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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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CONFERENCE PAPERS

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

AN EVALUATION OF THE ECONOMIC AND FINANCIAL CAPACITY OF INDIGENOUS UNDERWRITING FIRMS FOR MARINE RISKS AND INVESTMENT COVER IN NIGERIA

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ABSTRACT

This study is conducted to evaluate the financial capacity of indigenous marine underwriters to adequately cover marine risks in Nigeria. The insurance award approach as used by Hopkins was adopted to achieve this objective. Data were collected from the Underwriters' past claims settlement record. Hypotheses were set to test all the data collected using the ordinary Least Square method of regression and t-test for the difference of means method was also used in the data analysis. The test showed an acceptance of the null hypotheses to conclude that the local marine insurance underwriters lacked the economic and financial capacity adequately to cover the marine risks and to settle insurance claim in Nigeria. Recommendation was made based on the research findings.

KEYWORDS

Evaluation, financial capacity, indigenous, investment, underwriting.

INTRODUCTION

Maritime transport operation like other modes of transport operation are associated with risk of hazards such as fire, accident, collision, marine pollution, cargo theft, oil spills, piracy, among others. The occurrence of these risks and others leads to possible damages which in turn diminishes the value or cause total loss of the economic value of marine investment and property (Egerue, 2003). The near unpredictability of safety and security of maritime investments and operation necessitates the protection and cover of these investments against maritime risks, perils and hazards, to avert total or partial loss in the value of maritime assets. To do this, an effective risk management mechanism is needed to cushion the effect of economic losses of varying magnitude that could occur to marine investments.

In the words of Irukwu (1993), marine underwriting serve as the most effective risk management mechanism in the marine industry for limiting financial liability that maritime stakeholders could suffer through loss or damage to the investment. Marine Insurance Act (M.I.A. 1906 S.1) explained the concept of marine underwriting as a business contract where an underwriter (insurer) agrees in consideration for premium (money) paid to him by a party (insured) with insurable interest in a marine adventure to indemnify the insured financially, against economic losses suffered by him, on the occurrence of the marine risk/peril he insured against.

Ihegborow (2002), observed that the practice of marine insurance in Nigeria was introduced in the 19th century by British Businessmen and Colonial Masters to cover and protect. European Business interests transiting through the Atlantic ocean to Nigeria. Thus, for over fifty years, insurance and underwriting firms in Nigeria were wholly or partially owned by the British. Marine insurance cover arranged for British businesses over this period were placed in London through Lagos based banks, (Ihegborow, 2002). Between 1921 and 1949, all insurance companies doing marine underwriting business in Nigeria were wholly owned by the British with no Nigerian interest until 1950 when four (4) partly owned Nigerian underwriting companies joined the market dictating the trend of its development. It was after independence in 1960, Irukwu (2003) opined that it was in the years between 1961 and 1973 that real growth in both public and private indigenous underwriting business was witnessed in the industry, following the oil boom which resulted in increased Government revenue.

Owuallah (2002), posited that the bid by the Nigerian Government to encourage local content development and reposition the local insurance firms to compete favourably with the foreign firms in the underwriting of import and export cargoes motivated the Nigerian Government to insert the cargo insurance policy into Section 14 (3) of the National Shipping Decree 1987 which stipulates that all public sector contracts for importation and exportation of goods shall be on free on board (f.o.b.) and cost, insurance and freight (c.i.f.) contracts respectively. The clear policy intent is that local insurance and underwriting firms will cover such contracts to enable them develop their capability, remain in business and help reduce the flight of foreign currency caused by the need to insure such contracts with foreign firms abroad. The policy however, did nothing to make private import and export be insured with the local firms until in 1997, when the Insurance Decree No. 2, Section 76 provided that all imports into Nigeria shall be on cost, insurance and freight basis only, thus recommending that both public and private sector import contracts be made with insurers registered in Nigeria under the Degree (Owuallah, 2002).

The above provisions of the Shipping Decree 1987 and Insurance Decree 1997 were consolidated by the Insurance Act 2007 which, apart from establishing a new capitalisation base for all local insurance firms doing business in Nigeria, provided, for the maintenance of technical reserve for all types of insurance business of the indigenous underwriting firms to enable them meet liabilities and claims, (Insurance Act 2007). In the marine underwriting business between 25% and 45% of the total marine premium collected is to be maintained for cargo and hull risks respectively (Insurance Act 2007). Recapitalisation exercise of 2007 also saw the merger of several local firms in order to build up capacity to adequately cover all classes of trade in practice including marine trade and to strengthen the confidence of the Nigeria public and private sector in the local underwriting industry as an import subsector of the financial sector, to contribute to national economic development.

