published insurance digest for the years 2012 to 2021 to assess the trends in premium and claims payments on motor insurance policies. The data were then analysed using standard Least Square Regression techniques. Findings from the study have unequivocally demonstrated the strong correlations between claim settlements and premium revenue of non-life insurance businesses in Nigeria. The report suggested that premium income generation be made easy by developing an excellent online gateway that can ensure motorists' payment processes are hassle-free. By making sure that the motorist's choice to purchase motor insurance is taken into account, motor insurance regulators should be proactive in monitoring the contractual agreement toward motor insurance claims settlement.
Keyword: Motor insurance, claims, Premiums, trend analysis,

Introduction

Motor insurance, according many authors including Aduloju and Ajemunigbohun, 2020, Ajemunigbohun & Oreshile, 2019, Epetimehin & Akinselure, 2016, Segovia-Vargas, Camacho-Minano, & Pascual-Ezama, 2015, is primarily intended to protect policyholders from the financial losses that motor vehicles can result in, which includes loss of property, death, legal fees, medical bills, and loss of income. As one of the most common non-life insurance policy types in Nigeria, mandated motor insurance adds a significant amount of value to the portfolio of premium income (Nigerian Insurers Association, 2020). including losses due to property damage to others, theft, fire, and property damage. Motor users face potential risk exposures, including repair costs, procurement costs for newer vehicles due to damage beyond economic maintenance, and unlawful claims for third-party property damage. The Central Bank of Ireland (2017) highlights the importance of three major losses for the efficient operation of motor insurance policies: losses for injury to parties other than the policyholder, losses to the policyholder involving fire, theft, and property damage, and losses for property damage to others.

Claims settlement, being one of the functional aspects of an insurer’s activities seams to have suffered unacceptable perception among the insuring public, possibly due to imbalance relationship recorded in the claim’s ratio. However, an insurer's ability to pay claims for any identified and anticipated motor losses depends on the generation of premium income. The amount paid out of the premium income generated had been a matter of concerns to the public hence there seems to exist low risk aversion due to perceived irregularities and inefficiency around claims settlement. As a result, the relationship between claims settlement and gross premium revenue from 2012 to 2021 needs to be analysed by a longitudinal survey.

The study's findings are anticipated to be extremely helpful to insurance firms, car owners, financial analysts, investors, and researchers by enabling them to assess the trends in gross premium income and claims settlement for motor insurance policies in Nigeria. The study's findings will also assist insurance companies and reinsurers in understanding the claims ratio and the necessity of approaching it with due diligence in order to provide clients with appropriate and profitable advice and engage in successful investment on their own behalf.

Literature Review

Conceptual Review

A claim is a demand for payment upon delivery of purchased products or services, and is a policyholder's legal entitlement under an insurance agreement (DiNapoli, 2013; Basaula, 2016). Isimoya and Ajemunigbohun (2019) argued that utilizing advanced claims mechanisms and business dynamics can improve the efficiency and efficacy of claims settlement. According to Yusuf, Ajemunigbohun, and Alli (2017), claim settlement is a key factor in how well an insurer acquires, keeps, develops, and profits from its clients. However, resolving a claim is a difficult undertaking since it affects many aspects of the business, including the service provided to policyholders, cost savings, the company's ability to compete, risk scenarios, and IT infrastructure (Angima & Mwangi, 2017).

The resolution of claims is a primary priority for many insurance companies. In terms of the policyholders' experiences, it either makes or breaks them (Raghuram, 2019). Olowokudejo and Ajemunigbohun (2018) assert that claim settlement is a critical component of the insurance sector that enhances effectiveness in terms of patronage satisfying experiences and loyalty. However, insurers that don't satisfactorily resolve claims for policyholders will lose revenue as these clients are likely to stop doing business with them (Onesede, 2013). It is therefore expected of insurers to establish the essential channels of communication between their claims management section and other operational sections including underwriting unit, marketing unit, and information unit (Bruggmann, Catlin, Chinczewski, Lorenz, & Prymaka, 2018). The collaboration can be sustainable and efficient once adequate premium income is generated. Premium, as a construct, is an operational component of an insurance contract (Ramos, 2017; Ukpong and Acha, 2017). Premium refers to an insurer’s rate and exposure unit (Abass et al., 2021). However, it is an amount charged by an insurer with an intention to address claim cost, underwriting expenses, management expenses, insurer’s profit, reinsurance cost, and the likes (Boksova, 2015). Insurance premium, according to Uruakpa (2019), is designed to safeguard the pecuniary wellness of the insuring populace, insurers, and all other parties engaged in an insurance contract. Quite a number of studies had been conducted with respect to the growing trend in premium income growth (Abass et al., 2021; Ajao & Ogieriakhi, 2018; Boksova, 2015; Soye & Momoh, 2021; Tarsono, Ardheta, & Amriyani, 2019; Uruakpa, 2019). In several of these studies, insurance premiums were correlated with concepts like loss ratio, expense ratio, liquidity ratio, underwriting capabilities of insurers, shareholders' funds, insurers' capital adequacy, and others. However, an insurer's premium income determines its claim ratio and is crucial to how quickly claims are settled.

