THE MANAGEMENT OF INSURANCE COMPANIES TOWARDS THE DEVELOPMENT OF BUSINESS ENTERPRISES

(A CASE STUDY OF ROYAL EXCHANGE ASSURANCE NIG. PLC.KANO STATE).

BY

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REG NO: BA/2009/262

DEPARTMENT OF BUSINESS ADMINISTRATION

FACULTY OF MANAGEMENT AND SOCIAL SCIENCES

CARITAS UNIVERSITY AMORJI-NIKE ENUGU,

AUGUST, 2013

TITLE PAGE

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A RESEARCH PROJECT SUBMITTED TO DEPARTMENT OF BUSINESS ADMINISTRATION FACULTY OF MANAGEMENT AND SOCIAL SCIENCES CARITAS UNIVERSITY AMORJI-NIKE ENUGU, ENUGU STATE. IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCES (B Sc.) DEGREE IN BUSINESS ADMINISTRATION.

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CERTIFICATION

I certify that this research project carried out by Kasim Ahmed Sanusi has been examined and found acceptable for the award of Bachelor of Science (B.Sc.) Degree in the department of Business Administration.

_____ _____

Prof. G. U. Nwanguma Date.

Supervisor.

_____ _____

Prof. Godwin Nwanguma. Date.

Head of Department.

DEDICATION

This piece of work is dedicated to Almighty Allah, who made everything possible for it to come to a successful end, and also to my beloved parents; Alhaji. & Hajia. Kasim Sanusi who considered my education a priority and finally to my brothers & sisters.

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May Almighty Allah bless and continue to provide for all of you. I love you all.

ABSTRACT

This project work titled ‘’the management of insurance company towards the development of business enterprises’’ a case Study of Royal exchange assurance Nig. Plc. Kano. This research work intends to survey the role and the concept of insurance companies in business and in the sustainability of business enterprises in Nigeria. The researcher adopted a descriptive method of survey; the sample method use was sampling method. Both primary and secondary sources of data were used to obtain relevant information. The company has a total population of 100 employees’. The sample size was 50 which is draw from the total population using Yaro Yamani formula.In my findings, it claims for those loss will be guaranteed. It is recommended that the insurance managers should do everything possible to train their staff on job and on insurance training. It is drawn to the phase of the insurance industries with a view of determining adaptability and sustainability, taking into consideration the peculiarity of Nigeria circumstance. Take into consideration, the recapitalization exercise in the companies rather than financial effects and also to proffer solutions to problems hiking around the insurance companies.

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CHAPTER ONE

1.0 INTRODUCTION

Life is full of risk and every human being is confronted with possibility that one day one of these hazards which form part of life may befall them because one financial loss or the other. The purpose of insurance is to indemnify the victims for the financial loss they might have suffered as a result of these risks. Risk is a concept that denotes a potential negative impact to an asset or some characteristic of value that may arise from some present process or future event. In everyday usage, "risk" is often used synonymously with the probability of a known loss. Paradoxically, a probable loss can be uncertain and relative in an individual event while having a certainty in the aggregate of multiple events (see risk vs. uncertainty below). Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Insurance was not set out to climate and cannot soften the blow in a purely financial sense of obtaining monetary compensation to the victims thereby placing them in a financial position.

The purchasing of an insurance has been earlier describe as the insured person as a policy holder in order to protect himself against a particular risk, take out a policy with an insured, thereby passing over the risks to the insured on a payment of a fee known as premium.

Life is associated with different kind of risk some of this risk are insurable while some are not. The insurance industry in each devices different type of insurance policy to carter for each one to the insurance risk. The more conventual's, one being marine, fire, life, aviation, motor, person, accident and a lot of others.

1.1 BACK GROUND OF THE STUDY

Insurance as an industry did not exist in Nigeria until the later part of the twentieth century. However, there existed in Nigerian communities, some form of organize mutual social insurance schemes which had the future of modern insurance.

Apart from the early social insurance scheme, insurance as an industry is relatively new in Nigeria. The first operation branch of an insurance company was open in Nigeria in Lagos in 1921 by the Royal exchange assurance Plc. and it remain the only insurance company in Nigeria until 1949 when three British owned insurance companies were opened up.

As at the time Nigeria got her independent operating insurance as risen to twenty five and were mainly foreign owned. The insurance degree was prorogated to regulate the way previous legislation did not do.

The insurance company In Nigeria and the insurance industry are control by the federal ministry of finance another offices of director of insurance. The insurance departments of these ministries are responsible for the control activities of insurance companies so as to ensure compliance electrets of 1976 and other relevant regulation related to the business of insurance in Nigeria.

Royal Exchange assurance Plc. engage themselves in the following types of risk, they are;- loss of profit following the insurance personal inability, trained insurance, private can insure motor cycle group, house holders comprehensive insurance and all kind of risk.

Royal Exchange Insurance Nig. Plc. as many branches within Nigeria with the head office in Lagos and the incorporation number 6572 and the degree number that symbols Royal Exchange insurance his degree 58 of 1920.

1.2 STATEMENT OF THE PROBLEM

Owing to the negative factions surrounding the insurance industry in Nigeria, the activities of the industry have been subjected to various criticisms of those negative factions. We can identify good number of problems. Therefore, the statement of this problem of this study could be obtained based on the observation and critical analysis of the industry. Non payments of claims in the industry have become a faction that negatives the performance of the industry. Despite the factor, insurance company collect premium from their clients.

Another is the issue of inadequate capital and investment to put the company in a more favorable condition to meet their demand of their clients.

Often business organization in the country that rely on the insurance companies realize they are in the case were they incurred losses which have been insured barely affect the business.

1.3 OBJECTIVE OF THE STUDY

As a general rule, there are hardly any differences between the aims and objectives of the insurance in Africa from those of similar ones operating elsewhere in the world. A brief examination of the aims of a typical insurance emphasizing those features that would be OD special interest to the prop actors and managers of insurance company in

Africa will be useful. The objective of an insurance company may be summarized as follows;-

1. To sell insurance cover to insurance consumers.

2. To settle all genuine claim family land promptly in accordance with law and be formed relevant insurance policy.

3. To run business or organization in such a way that it produce a fair to the shareholders who funded that capital with which the business was established.

In moving forward these basic objectives, the prop actor and managers of the insurance company have certain responsibility to different group and making their decision they must bear in mind and protect the interest of each group, these groups are;-

i. The policy holders.
ii. The shareholders.
iii. The workers and staffs.
iv. The Nation and the society.

1.4 SIGNIFICANCE OF THE STUDY

Insurance companies form a part of the very fabric of the economy and are indispensable to it in the modern state. They are vitally necessary because they are one of the most important vehicles for development and because of the security they give to entrepreneur, that policy holder and shareholders.

The availability of insurance maximizes the entrepreneur's uncertainty to the extent that some of the risks with which he is faced with can be translated, for a fix amount called the ''premium''. He is to fully commit his assets to the operation of his business. This enables them to acquire the necessary confidence and tranquility of mind that are requisites to fruitful risk looking.

1.5 SCOPE OF THE STUDY

The researcher's work would have been wide in nature; however, it has restricted itself to insurance company. Thus the study will focus and concentrate strictly on the role of insurance company towards the development of business enterprises. Insurance provide a means for industrial and societies to cope with some of the risks faced in everyday life. Earning capacity is asses that should be protected through insurance.

1.6 LIMITATIONS TO THE STUDY

A research of this nature is found to have a lot of limitations. Time factor was a serious problem encountered; the period given for the completion of this research work was share along with academic, non-academic work which was necessary in relation with a completion of school in general. The time spread to include the distribution and gathering of questionnaire from respondents which was a problem of its own entirely.

Financial constraints can never be rule out in a situation like this, the money required for the running around, cost of materials etc.

Another limitation is that of material for the secondary data. Even though there are many existing text books and journals of insurance nature which would have been used for this research work. Getting them in the library wasn't easy as many students are equally writing on similar topics which require the same materials.

1.7 STATEMENT OF HYPOTHESIS

In every study, there is an assumption on the variable of that study. This assumption tends to predict the outcome of the study. The hypothesis of this study is to asset the following;-

HI: Insurance firms play a vital role in the development of nation economy.

HO: Insurance firms don’t play a meaningful role in the development of nation’s economy.

1.8 DEFINITION OF KEY TERMS

OD: Organizational Development

CHAPTER TWO

2.1 THEORETICAL FRAME WORK FOR THE STUDY

RISK

Risk is a concept that denotes a potential negative impact to an asset or some characteristic of value that may arise from some present process or future event. In everyday usage, "risk" is often used synonymously with the probability of a known loss. Paradoxically, a probable loss can be uncertain and relative in an individual event while having a certainty in the aggregate of multiple events (see risk vs. uncertainty below).

Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.[1]

Risk communication and **risk perception** are essential factors for every human decision making.

Definitions of risk

There are many more and less précised definitions of risk, they depend on specific applications and situational contexts. It can be assessed qualitatively or quantitatively.