Over the years, however, the economic capacity of the local underwriting firms to adequately cover and meet marine insurance liabilities and claims in Nigeria has continued to remain in doubt in spite of Government efforts through legislation and control to create confidence and improve the financial strength and capacity of the industry.

This doubt in the financial ability of the indigenous insurers to adequately settle marine claims is evident in the disinclination of the major oil companies, mostly those operating in the upstream sector of oil and gas industry to grant oil lifting and carriage contracts to indigenous shipping companies/carriers whose vessels and voyages are insured by local underwriting firms. The foremost excuse for such reluctance is because the local underwriters are suspected to lack the financial strength and capacity to adequately cover oil and gas operations and oil lifting going on at the sea and as such, the possibility of adequate indemnity for the oil companies in the occurrence of the insured risk, is uncertain. Irukwu, (2006), observed that while oil companies doubt the financial capacity of local underwriting firms to adequately cover oil lifting and marine risks, they demand membership of indigenous ship-owners/shipping companies in the foreign protection and indemnity (P&I) club and obtain P&I cover for the vessels as a precondition for their involvement in the oil lifting trade. Membership of foreign

P&I clubs however, involve huge financial requirement in foreign currency and strict registration conditions, which appears to be very hard for most local carriers to contain.

The above position of the oil companies has not only put the indigenous ship-owners at disadvantages in the carriage of Nigerian originating oil cargo, it has also put the local underwriters at disadvantage in the insurance and cover of Nigerian maritime trade and operations. It has at the same time violated all the insurance and shipping policies and laws aimed at strengthening the shipping and local underwriting industries. It has further made a mess of Government effort for economic and local content development in both subsectors, thus the need to evaluate the financial capacity of local insurance firms to meet marine claims in Nigeria.

METHODOLOGY

This evaluation is carried out by formulating a hypothesis thus: The indigenous underwriters in Nigeria do not have the financial capacity to adequately cover marine risks given their technical reserve.

SOURCES OF DATA

Study employed secondary sources of data as collected from the following sources:

1 Nigerian insurer's Digest, 2011 and 2012 editions.
2 Central Bank of Nigeria (CBN) publications, statistical bulletin and economic research seminar papers
3 Insurance Department of Finance and Economic Development
4 Research and Development, Nigeria Re-insurance Corporation, Lagos.

PROCEDURE FOR DATA ANALYSIS

The technical reserve for marine insurance business of local underwriters and the marine claims/liabilities over the years from 1996 to 2010 were obtained and analyzed using simple (Excel=-) regression analysis and supported by use of difference of means analysis. t-test was utilized in each case, to test the validity of the null hypothesis $H_{0,}$ while annual increments in both technical reserve and claims were subjected to t-test in order to test the validity of the hypothesis.

OPERATIONAL DEFINITION OF VARIABLES/HYPOTHESIS TESTING

The study is concerned with the evaluation of the economic and financial capacity of indigenous underwriting firms to adequately cover marine risks in Nigeria.

Since the capacity of underwriters to settle marine claims depends on the firms financial reserve kept for all known and anticipated marine risks and liabilities. Capitalisation being a policy requirement of Government must be kept with the Government regulatory institutions, should underwriting firms face stress in the process of meeting claims on any class of business. Therefore, the capitalisation fund was treated as a constant (K) and it was assumed that the underwriters' financial capacity to meet marine claims 'Y' is dependent on technical reserve 'X' for marine risks covered by the underwriters.

HYPOTHESIS TESTING

Ho = The indigenous underwriting firms in Nigeria do not have the economic and financial capacity to adequately cover their marine risks.

(a)Here, the independent variable is the technical reserve for marine risks covered by the underwriters, denoted by 'x'.

(b) The dependent variable is the Underwriters' financial capacity to meet marine claims denoted by 'Y' and

(c) The capitalization is treated as a constant 'K'.

Mathematically, therefore, we assume that there is a linearity of relationship between the two and propose that:

Y = a + bx.

Y = Marine claims, x = technical reserve.

RESLTS AND DISCUSSION

INTRODUCTION

This Section presents the necessary data set for the study, the result and discussion of the test carried out to support the argument transformed into hypothesis. As stated earlier, secondary data were mainly employed as sourced from the Central Bank of Nigeria, National Bureau for Statistics (NBS) publications and the Research and Development Department of Nigerian Re-insurance Corporation and the Insurance of the Ministry of Finance and Economic Development. For orderly presentation, this section shall fall into subsections of data presentation, analysis, result and discussion.