Claim ratio, according to Hasibuan, Sadalia, and Muda (2020), is a ratio or proportion of claim cost to premium income earned. Tarsono et al. (2019) affirmed that effective claim ratio guarantees adequate underwriting capacity of an insurer. The construct ‘claims ratio’ or ‘loss ratio’ had generated different views from scholars (such as Kapoor & Pandey, 2019; Salaudeen, Salam, & Mudashiru, 2021; Tarsono et al., 2019) on the relationships with insurers’ operational activities. Insurers’ operational activities is therefore embedded in their product managerial capacities, which include insurance pricing, appropriate selection and grouping of risks, and fair, reasonable, and speedy settlement of claim (Outreville, 1990 as cited in Yusuf et al., 2017). This product managerial capacity of insurers is more pronounced in motor insurance.

Motor insurance, as a financial instrument, helps safeguard economic or financial loss against possible motoring risk (Olowokudejo, Aduloju, & Ajemunigbohun, 2020). It is a contractual synergy that showcases the relationship between the insurer and the insured, which further explains the modus operandi regarding premium exchange and indemnification towards motoring risks (Zerou, 2016). The motoring risks are covered in motor insurance as against third-party, fire, theft, bodily injuries or property damages (Bassey, 2018).

Theoretical Review

Actuaries are primarily in charge of projecting insurance rates, making the theory of insurance risk premiums pertinent to this study. In an effort to establish a link between risk-taking ideas and risk factors, they devised and employed a wide range of statistical approaches for a time. The price or premium for a risk must be determined by converting the arbitrary future losses or gains into monetary values (Landsman & Sherris, 2010). The price of insurance, according to Leaven and Groovaerts (2007), is an exchange of money for risk between two parties. Furthermore, the price that the risk-bearing individual pays to an insurance company for coverage at a predetermined, agreed-upon premium and the price that investors pay for portfolios made up of insurance policies when they are sold on a market for financial securities, they emphasized, are two factors that determine the cost of insurance.

Empirical Review

The relationship between insurance claim payment and premium income and how it relates to motor insurance policies has been the subject of numerous surveys, both in Nigeria and abroad (Bortoluzzo, Claro, Caeteno, & Artes, 2011; Yusuf & Ajemunigbohun, 2015; Gurung, 2016; Islam & Hossain, 2018; Gangil & Vishnoi, 2020; Mathiraj & Nagalakshmi, 2020).

Epetimehin and Akinselure (2016) assessed the opinions of employees about the purchase of auto insurance with a sample size of 250 respondents using a survey research strategy. the data analysis for the study made use of straightforward frequency percentages and the Chi-square statistical. The study found a strong association between the choice to purchase vehicle insurance and the perception of a Joseph Ayo Babalola University employee, they suggested that while seeking for auto insurance, employees consider interacting with an insurance professional.

In Nigeria's automobile insurance industry, Ajemunigbohun (2018) evaluated policyholders' experiences with claim resolution techniques. A descriptive research approach was used, with a questionnaire survey serving as the primary data source from 127 selected motorists in Lagos, Nigeria. To find out how policyholders felt about the many ways claims were settled including payment options, repair options, and replacement alternatives, the study utilized a Kolmogorov-Smirnov t-test. According to the report, among the three claim settlement alternatives, the repair option is the one that is most frequently provided by motor insurance companies when handling motor insurance claims.

The subject of the study by Oyetunji, Adepoju, and Oladokun (2021) was the connection between poor claim settlement and Nigerian customers' demand for insurance coverage. 115 people were surveyed using a standardized questionnaire, and results were then analyzed using Pearson's correlation coefficient. The study focused on how important quick and appropriate claim payout is in persuading people to get insurance. The research demonstrated a significant link between the demand for insurance and the successful settlement of claims. Additionally, the study demonstrated how important the various claims procedure cycles are for boosting premium income, consumer spending, market efficiency, and other characteristics.