Qualitatively, risk is considered proportional to the expected losses which can be caused by an event and to the probability of this event. The harsher the loss and the more likely the event, the greater the overall risk. Frequently in the subject matter literature, risk is defined in pseudo-formal forms where the components of the definition are vague and ill defined, for example, *risk* is considered as an indicator of threat, or depends on threats, vulnerability, impact and uncertainty.[*citation needed*]

In **engineering,** the quantitative **engineering definition** of risk is:

Independently on the wide use this definition, for example in nuclear energy and other potentially dangerous industries, measuring engineering risk is often difficult; the

probability is assessed by the frequency of the past similar events, (or by event-tree methods) but rare failures are hard to estimate if an event tree cannot be formulated, and loss of human life is generally considered beyond estimation [*citation needed*] - however, radiological release (eg GBq of radio-Iodine) is usually used as a surrogate. There are many formal methods used to assess or to "measure" risk considered as one of the critical indicators important for human decision making.

Financial risk is often defined as the unexpected variability or volatility of returns, and thus includes both potential worse than expected as well as better than expected returns. References to negative risk below should be read as applying to positive impacts or opportunity (e.g. for loss read "loss or gain") unless the context precludes.

In **statistics**, risk is often mapped to the probability of some event which is seen as undesirable. Usually the probability of that event and some assessment of its expected harm must be combined into a believable scenario (an outcome) which combines the set of risk, regret and reward probabilities into an expected value for that outcome. (See also Expected utility)

Thus in **statistical decision theory**, the risk function of an estimator $\delta(x)$ for a parameter θ, calculated from some observables x; is defined as the expectation value of the loss function L,

where:

- $\delta(x)$ = estimator
- θ = the parameter of the estimator

In **information security**, a "risk" is defined as a function of three variables:

1. the probability that there's a threat
2. the probability that there are any vulnerabilities
3. The potential impact.

If any of these variables approaches zero, the overall risk approaches zero.

The management of actuarial risk is called risk management.

Historical background

Scenario analysis matured during Cold War confrontations between major powers, notably the USA and USSR. It became widespread in insurance circles in the 1970s when major oil tanker disasters forced a more comprehensive foresight. The scientific approach to risk entered finance in the 1980s when financial derivatives proliferated. It reached general professions in the 1990s when the power of personal computing allowed for wide spread data collection and numbers crunching.

Governments are apparently only now learning to use sophisticated risk methods, most obviously to set standards for environmental regulation, e.g. "pathway analysis" as practiced by the United States Environmental Protection Agency.

Risk vs. uncertainty

In his seminal work "Risk, Uncertainty, and Profit", Frank Knight (1921) established the distinction between risk and uncertainty.

> “ ... Uncertainty must be taken in a sense radically distinct from the familiar notion of Risk, from which it has never been properly separated. The term "risk," as loosely used in everyday speech and in economic discussion, really covers two things which, functionally at least, in their causal relations to the phenomena of economic organization, are categorically different. ... The essential fact is that "risk" means in some cases a quantity susceptible of measurement, while at other times it is something distinctly not of this character; and there are far-reaching and crucial differences in the bearings of the phenomenon depending on which of the two is really present and operating. ... It will appear that a measurable uncertainty, or "risk" proper, as we shall use the term, is so far different from an immeasurable one that it is not ”

	in effect an uncertainty at all. We ... accordingly restrict the term "uncertainty" to cases of the non-quantitative type.	

INSURANCE AND HEALTH RISK

Insurance is a risk-reducing investment in which the buyer pays a small fixed amount to be protected from a potential large loss. Gambling is a risk-increasing investment, wherein money on hand is risked for a possible large return, but with the possibility of losing it all. Purchasing a lottery ticket is a very risky investment with a high chance of no return and a small chance of a very high return. In contrast, putting money in a bank at a defined rate of interest is a risk-averse action that gives a guaranteed return of a small gain and precludes other investments with possibly higher gain.

Risks in personal health may be reduced by primary prevention actions that decrease early causes of illness or by secondary prevention actions after a person has clearly measured clinical signs or symptoms recognized as risk factors. Tertiary prevention (medical) reduces the negative impact of an already established disease by restoring

function and reducing disease-related complications. Ethical medical practice requires careful discussion of risk factors with individual patients to obtain informed consent for secondary and tertiary prevention efforts, whereas public health efforts in primary prevention require education of the entire population at risk. In each case, careful communication about risk factors, likely outcomes and certainty must distinguish between causal events that must be decreased and associated events that may be merely consequences rather than causes.

ECONOMIC RISK

IN BUSINESS

Means of assessing risk vary widely between professions. Indeed, they may define these professions; for example, a doctor manages medical risk, while a civil engineer manages risk of structural failure. A professional code of ethics is usually focused on risk assessment and mitigation (by the professional on behalf of client, public, society or life in general).

In the workplace exist incidental and inherent risks. Incidental risks are those which occur naturally in the business, but are not part of the core of the business. Inherent risks have a negative effect on the operating profit of the business.

Risk-sensitive industries

Some industries manage risk in a highly quantified and numerate way. These include the nuclear power and aircraft industries, where the possible failure of a complex series of engineered systems could result in highly undesirable outcomes. The usual measure of risk for a class of events is then, where P is probability and C is consequence;

The total risk is then the sum of the individual class-risks.

In the nuclear industry, 'consequence' is often measured in terms of off-site radiological release, and this is often banded into five or six decade-wide bands.

- Operational risk
- Safety engineering

The risks are evaluated using Fault Tree/Event Tree techniques (see safety engineering). Where these risks are low they are normally considered to be 'Broadly Acceptable'. A higher level of risk (typically up to 10 to 100 times what is considered broadly acceptable) has to be justified against the costs of reducing it further and the possible benefits that make it tolerable - these risks are described as 'Tolerable if ALARP'. Risks beyond this level are classified as 'Intolerable'.

The level of risk deemed 'Broadly Acceptable' has been considered by Regulatory bodies in various countries - an early attempt by UK government regulator & academic F. R. Farmer used the example of hill-walking and similar activities which have definable risks that people appear to find acceptable. This resulted in the so-called **Farmer Curve**, of acceptable probability of an event versus its consequence.

The technique as a whole is usually referred to as **Probabilistic Risk Assessment** (PRA), (or Probabilistic Safety Assessment, PSA).

IN FINANCE

In finance, risk is the probability that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment. It is usually measured by calculating the standard deviation of the historical returns or average returns of a specific investment. In finance "risk" has no one definition, but some theorists, notably Ron Dembo, have defined quite general methods to assess risk as an expected after-the-fact level of regret. Such methods have been uniquely successful in limiting interest rate risk in financial markets. Financial markets are considered to be a proving ground for general methods of risk assessment.

However, these methods are also hard to understand. The mathematical difficulties interfere with other social goods such as disclosure, valuation and transparency. In particular, it is often difficult to tell if such financial instruments are "hedging" (purchasing/selling a financial instrument specifically to reduce or cancel out the risk in another investment) or "gambling" (increasing measurable risk and exposing the investor to catastrophic loss in pursuit of very high windfalls that increase expected value).

As regret measures rarely reflect actual human risk-aversion, it is difficult to determine if the outcomes of such transactions will be satisfactory. **Risk seeking** describes an individual whose utility function's second derivative is positive. Such an individual would willingly (actually pay a premium to) assume all risk in the economy and is hence not likely to exist.

In financial markets one may need to measure credit risk, information timing and source risk, probability model risk, and legal risk if there are regulatory or civil actions taken as a result of some "investor's regret".

"A fundamental idea in finance is the relationship between risk and return. The greater the amount of risk that an investor is willing to take on, the greater the potential

return. The reason for this is that investors need to be compensated for taking on additional risk".

"For example, a US Treasury bond is considered to be one of the safest investments and, when compared to a corporate bond, provides a lower rate of return. The reason for this is that a corporation is much more likely to go bankrupt than the U.S. government. Because the risk of investing in a corporate bond is higher, investors are offered a higher rate of return".

IN PUBLIC WORKS

In a peer reviewed study of risk in public works projects located in 20 nations on five continents, Flyvbjerg, Holm, and Buhl (2002, 2005) documented high risks for such ventures for both costs and demand. Actual costs of projects were typically higher than estimated costs; cost overruns of 50% were common, overruns above 100% not uncommon. Actual demand was often lower than estimated; demand shortfalls of 25% were common, of 50% not uncommon.

Due to such cost and demand risks, cost-benefit analyses of public works projects have proved to be highly uncertain.

The main causes of cost and demand risks were found to be optimism bias and strategic misrepresentation. Measures identified to mitigate this type of risk are better governance through incentive alignment and the use of reference class forecasting [3].

RISK IN PSYCHOLOGY

Regret

In decision theory, regret (and anticipation of regret) can play a significant part in decision-making, distinct from risk aversion (preferring the status quo in case one becomes worse off).

