CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. INTRODUCTION

Although the researcher acknowledges that there has not been many write-ups on this topic, nevertheless, serious efforts were made to review the few write-ups at the researcher's disposal. The researcher, by virtue of his many years of practical insurance experience brought to bear into this review his own input from his field practice over years.

2.2. THE CONCEPT OF INSURANCE

The practice of insurance in Nigeria is patterned after the British practice by virtue of the fact that Nigeria was a former British colony. Prior to the arrival of the British colonial masters in Nigeria, the early primitive Nigerians practiced an insurance-like self-help scheme fondly called "Isusu".

Isusu is a process whereby groups of people come together and agree to pool funds for the benefit of any member who may have suffered a form of loss. Where no loss occurred, depending on the terms of their agreement, individual members received lump sums of money at regular intervals. ***Nwafor. (2005:81)***

Insurance evolved because of the need for financial reassurance for losses, which usually occurred. Generally, insurance as it is practiced in Nigeria today is traceable to €€€€€the era of maritime trading. With the prevalent marine engineering technology, the then marine enterprising merchants suffered regular losses. These were Babylonians who traded between 4000 B.C. and 3000 B.C. The Hindu followed in 600 B C and thereafter by the Greeks in 400 B.C. ***Trenery (1986: 25)***

Two insurance bonds, namely "Bottomry" Bonds and "Respondentia" Bonds were introduced to cushion the effects of maritime losses.

Bottomry Bond was tailored to provide loans for the merchants at troubled times to ensure that the voyage was completed. The ship/vessel served as collateral for the loan so granted. The Bond provided that where the ship was lost, the loan would not be repaid, but if the ship arrived safely, the loan would be repaid with some interests from where the premium would be paid for the maritime risks.

In the case of the Respondentia Bond, the cargo was pledged as the collateral as against the ship in the Bottomry Bond. ***Okonkwo, (2002:9)***

However, the Italian maritime merchants came up with a new scheme, which favored the spreading of the losses among themselves by contributing to a common fund at the end of the voyage. The unlucky merchants whose goods got lost were settled/compensated from the fund. It is widely believed that those contributions were the earliest form of what we now call ***insurance premium.***

The British maritime merchants, by 1600 AD improved upon the Italian scheme when a group of them agreed to underwrite the risks associated with the marine trade for a payment of a prescribed fee by any merchant or group of merchants who might be willing to pay. The Chamber of Assurance Act legalized the practice.

2.3 DEVELOPMENT OF INSURANCE IN NIGERIA.

The earliest form of insurance in Nigeria is traceable to British colonial traders who sought to protect their businesses throughout the West Coast of Africa in 1879.

In Nigeria the nature of their business was that of bringing in finished goods while taking away our raw materials. Since these goods were usually shipped, they were faced with the perils of the sea and hence their desire to arrange some insurance protection.

Prior to the emergence of the Royal Exchange Assurance in Lagos in 1921, the colonial traders did the underwriting back home in London while making use of the local agents (in Lagos) who merely issued cover notes. Many more companies followed namely:- the Northern Assurance Company (established by the Royal Niger Company) now known as United Nigeria Insurance Company Plc., in 1930. In 1949 Norwich Union Fire Insurance Society set up an office in Lagos in the name of Tobacco Insurance Company Limited and was subsequently known as Legal and General Assurance Limited. The African Insurance Company Limited emerged as the first indigenous insurance company in 1950. The Nigerian General Insurance Company and the Lion of Africa Insurance Company were established in 1950 and 1952 respectively. ***Okonkwo, (2002: 11)***

2.4. THE NIGERIAN INSURANCE REGULATORY LAWS

The Federal Government of Nigeria (then under military dictatorship) issued the first Insurance Decree in 1968, which encouraged the establishment of more insurance companies.

The National Insurance Corporation of Nigeria came on board via Decree N0 22 of 1969. It was charged with the responsibility to: -

(a) Develop insurance practice in Nigeria.

(b) Ensure adequate insurance coverage of all Federal Government assets and

(c) Accept some reinsurance businesses from other insurance companies.

In 1976, came the more detailed and embracing insurance decree that brought about more regulations and supervision of the insurance sector of the Nigerian economy.

Decree No 49 of 1977 brought to life the Nigerian Reinsurance Corporation (otherwise Nigerian Re.). It took over the reinsurance operations from National Insurance Corporation of Nigeria (NICON) and also the supervision of reinsurance operations in all the insurance companies. It also got involved in the human resource development of the industry.

