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Claims Payment, Risk-Based Capital as Determinants of Life Assurance Companies' Profitability in Nigeria

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ABSTRACT

The study assessed the relationship between claims payment, risk-based capital and profitability of Life Assurance Companies in Nigeria. There are fourteen listed life insurers in the industry where data of six insurers were randomly selected from the companies` annual reports for the periods of 2011-2019. The data were made available in the Nigerian Insurers Association Digest. Ex-post factor research design was employed. Findings show that claims payment, proxied by Net Claim, Net Premium and Net Expenses and Risk-Based Capital have significant effect on profitability of life Insurance Companies in Nigeria. Four hypotheses were tested. The first hypothesis showed the p-value of 0.0095<0.005, confirming that Net Claim has significant effect on Profitability of listed Life Assurance Companies in Nigeria. The second hypothesis showed that, Net Premium has significant influence on Profitability of listed Life Assurance Companies in Nigeria with a p-value of 0.0081<0.05. The third hypothesis showed a coefficient of 0.003, $p < 0.05$), indicating that there is significant relationship between Expenses Ratio and Profitability of Life Assurance Companies in Nigeria. Finally, the fourth confirmed that Risk-Based Capital has significant effect on Profitability of listed Life Assurance Companies in Nigeria with a p-value 0.0089>0.05. The study therefore concluded that the life insurance companies should put in place strategies to ensure proper management of Net Claim, Net Premium, Net Expenses and Risk-Based Capital and also entrust these in the hands of experts to yield high results. The study recommended that the claim managers should work in cooperation with other sections of the insurer from the policy formation stage to its cessation to promote timely payment of genuine claims and increase the profitability of insurance firms through effective cost control.

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KEYWORDS: Net Expenses, Profitability, Net Claim, Net Premium, Risk-Based Capital

INTRODUCTION

Death is inevitable and provisions for people under one`s care while alive is paramount when dead. The insurance companies pay claim to the people (beneficiaries) in form of death benefits which serve as coverage over the life assured. When the policy is to be taken, the life assured has variety of choices- either to take "Whole-life Assurance", "Term Assurance", "Deferred Assurance", "Endowment Assurance" or "Pure Endowment Assurance". These options available and corresponding premium payments and the benefit could be determined by the certified Actuary and also strongly depend on the internal policies of the insurance company and promptness in Claim Managements. In order words, death benefits have been the most reasons for life Assurance patronage and it requires insurance companies a high strategic planning and management.The amount of the premium paid and insurance benefits taken by the policyholder affect how much the claim will be paid by the insurance company to the beneficiaries in accordance with the agreement. The taste of good insurance transaction lies in the manner in which a claim is handled (Ono, Preztika, &Rininda, 2019).

One of the principal functions of any Life assurance company is the settlement of claims (benefits). It is, in fact, the fear that a claim might occur that induces individual and economic institutions to take out insurance policies. Therefore, the payment of benefits can be said to be the major function of life assurance companies. The industry engages in services provided to the public in dealing with risks that might occur in future. The significance of life assurance is to protect individuals or groups beneficiaries from loss that will be used such as educational needs, the need for recovery, the need for longevity, health and others[i]. With these, life assurance companies sell policies (promises) to people. The company

promises to benefits to policyholder beneficiaries, immediately prior to the occurrence (point) of death or at some interval of death. An insurance life assurance policy is therefore a promise by the insurer to the policyholder to pay for future benefit, while receiving the premium upfront. The settlement of claims is the prime objective of insurance (Taofeek, 2018).

Therefore, a claim is a demand made by the insured person to the insurer for the payment of benefits under a policy(Tajudeen, Ajemunigbohu, & Gbenga, 2017). An insurance claim is an official request made by a customer to an insurance company in order to obtain payment related to the loss of the risk received. Oftentimes, situations that arise from loss events awake the insuring populace towards the need for protective measure. However, claims are noted as the most critical channels and a defining link that shape the overall perception of the customers towards their insurer (Capgemini, 2011). Insurance claim management of the departmental stipulation, corporate policies and industry practices that insurance firms use to validate policyholder's payment or reimbursement requests (IBM Corporation, 2011). When an insurance company provides a quick and open procedure as well as the best way of handling a claim, such firm can be sure of adding more new customers to itself which in the long run will enhance firm's profitability (IBM Corporation, 2011).

However, to reduce the cost of claims and deliver on a value-added brand promise to customers, life insurers are focusing on enhancing efficiency and effectiveness in their claims function. Claims processing is the gateway to the customer that will drive improvement in the insurers' customer acquisition, retention, enterprise business intelligence for product development insight sand profitability for the next several years (IBM Corporation, 2011). The speed, accuracy and effectiveness of claims processing is also paramount for controlling costs, managing risks and meeting portfolio underwriting expectations (Diacon, 1983).