DATA PRESENTATION

Here, we present the data used in the analysis. As stated, only secondary data were used as sourced from the four main organisations explained above.

TABLE 1: TECHNICAL RESERVE FOR MARINE BUSINESS OF LOCAL UNDERWRITING FIRMS AND MARINE CLAIMS IN NIGERIA (1996-2010)

YEAR	N000 X	N000 Y
	Technical Reserve	Marine Claims
1996	508,997	236,686
1997	725,273	287,284
1996	300,123	299,484
1999	979,794	306,653
2000	1 035,128	342,404
2001	1, 504,688	56,627
2002	2, 189,104	735,142
2003	2, 701,571	725,760
2004	3, 177,566	1,020,135
2005	3, 624,508	1,336,774
2006	2, 199,609	10,493,410
2007	2, 634,248	1,904,230
2008	3, 819,455	3,185,000
2009	5, 602,532	4,185,600
2010	7, 447,350	2,965,170
TOTAL	**38,450,350**	**28,451,359**

DATA ANALYSIS AND TESTING OF HYPOTHESIS

TABLE 2: RESULT OF OUTPUT ON REGRESSION ANALYSIS OF DATA ON TABLE 1

REGRESSION STATISTICS	
Multiple R	0.395514351
R Square	0.156431602
Adjusted R	0.091541725
Standard E	2595411.183
Observation	15

ANOVA

	df	SS	MS	F	Significance F
Regression	1	1.6239E+13	1.6239E+13	2.410724	0.14450438
Residual	13	8.75701E+13	6.73616E+12		

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	144231.912	1312671.183	0.10987665	0.914185	-2691621.77	2980085.593	-2691621.77	29980086
X Variable	0.769767207	0.495776154	1.55265073	0.144504	-0.30129206	1.840826471	-0.30129206	1.840826

TABLE 3: RESULT FOR PAIRED TWO SAMPLES t-TEST

	Variable 1	Variable 2
Mean	1896753.267	2276690.067
Variance	7.41494E+12	1.95755E+12
Observations	15	15
Pearson Correlation	0.395514351	
Hypothesized Means Difference	0	
df	14	
t stat	-0.583539771	
P(T<=t) one-tail	0.284406261	
t Critical one-tail	1.761310136	
P(T<=t) two-tail	0.558812523	
t Critical two-tail	2.144786688	

TABLE 4: OUTPUT OF RESULT OF ANALYSIS OF DIFFERENCE OF MEANS SPSS VERSION 17 (2013)

TABLE 4.1: PAIRED SAMPLE CORRELATIVE

		N	Correlation	Sig.
Pair 1	Technical Reserve 'X'			
	Marine Claim 'Y'	15	0.355	0.237

PAIRED SAMPLE T-TEST

Paired Differences								
	Mean difference	Std deviation	Std error Mean	95% Confidence interest of difference		t	df	Sig.(s-tailed std error mean)
Pair Technical Reserve 'X'		15		Upper	Lower			
Marine Claim 'Y'	374136.133	2617850.127	675925.996	1275050.946	1624385.213	0.38	14	0.800

TABLE 4.2: PAIRED SAMPLE STATISTICS

		Mean	Std deviation	N	Std error mean
Pair 1	X	227 669.07	1399125.009	15	361 252.524
	Y	189 6763.267	2713531.309	15	700630.771

TABLE 5.1: RESULT FOR ANNUAL INCREMENT IN MARINE TECHNICAL RESERVE AND MARINE CLAIMS

Year	Annual Increment in Technical Reserve X' (N000)	Annual Increment in Claims Y' (N000)	Average Increment in Resserve X'/n	Average Increment in Claims y'/n	Annual Ratio of Reserve to Claim X/Y
1996	-	-	773035.3	869473.1	2.15
1994	216, 276	50598	773035.3	869473.1	2.52
1998	(425 150)	12200	773035.3	869473.1	1.00
1999	679671	7169	773035.3	869473.1	3.20
2000	55 334	35751	773035.3	869473.1	2.98
2001	469 560	341 844	773035.3	869473.1	326.57
2002	1153716	174 515	773035.3	869473.1	2.98
2003	512 467	(9382)	773035.3	869473.1	3.72
2004	475, 995	294 375	773035.3	869473.1	3.12
2005	446, 942	316 639	773035.3	869473.1	2.71
2006	(142 4899)	9156636	773035.3	869473.1	0.21
2007	434 639	(8589180)	773035.3	869473.1	1.38
2008	1185207	1280770	773035.3	869473.1	1.12
2009	1733077	1371600	773035.3	869473.1	1.01
2010	4482585	(1591430)	773035.3	869473.1	1.83
Total	11,595529	13042097	-	-	-