Framing

Framing is a fundamental problem with all forms of risk assessment. In particular, because of bounded rationality (our brains get overloaded, so we take mental shortcuts) the risk of extreme events is discounted because the probability is too low to evaluate intuitively. As an example, one of the leading causes of death is road accidents

caused by drunk driving - partly because any given driver frames the problem by largely or totally ignoring the risk of a serious or fatal accident.

The above examples: body, threat, price of life, professional ethics and regret show that the risk adjustor or assessor often faces serious conflict of interest. The assessor also faces cognitive bias and cultural bias, and cannot always be trusted to avoid all moral hazards. This represents a risk in itself, which grows as the assessor is less like the client.

For instance, an extremely disturbing event that all participants wish not to happen again may be ignored in analysis despite the fact it has occurred and has a nonzero probability. Or, an event that everyone agrees is inevitable may be ruled out of analysis due to greed or an unwillingness to admit that it is believed to be inevitable. These human tendencies to error and wishful thinking often affect even the most rigorous applications of the scientific method and are a major concern of the philosophy of science. But all decision-making under uncertainty must consider cognitive bias, cultural bias, and notational bias: No group of people assessing risk is immune to "groupthink": acceptance of obviously-wrong answers simply because it is socially painful to disagree.

One effective way to solve framing problems in risk assessment or measurement (although some argue that risk cannot be measured, only assessed) is to ensure that scenarios, as a strict rule, must include unpopular and perhaps unbelievable (to the group) high-impact low-probability "threat" and/or "vision" events. This permits participants in risk assessment to raise others' fears or personal ideals by way of completeness, without others concluding that they have done so for any reason other than satisfying this formal requirement.

For example, an intelligence analyst with a scenario for an attack by hijacking might have been able to insert mitigation for this threat into the U.S. budget. It would be admitted as a formal risk with a nominal low probability. This would permit coping with threats even though the threats were dismissed by the analyst's superiors. Even small investments in diligence on this matter might have disrupted or prevented the attack--or at least "hedged" against the risk that an Administration might be mistaken.

Fear as intuitive risk assessment

For the time being, people rely on their fear and hesitation to keep them out of the most profoundly unknown circumstances.

In "The Gift of Fear", Gavin de Becker argues that "True fear is a gift. It is a survival signal that sounds only in the presence of danger. Yet unwarranted fear has assumed a power over us that it holds over no other creature on Earth. It need not be this way."

Risk could be said to be the way we collectively measure and share this "true fear" - a fusion of rational doubt, irrational fear, and a set of unquantified biases from our own experience.

The field of behavioral finance focuses on human risk-aversion, asymmetric regret, and other ways that human financial behavior varies from what analysts call "rational". Risk in that case is the degree of uncertainty associated with a return on an asset.

Recognizing and respecting the irrational influences on human decision making may do much to reduce disasters caused by naive risk assessments that pretend to rationality but in fact merely fuse many shared biases together

RISK HOMEOSTASIS

Risk homeostasis is a psychological theory developed by Gerald J.S. Wilde, a professor emeritus of psychology at Queen's University, Kingston, Ontario, Canada. This theory is fleshed out in Wilde's book[1].

The theory of risk homeostasis states that an individual has an inbuilt target level of acceptable risk which does not change. This level varies between individuals. When the level of acceptable risk in one part of the individual's life changes; there will be a corresponding rise/drop in acceptable risk elsewhere. The same, argues Wilde, is true of larger human systems (e.g. a population of drivers).

For example, in the famous Munich taxicab study, half of a fleet of cabs were equipped with antilock braking system (ABS) brakes, while the other half had older brake systems. The accident rate for both types of car (ABS and non-ABS) remained the same, because ABS-car drivers took more risks, assuming that ABS would take care of them. They raised their risk taking, assuming the ABS would then lower the real risks, leaving their "target level" of risk unchanged. The non-ABS drivers drove the same way, thinking that they had to be more careful, since ABS would not be there to help in case of a dangerous situation.

Similarly, in the late 1970s, the government of British Columbia, a province in western Canada, undertook a massive anti-drunk-driving campaign. They succeeded in reducing the accident rate (due to drunken driving) by nearly 18% over a four-month period. However, accidents caused by other factors increased by 19% during the same time.

People took fewer risks driving while intoxicated, but more doing other dangerous actions on the road.

Wilde cites a multitude of other studies which show the same thing. Anti-smoking campaigns do not work; neither do industrial safety campaigns of most kinds. The massive increase in car safety features has had little effect on the overall accident rate or the cost of such accidents (the death rate from traffic accidents, however, has decreased).

Wilde argues that safety campaigns tend to "move risk taking behaviour around," rather than reducing it. In order to increase safety, two things need to happen. First, people's future expectations need to be raised. Many studies have shown that those who value the future more highly have lower accident rates and less risk taking behaviour than those who discount the value of the future (an alternative explanation about why behaviours such as smoking are predominantly lower socio-economic class phenomena). Second, there needs to be direct incentives for people to behave safely. In some companies, direct payments to workers for zero accidents (and very small fines when accidents do happen) have massively lowered accident rates. The functional approach thus seems to be "much carrot, little bit of stick."

The implications of Wilde's work on areas such as health care are startling. Given baby boomers' increasing use of health-care resources in most industrialized societies, Wilde's theory seems to suggest that health care systems should be directly financially rewarding healthy behaviour and extracting payment for unhealthy behaviour.

It should be noted, however, that Wilde's work is not widely accepted and has garnered significant criticism.

RISK MANAGEMENT INFORMATION SYSTEMS

Risk Management Information Systems (RMIS) are typically computerized systems that assist in consolidating property values, claims, policy, and exposure information and provide the tracking and management reporting capabilities to enable you to monitor and control your overall cost of risk.

GENERAL OVERVIEW

The management of risk data and information is key to the success of any risk management effort regardless of an organization's size or industry sector. Risk management information systems/services (RMIS) are used to support expert advice and cost-effective information management solutions around key processes such as:

- Risk identification and assessment
- Risk control
- Risk financing

Typically, RMIS facilitates the consolidation of insurance related information, such as claims from multiple sources, property values, policy information, and exposure information, into one system. Often, Risk Management Information Services/Systems (RMIS) applies primarily to “casualty” claims/loss data systems. Such casualty coverages include Auto Liability, Auto Physical Damage, Workers' Compensation, General Liability and Products Liability.

RMIS products are designed to provide their insured organizations and their brokers with basic policy and claim information via electronic access, and most recently, via the Internet. This information is essential for managing individual claims, identifying trends, marketing an insurance program, loss forecasting, actuarial studies and internal loss data communication within a client organization. They may also provide the tracking and management reporting capabilities to enable one to monitor and control overall cost of risk in an efficient and cost-effective manner.

In the context of the acronym RMIS, the word “risk” pertains to an insured or self-insured organization. This is important because prior to the advent of RMIS, insurance

company loss information reporting typically organized loss data around insurance policy numbers. The historical focus on insurance policies detracted from a clear, coherent and consolidated picture of a single customer's loss experience. The advent of RMIS in the 1980s was a breakthrough step in the insurance industry's evolution toward persistent and focused understanding of their end-customer needs. Typically, the best solution for your organization depends on whether it is enhancing an existing RMIS system, ensuring the highest level of data quality, or designing and implementing a new system while maintaining a focus on state-of-the-art technology.

Common Types of RMIS

Most major insurance companies (carriers), broker/agents, and Third Party Administrators (TPAs) offer/provide at least one external RMIS product to their insured’s (clients) and any brokers involved in the insurance program. Most commonly, RMIS products allow individual claim detail look-up, basic trend report production, policy summaries and ad hoc queries. The resulting information can then be shared throughout the client's organization, usually for insurance program cost allocation, loss prevention and effective claim management at the local level. More advanced products allow multiple claim data sources to be consolidated into one “Master RMIS,” which is essential for most large client organizations with complex insurance programs.

The primary users of RMIS are risk/insurance departments of insured organizations and any insurance broker involved. Interestingly, it is much less common for the insured's safety department and vehicle operations department to have access to RMIS despite similar interest in the data. In fact, safety and vehicle operations of larger organizations typically maintain their own separate database systems of “accidents/incidents,” many of which will correlate to RMIS claim data.

Insurance companies normally use a different version of externally provided RMIS for internal use, such as by underwriting and loss control personnel. Occasionally, there could be timing or other differences that could cause data discrepancies between the internal system and externally provided RMIS.

Insurance brokers have a similar need for access to their insured client's claim data. Brokers are normally added as an additional user to the RMIS product provided to their clients by the insurance carrier and TPAs. The information available from RMIS is critical to the broker for interfacing effectively with their counterparts in the insurance carrier and TPAs. Additionally, effectively presented RMIS information that shows trends and analysis is essential to successfully marketing their clients' insurance programs.

Insurance carrier and Third-Party Administer (TPA) claim adjusters traditionally use claims management systems to collect and manage claim information and to

administer claims. Some client organizations, however, may choose to manage certain types of claims or those within a loss retention layer and thus use this type of system as well.