Claims processing is the mirror to the customer that enables the insurers' drive at improving customers' acquisition, expectation, retention and business' insight for product enhancement and company's profitability. Therefore, the drive, accuracy, efficiency and effectiveness of claims managerial procedures is key for cost control, risk management and meeting expectation needed for proper portfolio underwriting (Diacon, 1983).The premium income must be sufficiently able to cover claims cost and underwriting expenses. If this basic theory of insurance does not hold, an insurer may delay or find it difficult to pay claims, which can negatively impact the reputation of the company. Nonpayment of claims as at when due reduces the confidence of the policyholders which in-turn makes it difficult to attract new policyholders, thus producing a negative influence on the profitability of the insurance company(Brooks, Popow, & Hoopes, 2015).

Claims from previous years usually surface in succeeding years, this makes the insurance businesses challenging and the attainment of profitability very difficult. The Nigerian insurance industry has witnessed rising claims from policyholders. At the end of June 2017, the reported claims in the financial statements of 22 major leading insurance companies showed claims expenses to be over N40 billion as against N34.1 billion in the previous year.This is a 17.3 percent growth, which when compared with the 8.76 percent growth in premium income, recorded in same periods, calls for concern (Taofeek, 2018).

On the other hand, Profitability is one of the most important objectives of financial management, since one of the main tasks and goals of financial management is to increase shareholders wealth. At this point profitability is one of the main determinants of the performance of a company (Vanguard, 2017). Profitability measures are important to company managers and owners alike. There has been a growing number of studies recently that test for measures and determinants of firm profitability. Financial industry's profitability has attracted scholarly attention in recent studies due to its importance in performance measurement. However, in the context of the Insurance sector particularly in developing countries or emerging markets like Nigeria it has received little attention.The insurance companies are obviously in business just because they are policyholders. The insurers should appreciate that claim settlement is their shop windows. If is against this background the study is the effect of claim management on profitability of insurance companies in Nigeria

STATEMENT OF THE PROBLEM

The basic theory of insurance Claim Management is that premium income must be sufficiently able to cover claim cost and underwriting expenses. If this basic theory does not hold, an insurer may delay or find it difficult to pay claims, which can negatively impact the reputation of the company. When this happens, it supports the say of uneducated people that the insurer is only interested in premium collection, and not settlement of claims. This is the 'fact behind poor patronage of the industry. Nonpayment of claims when due, reduces the confidence of the policyholders which in-turn makes it difficult to attract new policyholders, thus producing a negative influence on the profitability of the insurance company. The reason for not having sufficient premium income to cover claim cost and underwriting expenses is lack of professionalism (certified Actuary) to determine the amount of premium to pay (present value) and the future value of the policies; the amount of Net Claim; Net premium; Risk based capital required; and Expenses Ratio of the company. These have been the major contributor to the failure and this will have great adverse effect on profitability of insurance company. Most Life assurance companies use historical approach which in most cases may lead to financial

insolvency or bankruptcy.Thus, the purpose of the study is to examine the effect of Claims management on profitability of Life Assurance Companies in Nigeria.

OBJECTIVES OF THE STUDY

The main objective of this study is to assess the effect of Claim payment and risk-based capital on Profitability of Life Assurance Companies in Nigeria, while the specific objectives are to:

i. examine the effect of Net Claims on Profitability of Life Assurance Companies in Nigeria
ii. determine the influence of Net Premium on Profitability of Life Assurance Companies in Nigeria
iii. find out the relationship between Net Expenses and Profitability of Life Assurance Companies in Nigeria
iv. investigate the effect of Risk-Based Capital on Profitability of Life Assurance Companies in Nigeria

HYPOTHESES

$H0_1$: Net Claim has no significant effect on Profitability of Life Assurance Companies in Nigeria

$H0_2$: Net Premium has no significant influence on Profitability of Life Assurance Companies in Nigeria

$H0_3$: There is no significant relationship between Net Expenses and Profitability of Life Assurance Companies in Nigeria

$H0_4$: Risk-Based Capital has no significant effect on Profitability of Life Assurance Companies in Nigeria

SCOPE OF THE STUDY

The study focuses on the effect of claim management on Profitability of Life Assurance Companies in Nigeria. The study selected six (6) life insurance companies (AIICO Plc; Cornerstone Plc; LASACO Assurance Plc; Mutual Benefit Plc; Custodian &Allied Insurance Plc; and Royal Exchange Assurance Plc) to be considered with their Net Claim; Net premium growth; Claim Ratio; Risk based capital required; and Expenses Ratio that would be derived from between period of 2011-2019 (9) years' annual reports as submitted to the Nigerian Insurers Association.