The Nigerian Agricultural Insurance Corporation, which came to being via a Decree in 1987, had since begun the underwriting of non-life insurance such as fire and motor, aside its traditional role of provision of cover for agricultural risks.

The Decrees/laws were by no means exhaustive as many more were later issued/enacted namely: -

(A) The Chartered Insurance Institute of Nigeria (CIIN) Decree No. 22 of February 1993.

(B) The National Insurance Commission Decree No. 1 of 1977 and

(C) The Insurance Decree No. 2 of 1997.

(D) The Insurance Act of 2003.

There has been a tremendous growth in the number of companies in the industry over the years alongside the insurance brokers and the loss-adjusters. The premium income has also significantly risen.

2.5 UNIVERSAL BANKING

2.5.1. CONCEPT.

Under the Universal Banking Scheme, banks are authorized to choose their own portfolio of business, select ideal delivery tools and infrastructure within an applicable regulatory framework. The distinction in banking operation between money, capital market and insurance is as result erased. When viewed from a wider perspective, Universal Banking allows financial and commercial linkages such that commercial concerns can own banks (i.e. downstream linkage) while banks can also own commercial outfits (i.e. upstream linkage). ***Saunders and Walter: 1994 (in Akingbola: 2000),*** defined Universal Banking as the conduct of a range of financial services comprising deposit taking and lending, trading of financial instruments and foreign exchange and other derivatives, underwriting new debt and equity issues, brokerage services, investment management and insurance. ***Akingbola, (2000:23).***

2.5.2. UNIVERSAL BANKING – DEFINED

The recently circulated guidelines for Universal Banking in Nigeria defines Universal Banking as ***"the business of receiving deposits on current, savings or other accounts paying or collecting cheques drawn or paid in by customers, provision of finance, consultancy and advisory services relative to corporate investment matters, making or managing investments on behalf of any person and the provision of insurance services and capital market business or such other service as the Governor of the Central Bank may by regulation designate as banking business."***

Banks under the Universal Banking program can choose to undertake one or a combination of the following; clearing house activities, underwriting /issuing house business, insurance service.

The draft guidelines were quite explicit regarding undertaking insurance business under Universal Banking. Banks can carry out Agency and Brokerage services, i.e. marketing services under the same roof but can only undertake the other related aspects of insurance, i.e. underwriting, loss adjusting, and reinsurance and retrocessionaire services through a subsidiary.

Non-conventional banks This law ike development and other specialized institutions will be allowed to perform their specialized roles under the statutes establishing them. ***Chizea, (2000:19)***

2.5.3: UNIVERSAL BANKING – PERSPECTIVE OF THE INSURANCE INDUSTRY

The concept of Universal Banking has been for some time a topical contemporary discussion particularly among insurance practitioners. The highlight of the discussion, as this work intends to unravel, is the implication of the Universal Banking on the insurance industry in Nigeria. This work is also intended to review a number of actions the insurance industry might put in place with a view to broadening and improving its operations to put to check the effects of the banking industry.

The Governor of the Central Bank of Nigeria, in the exercise of the powers conferred on him by Section 61 of the Banks and Other Financial Institutions Decree of 1991, as amended, approved the issuance of the guidelines (earlier stated in 2.5.2.) to all banks for the implementation of Universal Banking in Nigeria. To give effect to the adoption of the Universal Banking concept, it came into operation in August 2000.

2.6: IMPACT OF UNIVERSAL BANKING ON INSURANCE INDUSTRY IN NIGERIA

2.6.1: LAWS ESTABLISHING UNIVERSAL BANKING & GUIDELINES

(a) Empowerment of Insurance Activities

The concept of Universal Banking as previously mentioned gave the Nigerian banks the opportunity to float insurance companies at their convenience and mostly insurance brokerage companies amongst other units or subsidiaries within their groups to give them the where-with-all to serve their customers better under one roof. With this sort of wholesale and retail banking operations associated with Universal Banking, definitely the insurance industry would be affected in very many ways. Majority of the impact would be negative in the short-run; however, Universal Banking shall be advantageous to the insurance industry in the long-run. ***Okehi (2000:51)***

The Central Bank of Nigeria empowered all licensed banks by circular BSD/DO/CIR/VOL.1/10/2000 of 22nd December 2000 to practice Universal Banking in Nigeria. Universal Banking is defined in page 28, section 2.5.2 of this work.