Typically, the claims management system provides the primary data to RMIS products. RMIS products in turn provide an externally accessed view into the client's claims data. RMIS products are commonly available directly from larger insurance carriers and TPAs, but the most advanced systems are often offered by independent RMIS vendors. Independent RMIS vendor systems are most desirable when a client organization needs to consolidate claims data from multiple current insurance programs and/or past programs with current program information.

Key Vendor Attributes and Differences

Along with insurance carriers, broker/agents and TPAs that offer their own proprietary systems, there are a variety of direct RMIS technology companies who sell to direct insured and even the carriers, broker/agents and TPAs themselves.

Major differences among RMIS vendors include:

- Currency of technology (Internet-based vs. Internet-accessible);
- System speed (response time for screen changes, report generation time, etc.);

- Flexibility in meeting client requirements (custom screen views, client-defined data fields, special reports, etc.);
- Ongoing support service quality (availability of senior/quality technical support, help desk availability, dedicated staff and stability, etc.);
- Data quality control (data conversion accuracy, data source cleanup, etc.);
- Pricing (first-year cost, ongoing cost, custom programming charges, data record storage fees);
- Availability of related modules (property exposure management, policy management, claim/incident setup, Occupational Safety and Health Administration (OSHA) record keeping, claims audits, etc.);
- Turnaround time for data loads;
- Foreign conversion/support (financial fields, language, fluent support staff, etc.)

RMIS system compatibility varies among carriers, broker/agents and TPAs. However, quality independent RMIS vendors by design can take almost any claim data source and convert or map the data to their particular system's file structure. A few major insurance carriers offer similar consolidation services, i.e., combining the insured client's current claim data with another carrier's or TPA's data for the same insured client. The other data sources can be for current separate insurance programs or from expired insurance programs. Usually, this type of consolidation service is performed to

accommodate their major policyholder organizations. Major TPAs, however, more commonly offer such data consolidation services.

Average RMIS Costs and RMIS Market Drivers

The cost of a typical independent RMIS product varies from $30,000 to $75,000 for the first year, and ongoing annual charges are slightly less. Insurance company RMIS product lines typically average around $5,000 for the first user, but they often offer less expensive light-weight versions for claim look-up only. More costly full-featured products are sometimes available with more advanced reporting systems. The products are usually priced on a per-user basis on a sliding scale for a larger number of users. Insured clients' brokers are given access at no cost or occasionally for a flat annual fee for multiple insured clients with a particular broker.

TPAs commonly include one or two RMIS access IDs within their claims management pricing to encourage both the client's broker and the client to use their claim look-up product. Normally, beyond the first two access IDs, the pricing follows the same per-user range of the insurance companies. The cost drivers of RMIS include: • Number of user/access IDs • Number of outside claim data sources that must be converted (carriers and TPAs do not have to convert their own data) • Frequency of outside claim

data updates • Special programming/report development charges • Training of users (initial and annual users' conferences)

Clearly, higher cost systems do not always correlate to better performance in terms of both usefulness and speed. While most carrier and TPA RMIS systems are similarly priced, the independent RMIS vendors' price range varies significantly, as previously mentioned. A few of the lower-cost systems are in fact much faster in response time, which means more efficient use of application server technology. Some of the more costly systems are more pleasing to look at, but they often have no advantage in functionality.

RISK MANAGEMENT PROGRAMME

Risk Management is a research programme set up by the Geneva Association, also known as the International Association for the Study of Insurance Economics. The focus of this programme is manifold and address the following issues: fostering the use of the tools of risk assessment and risk management in new fields of application such as policy making; providing a platform between the insurance community, the engineering and academic communities and policy makers to discuss risk issues; promoting the concept of the insurability of risks as the natural borderline between State legislation and the

market economy; identifying new opportunities for insurers in the emerging sustainability concept in order to enlarge the field of insurable risks.

Selected Key Issues

- What are the vulnerabilities in our industrial and services value-added processes?
- Where are the mechanisms for understanding, managing and mitigating these risks?
- How can insurance cope with a more complex and demanding risk scenario?
- What is the new risk environment that has been created in recent years?
- What about technologies being a new source of vulnerability?

Risk management

Risk management is the human activity which integrates recognition of risk, risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources.

The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

Some traditional risk managements are focused on risks stemming from physical or legal causes (e.g. natural disasters or fires, accidents, death and lawsuits). Financial risk management, on the other hand, focuses on risks that can be managed using traded financial instruments.

Objective of *risk management* is to reduce different risks related to a preselected domain to the level accepted by society. It may refer to numerous types of threats caused by environment, technology, humans, organizations and politics. On the other hand it involves all means available for humans, or in particular, for a risk management entity (person, staff, organization).

Some Explanations

In ideal risk management, a prioritization process is followed whereby the risks with the greatest loss and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower loss are handled in descending order. In practice the process can be very difficult, and balancing between risks with a high probability of occurrence but lower loss versus a risk with high loss but lower probability of occurrence can often be mishandled.

Intangible risk management identifies a new type of risk - a risk that has a 100% probability of occurring but is ignored by the organization due to a lack of identification ability. For example, when deficient knowledge is applied to a situation, a knowledge risk materializes. Relationship risk appears when ineffective collaboration occurs. Process-engagement risk may be an issue when ineffective operational procedures are applied. These risks directly reduce the productivity of knowledge workers, decrease cost effectiveness, profitability, service, quality, reputation, brand value, and earnings quality. Intangible risk management allows risk management to create immediate value from the identification and reduction of risks that reduce productivity.

Risk management also faces difficulties allocating resources. This is the idea of opportunity cost. Resources spent on risk management could have been spent on more profitable activities. Again, ideal risk management minimizes spending while maximizing the reduction of the negative effects of risks.

Steps in the risk management process

Establish the context

Establishing the context involves

0. Identification of risk in a selected domain of interest

1. **Planning** the remainder of the process.

2. **Mapping out** the following: the social scope of risk management, the identity and objectives of stakeholders, and the basis upon which risks will be evaluated, constraints.

3. **Defining a framework** for the activity and an agenda for identification.

4. **Developing an analysis** of risks involved in the process.

5. Mitigation of risks using available technological, human and organizational resources.

Identification

After establishing the context, the next step in the process of managing risk is to identify potential risks. Risks are about events that, when triggered, cause problems. Hence, risk identification can start with the source of problems, or with the problem itself.

- **Source analysis** Risk sources may be internal or external to the system that is the target of risk management. Examples of risk sources are: stakeholders of a project, employees of a company or the weather over an airport.

- **Problem analysis** Risks are related to identified threats. For example: the threat of losing money, the threat of abuse of privacy information or the threat of accidents and casualties. The threats may exist with various entities, most important with shareholders, customers and legislative bodies such as the government.

When either source or problem is known, the events that a source may trigger or the events that can lead to a problem can be investigated. For example: stakeholders withdrawing during a project may endanger funding of the project; privacy information may be stolen by employees even within a closed network; lightning striking a Boeing 747 during takeoff may make all people onboard immediate casualties.

The chosen method of identifying risks may depend on culture, industry practice and compliance. The identification methods are formed by templates or the development of templates for identifying source, problem or event. Common risk identification methods are:

- **Objectives-based risk identification** Organizations and project teams have objectives. Any event that may endanger achieving an objective partly or completely is identified as risk. Objective-based risk identification is at the basis of COSO's Enterprise Risk Management - Integrated Framework

- **Scenario-based risk identification** In scenario analysis different scenarios are created. The scenarios may be the alternative ways to achieve an objective, or an analysis of the interaction of forces in, for example, a market or battle. Any event that triggers an undesired scenario alternative is identified as risk - see Futures Studies for methodology used by Futurists.
- **Taxonomy-based risk identification** The taxonomy in taxonomy-based risk identification is a breakdown of possible risk sources. Based on the taxonomy and knowledge of best practices, a questionnaire is compiled. The answers to the questions reveal risks. Taxonomy-based risk identification in software industry can be found in CMU/SEI-93-TR-6.
- **Common-risk Checking** In several industries lists with known risks are available. Each risk in the list can be checked for application to a particular situation. An example of known risks in the software industry is the Common Vulnerability and Exposures list found at http://cve.mitre.org.
- **Risk Charting** This method combines the above approaches by listing Resources at risk, Threats to those resources Modifying Factors which may increase or reduce the risk and Consequences it is wished to avoid. Creating a matrix under these headings enables a variety of approaches. One can begin with resources and consider the threats they are exposed to and the consequences of each.

Alternatively one can start with the threats and examine which resources they would affect, or one can begin with the consequences and determine which combination of threats and resources would be involved to bring them about.

Assessment

Once risks have been identified, they must then be assessed as to their potential severity of loss and to the probability of occurrence. These quantities can be either simple to measure, in the case of the value of a lost building, or impossible to know for sure in the case of the probability of an unlikely event occurring. Therefore, in the assessment process it is critical to make the best educated guesses possible in order to properly prioritize the implementation of the risk management plan.