Ajemunigbohun, Sogunro, and Oluwaleye (2022) studied the features of the claims processing procedure from the viewpoints of motor insurance policyholders in Lagos, Nigeria. In this study, which employed a cross-sectional survey methodology, 287 chosen vehicle insurance policyholders in Lagos, Nigeria, were included. The data were analyzed using the Friedman's rank test and descriptive statistics. This study provided a mean rank test between swift claim resolution, openness in the claim's procedure, anytime provider contact, timely provider communication network, staff care for policyholders in processing claims, and numerous ways to engage with providers.

Methodology

The study's objective was accomplished with the use of an ex-post facto research approach. This study design was designed to facilitate the investigation of various groups, individuals, topics, objects, or events. Misra (2021); Kumar, Dubey, and Kothari (2022) This research examines all 58 insurance companies that are registered with the Nigerian National Insurance Commission (NAICOM). A selection of 40 insurance companies that offer automobile insurance policies and are listed in the Nigerian Insurers Association (NIA) digest for the years 2012 to 2021 was chosen. Data from the published insurance digest of the Nigerian Insurers Association (NIA) for the years 2012 to 2021 is a secondary source.

Model Specification

Functionally, the model is expressed as follows:

$$GCP = f(GPI) \quad (1)$$

$$GCP = \beta 0 + \beta 1 GPI + \mu \quad (2)$$

Where:

GCP = Gross Claim Payment is dependent variable

GPI =Gross Premium Income is the independent variable

$\beta 0$= constant term,

$\beta 1$= regression co-efficient of GPI and

μ = error term.

Method of Data analysis

In order to assess the relationship between gross premium income (GPI) and gross claims paid (GCP) from 2012 to 2021, this study looked at both variables. Utilizing ordinary least squares regression techniques, the gathered data was quantified.

Data Analysis and Presentation

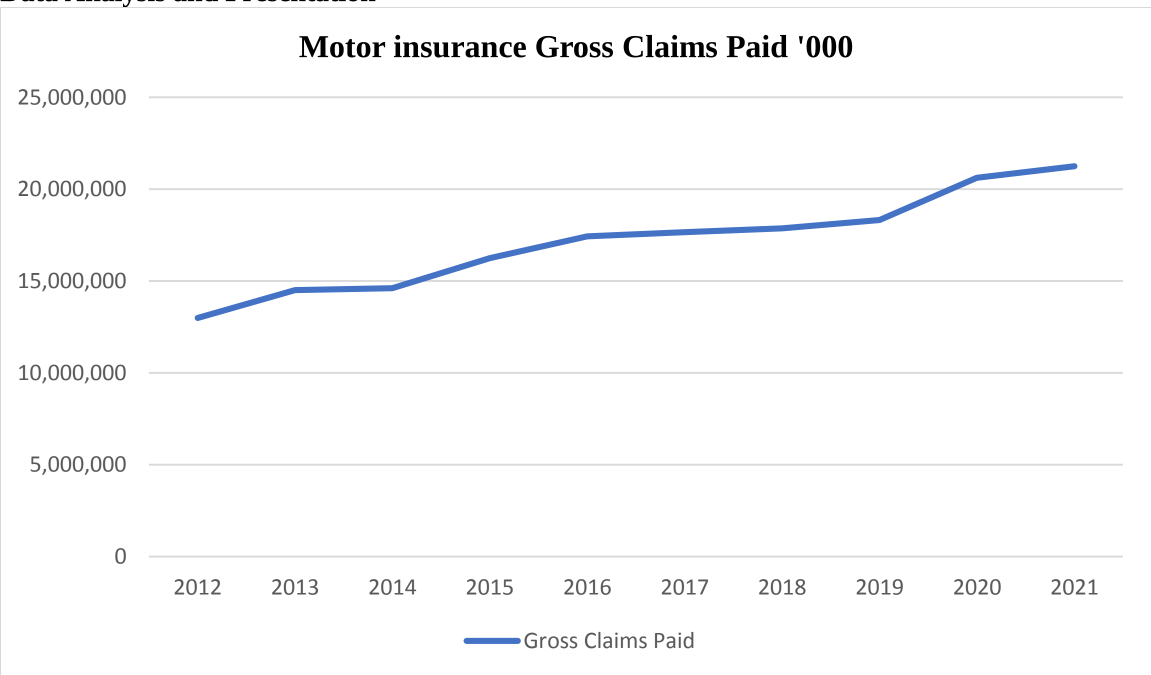

Fig. 4.1: *Figure explaining trend of motor insurance gross claims paid from 2012 to 2021*

Source: Insurance Digest (2021)

The graph above shows an analysis of the trend of the gross claim paid from 2012. which showed a small movement until 2013. From 2014 to 2021, there was an upward trend. This demonstrates how consistently claims have been settled by Nigeria's motor insurance providers.