LITERATURE REVIEW

Conceptual Review

Claims Payment

A claim on an insurance policy is a demand on an insurer to fulfill its portion of the promise, committed to while writing the contract with the insured(Brooks, Popow, & Hoopes, 2015). Claim is a notification to an insurance company that payment of an amount is due under the terms of a policy. An insurance claimcan therefore be defined as an insured's to recover from an insurer for a loss that the insurance policy might have covered. Insurance claims range from straightforward domestic building and contents claims that are settled within days of notification to complex bodily injury claims that remain open for many years(Akintayo, 2004). Insurance claims as a request made by the insured person to the insurer to pay the benefits agreed upon under a defined policy. It is a demand placed by an individual or organization against a loss covered by insurance policy (Taofeek, 2018).

Claims management and payments is essential and vital to an insurer's success. Claim is the submission of the rights made by the insured to the guarantor to get his rights in the form of coverage for losses based on agreements made. In other words, the claim is a process of filing carried out by participants to get the sum insured after the insured carries out all obligations to the guarantor in the form of settlement of premium payments in accordance with agreement in the policy. Insurance claim is an insurance extract in which the insurer undertakes to indemnify the insured against a loss, which may or may not arise at a future date or to pay a certain amount of money in the happening of a certain event (ibid).The loss that is insured against is known as the insured risk. Being legally valid, insurance is enforceable at law. He further stated that the primary duties of the insured under the insurance contract are to pay the agreed premium and to comply with the terms of the policy while the duty of the insurer is to comply with his own terms and promises under the policy and to pay or settle all genuine claims promptly and equitably (ibid). A well manageable claim strengthens customer relationships amidst all odds, assists in regulatory compliance and fraud prevention and detection(Brooks, Popow, & Hoopes, 2015).

The insurance industry like all other facets of the Nigerian economy is inundated with a number of problems. There is no gainsaying the fact that some, if not all, of these problems are capable of being solved by the insurance practitioners with the support of the government and the understanding of the insuring public. About the last thing that comes to the mind of an average Nigerian is the need to effect insurance policies, though business and life itself involve risks (financial or otherwise), many of which could be handled through insurance (Iqbal, Rehman, & Shahzad, 2014).

Generally, claims payment process consists of four important aspects: settling claims, detecting fraud, lowering costs and avoiding litigation. Claims payment therefore involves the appraisal of the claims performance, monitoring of claims expenses, legal costs, settlement costs, compromises and making arrangement for future payments and avoiding error, delay and disputes in the payment of claims (Taofeek, 2018). Claims payment represents the largest single cost to insurers and 80.0 per cent of all premiums are spent on claims payment and associated handling charges. Hence, claim

management includes all managerial decisions and processes concerning the settlement and payment of claims in accordance with the terms of insurance contract. The performance of insurance company in financial terms is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, return on investment and return on equity. These can be categorized into profit performance measure and investment performance measure (Taofeek, 2018). Profit is important to investors and management as sources of dividends and growth. While to the policyholder, it provides security against insolvency (Brooks, Popow, & Hoopes, 2015).

Claims processing involves some tasks such as: following up with the claimant or third party for missing documentation and validating that all required claim information has been collected. It was arguably considered thus that claim managers ought to focus only on the most significant claim tasks that required their attention, and also optimizing the use of their time.(Owolabi, et al, 2017). For insurers to attain operational efficiency and effectiveness in claim process, they must look directly at implementing modern claims system; leveraging advanced fraud detection technologies and creating innovation around their self-service claim processing activities (Aduloju, &Ajemunigbohun, 2017).

The Concept of Profitability

Profit serves as a source of dividends and growth to an investor and management, whereas, it serves as additional security against insolvency to the insured and regulators (Kim, 2015). Profitability has a golden ring to investors and insurers. To the policyholder appears like a mark-up, and to the policyholders of a mutual company, it is neutral (Yusuf, & Ajemunigbohun, 2015). Regulatory bodies of insurance companies either encourage profitability when faced with solvency, or try to reduce it when regulating rates.

In recent times, profitability of insurance companies has been debated against her sister (banking) industry, however, for insurance companies to stand out profitably like the banking sector, it must be adequately functional in underwriting practices (Angima, 2017).This indicates that underwriting is a key determinant amongst other aspects of insurance business. It also embraces that profitability is regarded as a very essential goal of financial management because the principal aim of financial management is to maximize the owner's wealth, because of this, profitability is an essential determinant of performance(Yusuf, &Dansu, 2014).

Benefits of Effective Claim payment Process

The benefits that have been alluded to effective claims payment process, are noted as: improved customer service; reduced indemnity costs, improved claims handling and administration; reduction in allocated loss adjustment expresses; improved operational management; improved enterprise risk management; enhanced business agility; and core brand differentiation(Taofeek, 2018). A good claims management process is expected to include: pro-activeness in recognizing and paying legitimate claims; assessing exactly the reserve associated with each claim; reporting regularly; minimizing unnecessary costs; avoiding protracted legit disputation; dealing with claimants carefully; and expediting claims (Taofeek, 2018).