The fundamental difficulty in risk assessment is determining the rate of occurrence since statistical information is not available on all kinds of past incidents. Furthermore, evaluating the severity of the consequences (impact) is often quite difficult for immaterial assets. Asset valuation is another question that needs to be addressed. Thus, best educated opinions and available statistics are the primary sources of information. Nevertheless, risk assessment should produce such information for the management of the organization that the primary risks are easy to understand and that the risk management decisions may be prioritized. Thus, there have been several

theories and attempts to quantify risks. Numerous different risk formulae exist, but perhaps the most widely accepted formula for risk quantification is:

Rate of occurrence multiplied by the **impact of the event** equals **risk**

Later research has shown that the financial benefits of risk management are less dependent on the formula used but are more dependent on the frequency and how risk assessment is performed.

In business it is imperative to be able to present the findings of risk assessments in financial terms. Robert Courtney Jr. (IBM, 1970) proposed a formula for presenting risks in financial terms. The Courtney formula was accepted as the official risk analysis method for the US governmental agencies. The formula proposes calculation of ALE (annualised loss expectancy) and compares the expected loss value to the security control implementation costs (cost-benefit analysis).

Potential risk treatments

Once risks have been identified and assessed, all techniques to manage the risk fall into one or more of these four major categories: (Dorfman, 1997) (remember as 4 T's)

- **Tolerate** (aka **retention**)
- **Treat** (aka **mitigation**)

- **Terminate** (aka **elimination**)
- **Transfer** (aka **buying insurance**)

Ideal use of these strategies may not be possible. Some of them may involve trade-offs that are not acceptable to the organization or person making the risk management decisions.

Another source, from the US Department of Defense; Defense Acquisition University, calls this ACAT, for Accept, Control, Avoid, and Transfer. The ACAT acronym is reminiscent of the term ACAT (for Acquisition Category) used in US Defense industry procurements.

Risk avoidance

Includes not performing an activity that could carry risk. An example would be not buying a property or business in order to not take on the liability that comes with it. Another would be not flying in order to not take the risk that the airplane were to be hijacked. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed. Not entering a business to avoid the risk of loss also avoids the possibility of earning profits.

Risk reduction

Involves methods that reduce the severity of the loss. Examples include sprinklers designed to put out a fire to reduce the risk of loss by fire. This method may cause a greater loss by water damage and therefore may not be suitable. Halon fire suppression systems may mitigate that risk, but the cost may be prohibitive as a strategy.

Modern software development methodologies reduce risk by developing and delivering software incrementally. Early methodologies suffered from the fact that they only delivered software in the final phase of development; any problems encountered in earlier phases meant costly rework and often jeopardized the whole project. By developing in iterations, software projects can limit effort wasted to a single iteration.

Risk retention

Involves accepting the loss when it occurs. True self insurance falls in this category. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or

catastrophic that they either cannot be insured against or the premiums would be infeasible. War is an example since most property and risks are not insured against war, so the loss attributed by war is retained by the insured. Also any amounts of potential loss (risk) over the amount insured is retained risk. This may also be acceptable if the chance of a very large loss is small or if the cost to insure for greater coverage amounts is so great it would hinder the goals of the organization too much.

Risk transfer

Means causing another party to accept the risk, typically by contract or by hedging. Insurance is one type of risk transfer that uses contracts. Other times it may involve contract language that transfers a risk to another party without the payment of an insurance premium. Liability among construction or other contractors is very often transferred this way. On the other hand, taking offsetting positions in derivatives is typically how firms use hedging to financially manage risk.

Some ways of managing risk fall into multiple categories. Risk retention pools are technically retaining the risk for the group, but spreading it over the whole group involves transfer among individual members of the group. This is different from traditional insurance, in that no premium is exchanged between members of the group up front, but instead losses are assessed to all members of the group.

Outsourcing is another example of risk transfer. In this case companies outsource only some of their departmental needs. For example, a company may outsource only its software development, the manufacturing of hard goods, or customer support needs to another company, while handling the business management itself. This way, the company can concentrate more on business development without having to worry as much about the manufacturing process, managing the development team, or finding a physical location for a call center.

Create a risk mitigation plan

Select appropriate controls or countermeasures to measure each risk. Risk mitigation needs to be approved by the appropriate level of management. For example, a risk concerning the image of the organization should have top management decision behind it whereas IT management would have the authority to decide on computer virus risks.

The risk management plan should propose applicable and effective security controls for managing the risks. For example, an observed high risk of computer viruses could be mitigated by acquiring and implementing antivirus software. A good risk management plan should contain a schedule for control implementation and responsible persons for those actions.

According to ISO/IEC 27001, the stage immediately after completion of the Risk Assessment phase consists of preparing a Risk Treatment Plan, which should document the decisions about how each of the identified risks should be handled. Mitigation of risks often means selection of Security Controls, which should be documented in a Statement of Applicability, which identifies which particular control objectives and controls from the standard have been selected, and why.

Implementation

Follow all of the planned methods for mitigating the effect of the risks. Purchase insurance policies for the risks that have been decided to be transferred to an insurer, avoid all risks that can be avoided without sacrificing the entity's goals, reduce others, and retain the rest.

Review and evaluation of the plan

Initial risk management plans will never be perfect. Practice, experience, and actual loss results will necessitate changes in the plan and contribute information to allow possible different decisions to be made in dealing with the risks being faced.

Risk analysis results and management plans should be updated periodically. There are two primary reasons for this:

1. to evaluate whether the previously selected security controls are still applicable and effective, and
2. to evaluate the possible risk level changes in the business environment. For example, information risks are a good example of rapidly changing business environment.

Limitations

If risks are improperly assessed and prioritized, time can be wasted in dealing with risk of losses that are not likely to occur. Spending too much time assessing and managing unlikely risks can divert resources that could be used more profitably. Unlikely events do occur but if the risk is unlikely enough to occur it may be better to simply retain the risk and deal with the result if the loss does in fact occur.

Prioritizing too highly the *risk management processes* could keep an organization from ever completing a project or even getting started. This is especially true if other work is suspended until the risk management process is considered complete.

It is also important to keep in mind the distinction between risk and uncertainty. Risk can be measured by impacts x probability.

Areas of risk management

As applied to corporate finance, **risk management** is the technique for measuring, monitoring and controlling the financial or operational risk on a firm's balance sheet. See value at risk.

The Basel II framework breaks risks into market risk (price risk), credit risk and operational risk and also specifies methods for calculating capital requirements for each of these components.

ENTERPRISE RISK MANAGEMENT

In enterprise risk management, a risk is defined as a possible event or circumstance that can have negative influences on the Enterprise in question. Its impact can be on the very existence, the resources (human and capital), the products and services, or the customers of the enterprise, as well as external impacts on society, markets, or the environment. In a financial institution, enterprise risk management is normally thought of as the combination of credit risk, interest rate risk or asset liability management, market risk, and operational risk.

In the more general case, every probable risk can have a preformulated plan to deal with its possible consequences (to ensure *contingency* if the risk becomes a *liability*).

From the information above and the average cost per employee over time, or cost accrual ratio, a project manager can estimate

- the cost associated with the risk if it arises, estimated by multiplying employee costs per unit time by the estimated time lost (*cost impact*, *C* where *C = cost accrual ratio * S*).
- the probable increase in time associated with a risk (*schedule variance due to risk*, *Rs* where Rs = P * S):
    - Sorting on this value puts the highest risks to the schedule first. This is intended to cause the greatest risks to the project to be attempted first so that risk is minimized as quickly as possible.
    - This is slightly misleading as *schedule variances* with a large P and small S and vice versa are not equivalent. (The risk of the RMS *Titanic* sinking vs. the passengers' meals being served at slightly the wrong time).
- the probable increase in cost associated with a risk (*cost variance due to risk*, *Rc* where Rc = P*C = P*CAR*S = P*S*CAR)
    - sorting on this value puts the highest risks to the budget first.

- see concerns about *schedule variance* as this is a function of it, as illustrated in the equation above.

Risk in a project or process can be due either to Special Cause Variation or Common Cause Variation and requires appropriate treatment. That is to re-iterate the concern about external cases not being equivalent in the list immediately above.

Risk management activities as applied to project management

In project management, risk management includes the following activities:

- Planning how risk management will be held in the particular project. Plan should include risk management tasks, responsibilities, activities and budget.
- Assigning a risk officer - a team member other than a project manager who is responsible for foreseeing potential project problems. Typical characteristic of risk officer is a healthy skepticism.
- Maintaining live project risk database. Each risk should have the following attributes: opening date, title, short description, probability and importance. Optionally a risk may have an assigned person responsible for its resolution and a date by which the risk must be resolved.

- Creating anonymous risk reporting channel. Each team member should have possibility to report risk that he foresees in the project.
- Preparing mitigation plans for risks that are chosen to be mitigated. The purpose of the mitigation plan is to describe how this particular risk will be handled – what, when, by who and how will it be done to avoid it or minimize consequences if it becomes a liability.
- Summarizing planned and faced risks, effectiveness of mitigation activities, and effort spent for the risk management.