Banks are free to choose which activity or activities to undertake (money or capital market activities or insurance marketing services or a combination thereof) and are expected to comply with the guidelines specified for such activity or activities. Consequently, a bank will be regulated based on the type of activities it engaged in.

Stated below are services the banks can provide:

(i) Agency services

(ii) Brokerage services (i &ii marketing services)

(iii) Underwriting services

(iv) Loss adjusting services (iii &iv underwriting services)

(v) Re-insurance services

(vii) Retrocessionnaire (v & vii – re-insurance services)

Banks, therefore, may provide insurance marketing services directly as in (i) and (ii) above. In any case, banks may provide underwriting (iii) and (iv) above; but can provide re-insurance services, indirectly through a subsidiary or an associated company.

Banks can therefore be involved in insurance services as specified under the insurance guidelines as outlined below. They can also invest in subsidiary companies that engage in financial activities subject to the provision in Section 21 (d) of BOFID 1991, as amended.

(b) Guidelines with supervisory problems

As would be expected, guidelines for banks that may wish to engage in insurance business under universal banking create supervisory problems. For instance:

i) ***"An insurance subsidiary of a bank shall comply with the capitalization requirements under the Insurance Decree N0. 22 1997 and any subsequent amendments:***

ii) ***All insurance activities, wherever they occur, shall be licensed and regulated by NAICOM and subject to the provisions of the Insurance Decree of 1997 (as amended) or such other insurance laws as may be enacted.***

iii) *There should be no payment or receipt of any commission or brokerage fee for service as a broker or agent unless such a person is properly licensed by NAICOM.*

iv) *A bank shall not use health information obtained from the insurance records of customers for any purpose, without the customer's consent except for activities as licensed insurance agent or brokers.*

v) *A bank shall not insist, for extension of credit, on the condition that the customer obtains insurance from the bank's affiliate/associate or a particular insurer, agent, or a broker, but must inform the customer or a prospective customer that insurance is required in order to obtain a loan, and that approval of a loan is contingent upon the customer obtaining insurance, or that insurance is available from the institution".*

vi) *Banks shall be required to maintain separate and distinct records relating to insurance transactions and such records should be made available to the appropriate regulators;*

vii) *Banks should also disclose specifically among other things, earnings from insurance activities in their published accounts".*

2.6.2: ISSUES OF INTEREST.

Some of the issues of interest comprise:- Effectiveness of Supervision by NAICOM; Unhealthy Competition and Unethical Practices and Loss of Business of non-bank insurance customers to bank-owned insurance companies.

(a) **Effectiveness of Supervision by NAICOM.**

Although it is a fact that NAICOM is the statutory regulator of insurance activities in Nigeria; it is equally true that it has serious problems in successfully regulating the activities of the internal insurance businesses of the Universal Banks.

(b) **Unhealthy Competition and Unethical Practices**

Universal banking has brought about a sharp increase in the number of insurance brokerage companies. Given the Nigerian "snail" slow pace of economic growth, the increase in the number of operating insurance and brokerage companies would obviously get pressure to bear on the non-expanding insurance business, thus heightening unhealthy competition, unethical and sharp practices to have a share of the market.

(c) **Loss of Bank Customers' Insurance Business to Universal Banks.**

In the short-run, the Universal Banks found it much easier to float and run insurance brokerage as against adding full-fledged insurance companies to their group. Afribank, Citizens Bank and much lately First Bank registered insurance brokerage firms in place of full-fledged insurance companies. Their choice for insurance brokerage firms was informed by the facts that not only were they (Universal Banks) averse to insurance risks; they were interested in the immediate benefits of giving prompt service to their customers and ultimately appropriate the brokerage/commissions.

Given this scenario, the insurance brokers were mostly affected by the operations of the Universal Banking system in Nigeria as most Universal Bank customers and their business were conveniently taken away by those Bank-owned-insurance-brokers. In the face of this development, the revenue income of the professional insurance brokers declined sharply in Nigeria, more so the fact that 50% of the commercial operations in Nigeria are done through the banks that have the vantage position to direct their companies where to place their insurance risks particularly where the transactions/projects are bank-financed. This however is at variance with the guidelines governing the operations of the Universal Banking system, which prohibit any Universal Bank from compelling its customer to insure with it or its subsidiary to qualify for a bank facility. This provision has ever been hardly adhered to by any of the Universal Banks as they were only on paper but not in practice. ***Okehi. (2000:51))***