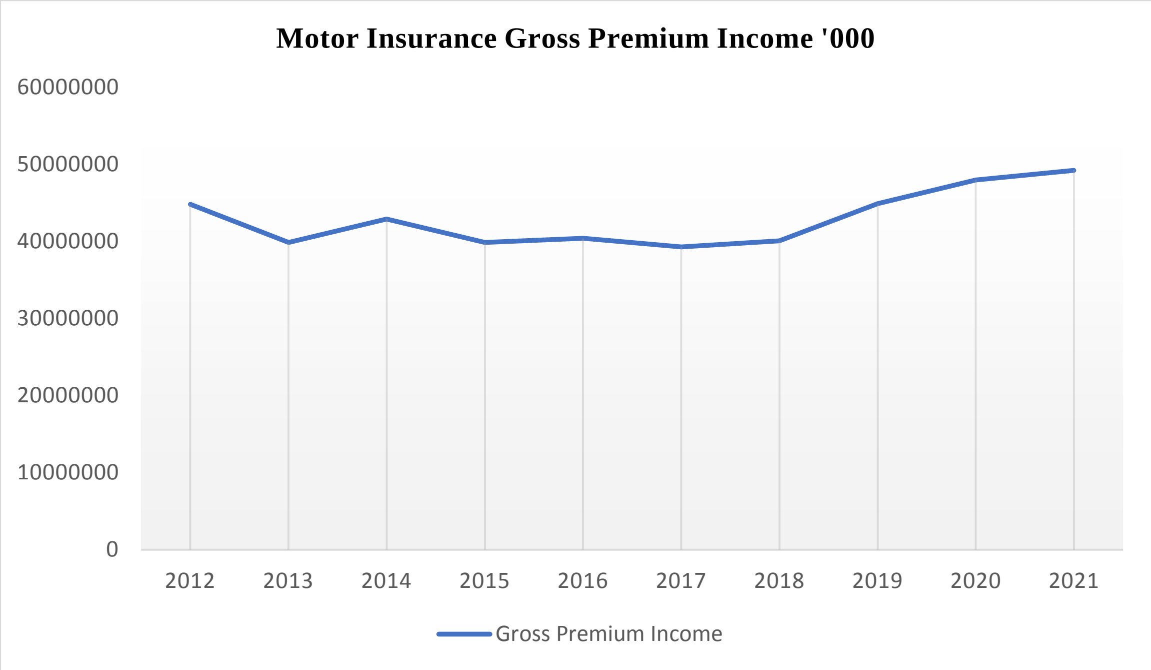

Fig. 4.2: *Figure explaining trend of motor insurance gross premium income from 2012 to 2021*
Source: Insurance Digest (2021)

The examination of changes in gross premium income from 2012 to 2021 is shown in Figure 4.2 above. It began to trend downward in 2012 and remained stagnant until it began to rise again in 2013. From this point forward, there was an increase in the gross premium income for automobile insurance through 2021.