Note: Authors Calculations * the figures in bracket indicate a decrease from preceding years technical reserve or claim

TABLE 5.2: RESULT OUTPUT FOR TWO SAMPLE t-TEST STATISTICS

	Variable 1	Variable 2
Mean	931578.3571	849680.5
Variance	5.81186E+12	1.34704E+12
Observations	14	14
Pearson Correlation	-0.177507486	
Hypothesized Mean Difference	0	
df	13	
t Stat	0.107324324	
P(T<=t) one-tail	0.458085171	
t Critical one-tail	1.770933396	
P(T<=t) two-tail	0.916170342	
t Critical two-tail	2.160368656	

DISCUSSION OF RESULT AND FINDINGS

From table 2, the emerging estimating equation from the regression is: Y = 144231.912 + 0.770x. This represents the quantitative relationship showing the dependency nature of marine claims on marine insurance technical reserve over the years covered by the study and can be used by marine underwriters for future planning and forecasting. The coefficient of correlation is 0.3955, indicating that approximately, 40% association exists between the two variables. The coefficient of determination 'R' squared is 0.1564. This shows that only about 16% of total variation in marine claims is explained by technical reserve for marine claims over the period.

DECISION RULE

The t-test (two-tailed) showed an average technical reserve of 227 6690.067 Nigerian Naira (NGN) per annum over the period covered by the study and the average (mean) marine claims of 1896753.267 Nigerian Naira (NGN) per annum over the same period. The t-value (t-stat) is – 0.58353977 and t-critical (two-tailed) is 2.14478668 while the p-value is 0.56881252. since t-critical is greater than t-stat (t-value), we accept the null hypothesis H_0 and conclude that over the period covered by the study, technical reserve kept by marine insurance underwriters has not significantly covered marine claims in Nigeria. This confirms the loss of confidence in the ability of underwriters to adequately cover marine claims in Nigeria, hence the refusal by oil companies to enter into oil lifting contracts with ship-owners who are only covered by indigenous underwriters.

The analysis on Table 3 using difference of means showed the same result as above. The t-test statistics with 14 degrees of freedom showed a t-value of 0.258, p-value of 0.800 at $\propto$-value of 0.05.

Since $p>\propto$, 0.800>0.05, we accept H_0, supporting the earlier test which confirms that indigenous underwriters have not been able to significantly settle marine claims using the technical reserve they maintained for marine businesses over the years covered by the study.

Table 4.1: Ratio analysis and incremental average shows that for all the years covered by the study, technical reserve ratio to claims is greater than or equal to 1 except in the year 2006 when it was less than 1. The indication is that for individual years, except in 2006, reserve for marine risks was able to settle claims, though not significantly on the average. The mean increment in technical reserve is 773035.3 while mean (average) increment in marine claims over the same period is 869473.1, indicating that on the average increment in technical reserve over the period could not cover annul increment in claims over the same period. t-test statistics of Table 4.2 shows a t-value, t-stat of 0.1073, t-critical of 2.1603 and p-value of 0.9161

Since t-critical is greater than t-stat, we again accept hypothesis H_0 and conclude that annual increment in technical reserve for Maine risks of indigenous underwriters could not significantly cover the annul increments in marine claims and liabilities over the years covered by the study.

CONCLUSION

It is evident from the findings that indigenous underwriters over the years lack the financial capacity to adequately cover marine risks as a result, they could not adequately settle marine claims as shown by the technical reserve they had over the years to cover marine businesses. This has denied Nigeria the much needed economic gain for its development as foreign P&I clubs and shipping lines dominate oil lifting and marine underwriting business in Nigeria.

RECOMMENDATION

The Provisions of the Insurance Decree No.2 of 1997 (Section 24) which states thatthe technical reserve for marine insurance claims of 25% for cargo and 45% for hullpolicies which are enshrined in subsequent Insurance Acts in Nigeria, should be given upward review to give commercially enabling environment to importers, exporters and also give more investment confidence to stakeholders in the nation's maritime industry

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