Risk management and business continuity

Risk management is simply a practice of systematically selecting cost effective approaches for minimizing the effect of threat realization to the organization. All risks can never be fully avoided or mitigated simply because of financial and practical limitations. Therefore all organizations have to accept some level of residual risks.

Whereas risk management tends to be pre-emptive, business continuity planning (BCP) was invented to deal with the consequences of realised residual risks. The necessity to have BCP in place arises because even very unlikely events will occur if given enough time. Risk management and BCP are often mistakenly seen as rivals or overlapping practices. In fact these processes are so tightly tied together that such separation

seems artificial. For example, the risk management process creates important inputs for the BCP (assets, impact assessments, cost estimates etc). Risk management also proposes applicable controls for the observed risks. Therefore, risk management covers several areas that are vital for the BCP process. However, the BCP process goes beyond risk management's preemptive approach and moves on from the assumption that the disaster **will** realize at some point.

The review of literature will begin with definition of some basic concepts, which are relevant to the topic under discussion.

INSURANCE

Insurance has proved to be difficult to define as risk; it is some time quoted to be fund which is accumulated to meet uncertain losses, and insurance is often defined as the transfer of risk.

According to the Collier encyclopedia, insurance is a method of protecting against future financial loss which is transfer to an insurance company, example includes the cost of fire and low suits. The definition of insurance must include either:-

i. The transfer of risks

ii. The accumulation of fund number or

iii. The combination of a sufficiently large of independent units having the risk characteristics.

Insurance is therefore defined as a device for risks by combining a sufficient number of exposure units to make their losses collectively predictable. Or insurance is a form of risk management in which the insured transfers the cost of potential loss to another entity in exchange for monetary compensation known as the premium. Insurance allows individuals, businesses and other entities to protect themselves against significant potential losses and financial hardship at a reasonably affordable rate. We say "significant" because if the potential loss is small, then it doesn't make sense to pay a premium to protect against the loss. After all, you would not pay a monthly premium to protect against a $50 loss because this would not be considered a financial hardship for most.

Insurance is appropriate when you want to protect against a significant monetary loss. Take life as an example. If you are the primary breadwinner in your home, the loss of income that your family would experience as a result of our premature death is considered a significant loss and hardship that you should protect them against. It would be very difficult for your family to replace your income, so the monthly premiums ensure that if you die, your income will be replaced by the insured amount. The same principle applies to many other forms of insurance. If the potential loss will have a detrimental effect on the person or entity, insurance makes sense.

Everyone that wants to protect themselves or someone else against financial hardship should consider insurance. This may include:

- Protecting family after one's death from loss of income
- Ensuring debt repayment after death
- Covering contingent liabilities
- Protecting against the death of a key employee or person in your business
- Buying out a partner or co-shareholder after his or her death
- Protecting your business from business interruption and loss of income
- Protecting yourself against unforeseeable health expenses
- Protecting your home against theft, fire, flood and other hazards
- Protecting yourself against lawsuits
- Protecting yourself in the event of disability
- Protecting your car against theft or losses incurred because of accidents
- And many more

The predictable loss is then shared proportionately by all units in the combination. This definition, implies both that uncertainly is reduced and that, losses are shared. These are the important characteristics of insurance.

Life insurance provides money upon the death of the insured to use in paying death expenses and to continue as income to his service. Life assurance companies involve

long term liability, and because of the length of time before maturity, life assurance companies accumulates a lot of funds which are invested in the capital market to a better agreement, comprises of reserve for an expired Rusk and reserves for outstanding claims.

Accidents replaces a substantial part of earned income lost through disability caused by accident injury and also may provide for payment of medical expenses occasioned by accidental injury, identity to death or loss of limbs on sight suffered through accident.

THE MANAGEMENT OF INSURANCE COMPANIES

As players with both broad knowledge of the insurance marketplace, including products, prices and providers, and an acute sense of the needs of insurance purchasers, intermediaries have a unique role – indeed many roles – to play in the insurance markets in particular and, more generally, in the functioning of national and international economies.

Intermediary activity benefits the overall economy at both the national and international levels: The role of insurance in the overall health of the economy is well-understood. Without the protection from risk that insurance provides, commercial activities would slow, perhaps grinding to a halt, thus stunting or eliminating economic growth and the financial benefits to businesses and individuals that such growth provides.

The role of insurance intermediaries in the overall economy is, essentially, one of making insurance – and other risk management products – widely available, thereby increasing.

The positive effects of insurance generally – risk-taking, investment, provision of basic societal needs and economic growth.

There are several factors that intermediaries bring to the insurance marketplace that help to increase the availability of insurance generally:

(a) Innovative marketing

Insurance intermediaries bring innovative marketing practices to the insurance marketplace. This deepens and broadens insurance markets by increasing consumers' awareness of the protections offered by insurance, their awareness of the multitude of insurance options, and their understanding as to how to purchase the insurance they need.

(b) Dissemination of information to consumers

Intermediaries provide customers with the necessary information required to make educated purchases/ informed decisions. Intermediaries can explain what a consumer needs, and what the options are in terms of insurers, policies and prices. Faced with a

knowledgeable client base that has multiple choices, insurers will offer policies that fit their customers' needs at competitive prices.

(c) Dissemination of information to the marketplace

Intermediaries gather and evaluate information regarding placements, premiums and claims experience. When such knowledge is combined with an intermediary's understanding of the needs of its clients, the intermediary is well-positioned to encourage and assist in the development of new and innovative insurance products and to create markets where none have existed. In addition, dissemination of knowledge and expansion of markets within a country and internationally can help to attract more direct investment for the insurance sector and related industries.

(d) Sound competition

Increased consumer knowledge ultimately helps increase the demand for insurance and improve insurance take-up rates. Increased utilization of insurance allows producers of goods and services to make the most of their risk management budgets and take advantage of a more competitive financial climate, boosting economic growth.

(e) Spread insurers' risks

Quality of business is important to all insurers for a number of reasons including profitability, regulatory compliance, and, ultimately, financial survival. Insurance

companies need to make sure the risks they cover are insurable – and spread these risks appropriately – so they are not susceptible to catastrophic losses. Intermediaries help insurers in the difficult task of spreading the risks in their portfolio.

Intermediaries work with multiple insurers, a variety of clients, and, in many cases, in a broad geographical spread. They help carriers spread the risks in their portfolios according to industry, geography, volume, line of insurance and other factors. This helps insurers from becoming over-exposed in a particular region or a particular type of risk, thus freeing precious resources for use elsewhere.

(f) Reducing costs

By helping to reduce costs for insurers, broker services also reduce the insurance costs of all undertakings in a country or economy. Because insurance is an essential expense for all businesses, a reduction in prices can have a large impact on the general economy, improving the overall competitive position of the particular market. Of course, the insurance cycle of “hard” and “soft” markets can have a significant impact on the benefits – both good and bad – of increased availability. Generally, however, increased availability benefits the consumer by leading to product competition, price competition, and improved services. By reducing insurance costs across markets, intermediaries make an important contribution to improving the economic conditions in a country.

2.2 HISTORICAL BACKGROUND

ROYAL EXCHANGE ASSURANCE POLICIES

There are number of policies that royal exchange plc. undertakes, which are:-

(a) FIRE AND BURGLARY INSURANCE:-

Greater industrialization and commercial activities of oil boom (90s and 20s) brought with them increasing danger of sophisticated attacks on life and property and arm robbery. Thus couple with an increasing use of combustive materials that can necessitate the likelihood of fire outbreaks.

(b) GROUP INSURANCE

Complexities of business in Nigeria coupled with an increasing number of business employees brought about the need for group insurance in the country. This is related to personal or industry accident sustains by him in the cause of business and could result in penury. The Royal exchange assurance Nigeria plc. This insures most of the companies in the public sector thereby making large sum of money, which now ploughs back in the form of investment in other companies.

Group insurance benefit provided by private business occupies a dominant position in the mind of workers. Hence it is not likely for them to be attack by the employers that don’t provide this cover; this cover is to reduce the chance of a reduction in staff turnover

(c) CONTRACTORS ALL RISK AND ENGINEERING INSURANCE

The basis for contractor or risk is to provide comprehensive and adequate protection against loss or damage to contractual workers. Construction plant and equipment as well handing over their party cleans in respect of property damage or bodily injury arising in connection with the executions of building project. Due to witness number of contractors in 1970s to 1985, the central bank of Nigeria set out the need for insurance cover with a view to protect the employees.

Construction plant and machinery enables contract on bid for job that a executed with a large sum of money.

(d) MARINE INSURANCE

It is perhaps common that the development of international trade in it embryo form, brought about the genesis of marine insurance which is repeated to be the oldest type of insurance. It may indeed be said that the growth of the practice of marine insurance is closely interconnected with the growth in the form and nature of international trade; this means trade across national boundaries is a sine qua non for steady business development of the so-called third world countries like Nigeria. It is therefore within the

importance of international trade that survival of the Nigerian business can be fully appreciated in the sense of marine insurance.