(c) Brain Drain

Universal Banking practice in Nigeria has indeed resulted in a brain drain on the insurance industry's skilled manpower resources. The Universal Banks, by virtue of their superior capital bases, apparent better management and much higher staff remunerations, have succeeded in attracting the most experienced and qualified insurance professionals to man their various insurance brokerage firms and full-fledge insurance companies. This in effect meant that the insurance companies had to either beef up the salary structure of their personnel or operate with unqualified and inexperienced staff in an unstable economy such as the Nigerian. ***Alegieuno. (2000:31).***

2.7 MEASURES TO COUNTER EFFECTS OF UNIVERSAL BANKING ON INSURANCE INDUSTRY IN NIGERIA.

The measures are grouped under two (2) headings as treated hereunder. I shall also delve into some of the advantages of Universal Banking scheme to the insurance industry, since there can only be a worthwhile change in the business operation of the insurance industry in Nigeria with this type of pressure on it.

2.7.1. MEASURES DEALING WITH THE LEGAL FRAME-WORK GOVERNING INSURANCE PRACTICE.

It would be a mere wishful thinking for any person to get the National Insurance Commission (NAICOM) to lobby the National Assembly to enact a law with a view to banning the Universal Banking System in Nigeria in order to protect the Insurance Industry particularly. However, such a law, if ever promulgated, would not only negate government policy, but will also isolate Nigeria from the positive effects/gains of globalization.

Having come thus far, it is necessary to stress that there are certain policies that N.A.I.C.O.M. is naturally expected to innovate to assist in reducing the effects of the U.B. system in Nigeria on the insurance industry.

First, the NAICOM is expected to come up with an amendment to the Insurance Act 2003, which would make it unlawful for all multi-national companies

that are based in Nigeria, be they affiliated to any foreign company or not, must take out all their needed insurance policies with insurance companies that have their headquarters based in Nigeria.

Secondly, it is important for NAICOM to make an unambiguous differentiation on the limits and types of policies to be underwritten by Universal Banks or their affiliates, which should have global acceptability. It is suggested that Universal Banks should be limited to certain classes of insurance business like fire & burglary, marine, motor and contractors'-all-risk for a maximum sum assured of ₦10,000,000. (Ten Million Naira) Traditionally, insurers universally are acclaimed to be the managers of retirement/ pension schemes and gratuities while the banks, conversely are renowned for their financial intermediation. The insurers can directly engage in the banks' business of financial intermediation, by virtue of the fact that the insurers generate a good percentage of the funds at the disposal of the banks. However, for the sake of the statutory division of functions, the separation of functions/operations should be made clearer by the government to do away with frictions, thus creating a mutual respect among the operators in the two financial institutions.

Thirdly, NAICOM should press for an embargo (on both the banks and insurance companies) on the establishment of either new insurance companies or brokerage firms for the next five years when it is hoped that the restructuring/sanitization of the industry would have been reasonably done to achieve a measure of success. The successful implementation of this policy on embargo would certainly put a check on the efforts of the overzealous Universal bankers who might be disposed to take control of the insurance industry.

Finally, banks should indirectly be discouraged from acquiring more than 25% equity of existing insurance companies or brokerage firms that might be planning to dispose of their shares. Certainly this will be a difficult task to perform but with the emergence of the regulatory agency like the Anti-trust Commission, the monopolistic domination of the Universal Banking will be curtailed.

2.7.2. FURTHER MEASURES TO COMBAT THE EFFECTS OF UNIVERSAL BANKING ON THE INSURANCE INDUSTRY IN NIGERIA.

(a) Repositioning the insurance professionals.

Under this situation the insurance professionals ought to understand the shift in the changes affecting their type of business in the economy. The insurance professionals, being the major operators of the industry, should de-market the operation of the companies, which they are managing in order to achieve greater efficiency and results. The management of the insurance companies should get the professionals who specialize in specific products/policies to head such the departments under which portfolio the policies come. It would then be the duties of such professionals to further introduce some innovations by promoting such policies and seeking a target market to meet the companies' goals.

(b) The shift from the unchanging business pattern of the Insurance Industry in Nigeria.

It is a statement of fact that the Nigerian Insurance industry has not for quite some time now been as vibrant as it ought to be (given its strategic importance in the economic development of any nation) and this has necessitated the need for the insurance professionals to wake up and revolutionize the mode and operational scope of the industry.

In view of the above situation, it has become increasingly necessary to get the rigid and unbending professionals who are at the helm of affairs in the insurance industry to appreciate the need for a change. A good example is the case where only a few of the insurance operators favored an increase in the capital base of the