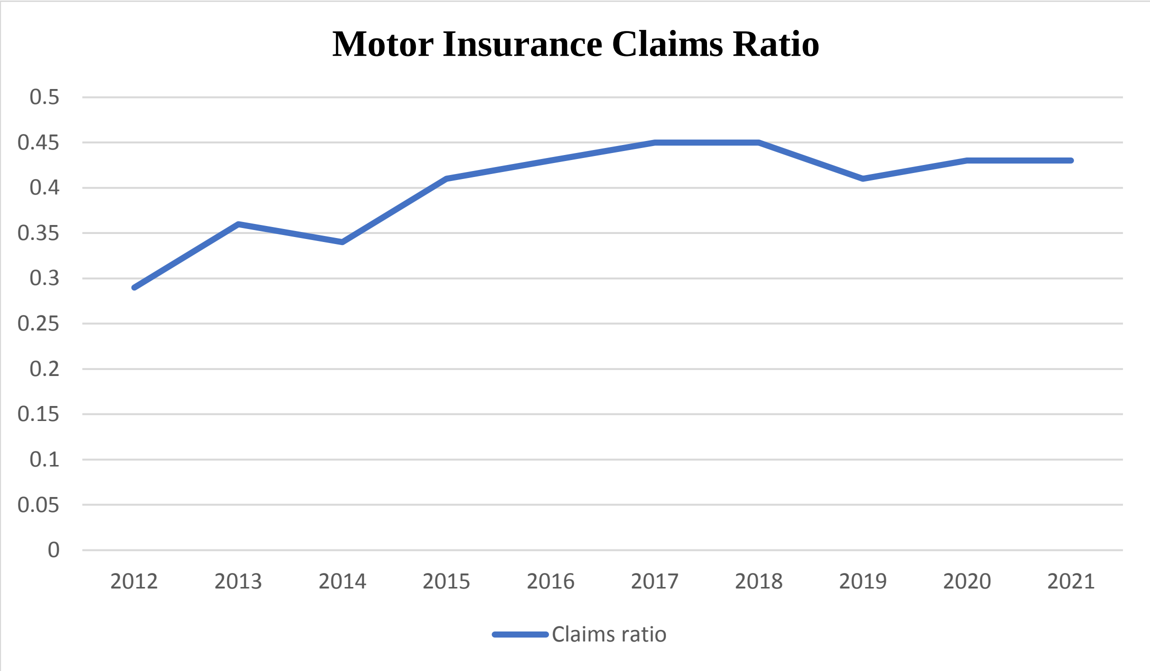

Fig. 4.3: *Figure explaining trend of motor insurance claims ratio from 2012 to 2021*
Source: Insurance Digest (2021)

The claims ratio, which depicts the relationship between gross premium written and gross claim paid, demonstrated both an upward and a decreasing movement from 2012 to 2021, as illustrated in Figure 4.3 above. This relationship is a sign of the unpredictability in how automobile insurance carriers pay disputes with their varied consumers.

OLS Regression Results
Dependent variable: GCP
Method: Least Squared
Sample: 2012–2021

Variable	Co–efficient	Std.Error	t-statistic	prob.
C	-4259171.8	6185372.1	6.886712	0.4351
GPI	0.32921	0.374209	-1.04523	0.0731

R-Squared	0.19129	mean dependent var.	391431.
Adjusted R-Squared	0.1523	S.D. dependent var.	113421.
S.E. of regression	120174	Schwarz criterion	17.21985
Sum square residual	1.86811	Durbin-Watson stat.	1.93481
Log. Likelihood	-114.2110		
F-statistic	3.21459		
Prob(F-statistic)	0.072152		

Source: Researcher's Computation

According to the above linear regression equation, GCP= -4259171.8 + 0.32921GPI, the gross claim will decrease by -4259171.8 times in the absence of a premium. Additionally, a unit rise in gross premium will result in a 0.32921rise in gross claims. The calculated coefficient of determination (R squared=0.19129) is explained by gross premium income (GPI), which accounts for 19.129 percent of the entire variance, and the remaining 90.871 percent by other factors that are not taken into account by the multiple regression function. At a 5% level of significance, the Durbin Watson (DW) score of 1.93481 shows that there is no autocorrelation. The P value of 0.5018 for the constant coefficient and the P value of 0.0731 for the gross premium income (GPI) coefficient are not statistically significant.

Discussion, Conclusion and Recommendations

Findings from the study have unequivocally demonstrated the strong correlations between claim settlements and premium revenue of non-life insurance businesses in Nigeria, the trend analysis shows a positive but less significant relationship between gross premium income and gross claim paid for the year 2012 to 2022. The study concluded that an improved claims handling for drivers will aid in changing their opinions of auto insurance; as a result, it will help insurers win the public's trust and confidence by demonstrating their dependability and expertise.

The study proposed that, in order to fully support its findings, premium income production be made easy through the development of an excellent online portal that would ensure drivers seamless payment processes. In order to effectively supervise the contractual agreement for the settlement of motor insurance claims, motor insurance regulators should be proactive in addressing the decisions made by drivers on their purchase of motor insurance.

This study contributes to the body of knowledge by alerting claims managers to the necessity of treating motor insurance clients with decency and passion while resolving claims. The study makes the suggestion that future studies should focus on the relationships between asymmetric information problems in premium rating, insurance contract wording, and claims settlement. The issues with insurance fraud that are brought on by the insurance claims settlement manual might also be the subject of future research.

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