(e) INSURANCE OF GOODS

This aspect of insurance revolves mostly around companies engage in importing expecting haulage transport business and other companies that keep large stock of goods (input and finished product) in ware houses.

Many businesses have since independency been forced out of market prematurely because they have no cover goods. They occur due to damages payable by the as a result of the occurrence of such risks.

Business that have covers on goods can be saved from these awful situations, thus cover is a kind of saving for the early days on companies that have the cover is compensated financially with amount equal to the current price of goods lost.

INVESTMENT AND RELATED PROBLEMS OF INSURANCES COMPANY

Insurance invested is defined as the conversion of money, the insurance fund and research into some species of property from which and income of profit is expected to be

derived either immediately or at some future date in the normal cause of business (insurance management in Africa by professor J.O Inukwu) to Mr.Braith white (in the same book) the purpose of investment is to put ones available funds to dividend on interest: the security exchange for the investment must considered good enough to ensure the safety of capital invested, insurance companies are careful in investing their funds, investment on their short medium and long term is determined depending on that circumstances of a business transaction, of its life assurance. Companies that are normally invested on long term are usually restricted to short term investment such that they are feasibly available to meeting unforeseen liabilities. For this to be invested in insurance companies, the following criteria must be observed,

They are.

(a) Safety:-managers must ensure that the projects they invest in are safe and that security offered is adequate and realizable. Risk must not be taken such that fund are placed in jeopardy to both companies. Policy holders determined, necessary policies have to be initiated for switching to favorable situations. This is after allowing regards to additional expenses on new classes of investment to be taken.

(b) Social and economic purpose of insurance investment:-

Investors must ensure that projects are socially desirable after they are founded to be economically viable. They should not be objectionable unethical, social or even political grounds.

Policy holders have a say in deciding in anti-social.

2.3 CURRENT LITERATURE POSTULATED ABOUT INSURANCE COMPANIES

INVESTMENT PROBLEMS:

Peculiar investment problems facing managers in Nigeria includes;

(a) Inflation and liquidity crisis

(b) Low yield on investments

(a)INFLATION AND LIQUDITITY CRISIS.

Inflation possesses a great danger for the survival of insurance companies. The Nigeria economy since 1970 witness phenomenal inflation crises- First we have the pre-wan years (before 1967) when inflationary rate low and somewhat acceptable under seven percent.

Economy expert have estimated the rate accelerated die to war effort, this was coupled with the distribution in local production, making demand for excess supply. The early 1970's ranked the beginning in the third phase. The implementation of salary increases as recommended by the Udoji commission in 1975 worsened situation by raising the cost of living.

The rate of the inflation was believed to cover 30 percent per annual in official circles. Inflation increase cost of meeting, claiming of life, business and because high rate of inflation implies a rapid fall in currency value, it reduces the attractiveness of life assurance.

High inflationary rate in the country necessitated on economics situation were financial institution remain highly liquid. This occurred because it yields on investment where soften low and at a time unprofitable funds were let idle.

(b) LOW YIELD ON INVESTMENT:- in the insurance world, investment profit have traditionally been an important component to the total both life and the general cover. They are useful to the cushion effects of raising expenses; nation's adverse, underwriting practices with an exception of certain interest classes of investment, e.g ordinary shares, property lone etc. returns have not kept pace of investment. This is reflecting in the example above on inflation and liquidity crises.

In arriving at the new minimum paid of share capital, the national insurance commission with order stakeholders considered the Nigerian economics environment as well as what it obtains in other jurisdiction. In particular it took note of the excruciating fact that it had not been possible over the year for the insurance industry in Nigeria to contribute ultimately to the nation growth as a result of :-

i. Weak industry base
ii. Low pre-capital income
iii. Low level of awareness
iv. Lack of financial muscles
v. Insufficient technical expertise

It was also identify that the total market capitalization for the insurance industries is presently about =N= 30 billion, spread among 103 direct insurance and 4 re-insurance

companies. This was seen as an endangered species since for example given re-capitalization to the tune of =N25 billion for banks, two or more three banks will comfortably purchase all the insurance companies. To begin the industry to the level where it will make more contribution to the nation economy.

INSURANCE AS FINANCIAL INTERMEDIARY

Financial intermediary is defined as a system whereby an economic unit creates an issues financial claim against using its proceeds to acquire and hold financial claims. It is also seen as the mediation between surplus and deficit economics unit.

The importance of insurance company in intermediation is that the companies serve as an effective vehicle for mobilizing national financial resources. The ability to pay claims indeed the fulcrum on which the insurance industry rotates.

Hence, it makes available the long term contractual saving for investment. The Royal exchange assurance Nig. Plc. which transact both life and non-life business is able to invest in avenues like mortgage loans and equity participation in other firm in the state.

THE MANAGEMENT OF INSURANCE COMPANIES TOWARDS THE DEVELOPMENT OF BUSINESS ENTERPRPRISES IN NIGERIA:

The recapitalization of the insurance company has been long overdue. The new paid up share capital was arrived at through wide representations and consultations involving the

federal ministry of finance, the National insurance commission, the Nigeria insurance association (NIA) the professional re-insurance association of Nigeria and other stakeholders in the industry.

Adequate capitalization is indispensable for a safe banking system that would play its expected developmental role in the economy. Banks and insurance companies with strong capital will be positioned to gain competitive edge in the international financial system, that will allowed them to finance the needed investment expenditure that will derive the economy forward.

With recapitalization the Nigerian financial service sector is also poised to participate in the lucrative businesses of oil and gas, telecommunication and construction that were the exclusive preserve of foreign banks and insurance companies.

A strong and recapitalized service sector will position Nigeria as a player in the ECOWAS sub region. However, for this to be, the financial services sector has to rise above its current level. Finally, the Securities and Exchange Commission, on its own part, has put all the necessary machinery to protect the interest of the in vesting public in views of the recapitalization regime, where most banks and insurance companies will be approaching the capital market to raise funds.

CHAPTER THREE

3.1NTRODUCTION

This chapter is the research design used along with methods employed to clearly state or give comprehensive report on how the data was generated and analyzed. It discusses the various methods used for the data collection, sampling procedures, data analysis, research methods and validity of such instruments.

3.2 SOURCES OF DATA COLLECTION

There are basically two methods of data collection, otherwise known as primary and the secondary data.

3.2.1 PRIMARY SOURCES OF DATA

This is more accurate and original form of collecting information and this can be collected by the following methods: personal interview, questionnaire, observation and experimentation.

3.2.2 SECONDARY SOURCES OF DATA

This is based on the review of relevant literature on the subject matter. This information can be gotten from textbooks, magazines, articles, publications, pamphlets, journals etc.

3.3 POPULATION OF THE STUDY

The research population covers the entire staff of REAN Kano and the insured persons, the total estimation staff.

3.4 SAMPLE SIZE DETERMINATION

For effective research coverage and through analysis, the research restricted its sample study tot the staff and management of Royal exchange assurance Nigeria Plc. Kano.

Though the sample size is small but is a true representation of the study of the population as a data collected were useful and reliable.

3.5 RESEARCH INSTRUMENT

In carrying out this research, the researcher makes use of some vital research instrument which includes the following;

PERSONAL INSTRUMENT

These are conversations directed to a definite purpose, it is concerned with a purposeful exchange of meaning and this is an interviewed between the interviewee and was conducted around REAN Kano. The writer obtained both limited and free response from various places.

3.5 QUESTIONNAIRES

Validated questions were designed and distributed to the members of the sample size (respondents) who represents the entire population to fill in the options. There close ended question was considered more relevant with options. This is because it has restricted the respondents from over viewing their intentions.

3.6 QUESTIONNAIRE DESIGN

The methods selected for data presentation and analysis as well as for proof of hypothesis were considered relevant. The bar chart has proportionately presented all portions on the designed questionnaire on the number of respondents.

In addition, the pie chart also presented the entire results in percentages. In order to obtain a more direct and acceptable result, chi square i.e.

$$x^2 = \frac{(0-\sum)2}{\sum}$$ Was used.

Where X2= chi square

0=observed frequency

∑= expected frequency

3.6.1 QUESTIONNAIRE DISTRIBUTION AND COLLECTION

A set of questionnaires were distributed to customers of royal exchange assurance Nigeria. Plc.Were 100 out of which 85 was duly completed and returned. The respondent were classified under the following groups

1. Senior staffs
2. Intermediate staffs
3. Junior staffs

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter is required to present the data collected in the previous chapter and subsequently analyze the data.

This will take the formal of data presentation and will be followed simultaneously by the data analysis and processing the hypothesis were widely presented with question applied in testing their validity.

4.1.2 DATA PRESENTATION AND ANALYSIS

The researcher was in position to retrieve, reject or accept the null hypothesis (Ho) or alternatively (H1) hypothesis.

The royal exchange assurance Nig. Plc. (REAN) service is divided into three sections; investment, claims of settlement, and loans. The table enables the researcher to put forward some assumption with the aim of drawing conclusion.

TABLE 1

CLASSIFICATION OF RESPONDENTS ACCORDING TO LEVEL OF STAFF.

Senior staff	Intermediate staff	Junior staff	Total	%
15	17	18	50	59
8	10	17	35	41
Total: 23	27	35	85	100%

Source: field study 2013

The table above will be used in explain the respondent level and ability of understanding and giving accurate response to questions asked.

TESTING OF HYPOTHESIS

Table 11

Do you think that REAN's response on claims of settlements is satiable?

Types of response	Senior staff	Intermediate staff	Junior staff	total	%
Yes	15	16	10	41	82
No	0	2	7	9	18
Total	15	18	17	50	100

Source: field survey 2013

Indemnification is one basic principle of insurance; this is a promise to pay someone back for loss suffered. The insured is assured of all losses incurred from the insured.

We the table above we can see that REAN lives up to expectation as is claims are settle after losses suffered by the insured. Going by the percentage of staff who say yes, it is 82% and for no, it is just 18% which make REAN reliable in terms of claim settlement.

Table 111: what kind of loans are available firms and individual in Kano state?

Types of loans	Number of response	Percentage
Secured loans	20	40
Unsecured loans	17	34
Unquoted loans	13	26
Total	50	100%

Source: field survey 2013

The table above shows the various kinds of loans available to people in Kano state. 40% are given secured loans, 34% unsecured loans, and 25% unquoted loans. An unquoted loan has been small because many holders of policy are not aware of the existence of such loan facilities. Other factions are attributed to lack of collateral on the part of the firms and investment opportunities.

Table IV: what is REAN's investment like in the area of agriculture?

Types of Response	Number off Response	% of Response
High	5	10
Moderate	5	10
Low	40	80
Total	50	100%

Source field survey: 2013

From the above table, we can see that REAN'S involvement in agriculture is quit poor were we 10% responding it is high, 10% again say it is average and 80% say it is low. This is as a result of the uncertainty surrounding the investment in agriculture and insurance companies.

TEST OF HYPOTHESIS

The researcher made use of chi square to find the hypothesis formulated earlier. It is a measure of discrepancy between observes and expected frequency.

Where: X2= chi square

0= Observed frequency

∑= Expected of the frequency.

∑= Summation of the frequency.

Hypothesis One (HO)

Ho: insurance firms don't play a meaningful role in the development of nation's economy.

Hi: insurance firms play a vital role in development of nation's economy.

4.1.3 OBSERVERED FREQUENCY

It is calculated by multiplying the solution total by the row total kind dividing the result by grand total.

OBSERVERED VALUE TABLE

Types of Response	Senior staff	Junior staff	Total
Very sure	11	26	37
Sure	1	4	5
Note Very Sure	1	3	4
Indifference	1	1	2
Total	14	34	50

Source: field survey 2013

Of= $\frac{CT \times RT}{GT}$ = $\frac{37 \times 50}{50}$ = 37

EXPECTED FREQUENCY

Types of Response	Senior Staff	Junior staff	Total
Very sure	11.1	25.9	37
Sure	1.5	3.5	5
Indifferent	1.2	2.8	4
Not very sure	0.6	1.4	2
Not sure	0.6	1.4	2
Total	15	35	50

Source: field survey 2013

$\sum f = \frac{CT \times RT}{} = \frac{37 \times 50}{} = 50$

GT 50

COMPUTATION OF CHI-SQUARE ($X^{2)}$ VALUE

Observed	Expected E	0-E	$(0-E)^2$	$\frac{(0-E)^2}{E}$
11	11.1	-0.1	0.01	0.0009
26	25.9	0.1	0.01	0.00038
1	1.5	-0.5	0.25	0.167
4	3.5	0.5	0.25	0.071

3	1.2	-0.2	0.04	0.033
1	2.8	0.2	0.04	0.014
1	0.6	0.4	0.16	0.27
1	1.4	-0.4	0.016	0.114
1	0.6	0.4	0.16	0.27
1	1.4	-0.4	0.16	0.114
				0.94028

LEVEL OF FREEDOM

Source: field survey 2013

(C-1) (R-1)

(5-1) (2-1)

4 X 1= 4

Therefore, 4 is the degree of freedom given the level of significant 5% at 4 degree of freedom, the initial value will be 0.94028

DECISION RULE

If the chi-square (x2) tabulated is greater than computed, accept the null hypothesis, otherwise reject the null hypothesis (Ho) and accept the alternative hypothesis (Hi).

Since the tabulated chi square (9x2) critical value of 5% level of significant o.488 is greater than the computed chi-square 0.94028, we accept the alternative hypothesis (Hi) and reject the null hypothesis (Ho).

HYPOTHESIS TWO

Ho: that the use of basic facts would not lead to ineffective communication.

Hi: that the suppression of basic fact would not lead to ineffective communication.

Types of Response	Senior staff	Junior staff	Total
very sure	10	15	25

Sure	3	7	10
Indifference	4	3	7
Not very sure	1	2	3
Not sure	2	3	5
Total	20	30	50

Source: field survey 2013

Observed frequency= $\frac{CT \times RT}{GT} = \frac{25 \times 50}{50} = 25$

EXPECTED VALUE TABLE

Types of response	Senior staff	Junior staff	Total
Very sure	10	15	25
Sure	14	6	20

Indifference	2.8	4.2	7
Not very sure	1.2	1.8	3
Not sure	2	3	5
TOTAL	20	30	50

Source: field survey 2013

Expected frequency:-

$\therefore \sum f = \frac{CT \times RT}{GT} = \frac{25 \times 20}{50} = 10$

COMPUTATION OF CHI-SQUARE (X^2) VALUE

Observed O	Expected E	$0 - \sum$	$(0-\sum)^2$	$(0-\sum)^2$
10	10	0	0	0
25	15	0	0	0
3	4	-1	1	0.1
7	6	1	1	0.1
4	2.8	1.2	1.44	0.144
3	4.2	-1.2	-1.44	0.144

1	1.2	-0.2	0.04	0.004
2	1.8	0.2	0.04	0.004
2	2	0	0	0
3	3	0	0	0
				0.496

Level of frequency:

Source: field survey 2013

(C-1) (R-1)

(5-1) (2-1)

4 X 1= 4

4 is the degree of freedom, the critical value will be 0.496.

DECISION RULE

If the chi-square (x2) tabulated is greater than the computed, accept the null hypothesis (Ho), but if otherwise reject the null hypothesis (Ho) and accept the alternative hypothesis.

DECISION:-

Since the tabulated chi-square (x2) critical value of 5% level of significant 9.488 is greater than the alternative hypothesis (HI) accepted the alternative hypothesis (HI) and rejected the null hypothesis (HO)

RESEARCH FINDINGS

From the investigation base on the analysis, the following revelation about the role of insurance companies towards the development of business enterprise was established.

a. That REAN'S contribution to agriculture development is low.
b. Claims for those that suffer loss will be guaranteed.
c. That is not everybody in Kano that is aware of the provision of loans to firms an individual.
d. That most times inflation increases the cost of meeting claims for non-insurance companies.

CHAPTER FIVE

5.1 SUMMARY, CONCLUSION AND RECOMMENDATION

After every research work, there is need for the researcher to summarize, give some recommendations about the topic, for problem solving and also conclude his work.

SUMMARY

-From the assessment made during the research, some of the finding is as follows,

-That most due to inflation in the country, the cost of meeting claims for non – Insurance companies is high. This is so because the money invested in has no relevance in an inflated economy.

-Claims for those that suffer loss will be guaranteed due to dedication of Royal exchange assurance Nig. Plc. in serving its clients for the development of business enterprises in Nigeria.

-In the research work it was found that the REAN'S contribution to agriculture is low.

-It was also found that it is not everybody in Kano State that is aware of the provision of loans to firm and also to individual.

5.2 CONCLUSION

It is very sad to know that Royal exchange assurance has not contributed immensely to the development of agriculture in Kano state and also in Nigeria in general. But never the less it's not too late for the company to develop in this week sector.

Insurance companies though face some problems such as low yield on investment, inflation and liquidity crises and other problems hindering the firms operation also play some vital roles in the development of business enterprises in the country.

In conclusion insurance company's needs in the country cannot be left aside due to the virtual roles they play in the development of the nation's economy.

5.3 Recommendations

The following recommendations were made for the future development of insurance marketing in order to cope with the challenges of the future, insurance managers should do everything possible to train staff both on the job and on insurance training. Insurance industries should educate the masses, especially the rural people on the importance of insurance, in other to attract more customers.

The insurance company should be self-confident in all they say, they should show utmost good faith. All the material facts should be disclosed to the insured so that all will be true in order not to cause confusion.

The government should establish more companies so that everybody in the state will be able to earn a living, therefore establishing market with the insurance companies.

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