Risk-Based Capital (RBC) of Life Assurance Companies

The RBC requirement is a statutory minimum level of capital that is based on an insurance company's size and the inherent riskiness of its financial assets and operations. It ordinarily means that the life assurance company must hold capital in proportion to its risk. According to National Association of Insurance Companies (NAIC), Capital at risk (CaR) is the amount of capital that is set aside to cover risk. NAIC further states that four categories of risk are analysed in arriving at an insurer's minimum capital requirements viz: asset, credit underwriting and off-balance sheet financing. The RBC requirements provide for a ratio which the NAIC compares to a series of trigger points to determine when an insurer should be placed under regulatory supervision andhelps to develop the minimum amount of surplus needed, given the risks assumed by the insurance company.

Theoretical Framework

Relevant theories like stakeholder theory, risk management theory, and corporate demand theory articulate the importance of risk sharing and transferring in insurance business. Risk diversification is necessary in underwriting portfolio of insurance companies; this is used to curtail the annihilation of such companies by taking advantage of the expertise of reinsurance companies in stabilizing the shareholders' return (Taofeek, 2018). The willingness of a ceding company to purchase reinsurance coverage against the risks it has assumed and the primary insurers are faced with higher business plight because of excessive risk exposures and high degree of enhanced volatility in their level of cash flows, hence, there is need to ponder on appropriate risk management for its cover and therefore, have a reinsurance arrangement in order to remove the risks of insolvency and further lower the cost of expected bankruptcy(Taofeek, 2018).

Review of Empirical Studies

In Indonesia, a study was conducted to determine the role of growth of income, assets, ratio of claim and risk based capital affecting Profitability of life insurance companies from 2011 to 2019. The result from the analysis of static panel regression signifies that revenue growth, asset do not have significant effect on profitability, claim ratio and risk based capital have negative significant effect on profitability. While simultaneously the income growth, asset, claim ratio, risk based capital significantly affect the profitability of life insurance companies (Taofeek, 2018). Analysis on the influence of claims management on the profitability of Life Assurance Companies in Nigeria was examined using

multiple regression technique. It was discovered that profitability has a negative nexus with loss ratio and net claims, but depict a direct nexus with expense ratio (Akintayo, 2004). The interconnection between risk management and profitability of insurance Company were investigated using regression analysis. The result disclosed that financial risk management practices, operational risk management practices and strategic risk management practices have a positive and significant effect on the profitability of insurance firm (Taofeek, 2018). An analysis on the significant association among ceding office gross premium income, underwriting profit and financial stability were examined using Pearson correlation test. The study established that reinsurance purchase significantly increases the insurers' premium income. Also, profitability has a direct association with reinsurance utilization. The study concludes that purchasing reinsurance reduces the insolvency risk of insurers by stabilizing loss experience and improving capacity

An assessment on the effectiveness, efficiency and promptness of claims handling process within the Nigerian insurance industry was examined. The study concludes that claims handling procedures should be managed promptly to evade shortfall in operational objectives of an organization (Tajudeen, Ajemunigbohu, & Gbenga, 2017)

In a further empirical study researched in Lagos State to explore the influence of insurance claims management among selected insurance companies in Nigeria using t-test result, it was revealed that the various claims handling processing have significant effects on the claims made on insurance companies (Oyedokun, & Gabriel, 2018). A cross-country research was conducted on the effects of underwriting and claims management practices on the performance of insurance firms in Kenya, Uganda and Tanzania. The result indicated that underwriting and claims management practices by non-profitability are directly and significantly associated, whereas, the reverse is the case when compared with profitability (Jacob, 2007)

Operationalization of Variables

Y = f(X)

Independent Variables

X = Claim Management (CM) being measured by the following parameters:

x_1 = Net Claim(NC)

x_2 = Net Premium(NP)

x_3 = Net Expense (NE)

x_4 = Risk-Based Capital (RBC)

Dependent Variables

Y = Profitability (Profit.) being measured by the following parameters:

y_1 = Return on Asset

Functional Relationship

Mathematically, Y = F(X)

$$Y = \alpha_0 + \beta x + \mu_1 \ldots\ldots\ldots\ldots\ldots\ldots \text{Normal}$$

$$Y_1 = \alpha_0 + \beta x_1 + \mu\iota \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

$$Y_2 = \alpha_0 + \beta x_2 + \mu\iota \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

$$Y_3 = \alpha_0 + \beta x_3 + \mu\iota \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

$$Y_4 = \alpha_0 + \beta x_4 + \mu\iota \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (4)$$

Regression Models

H_{01}: $ROA = \alpha + \beta NC + \mu$

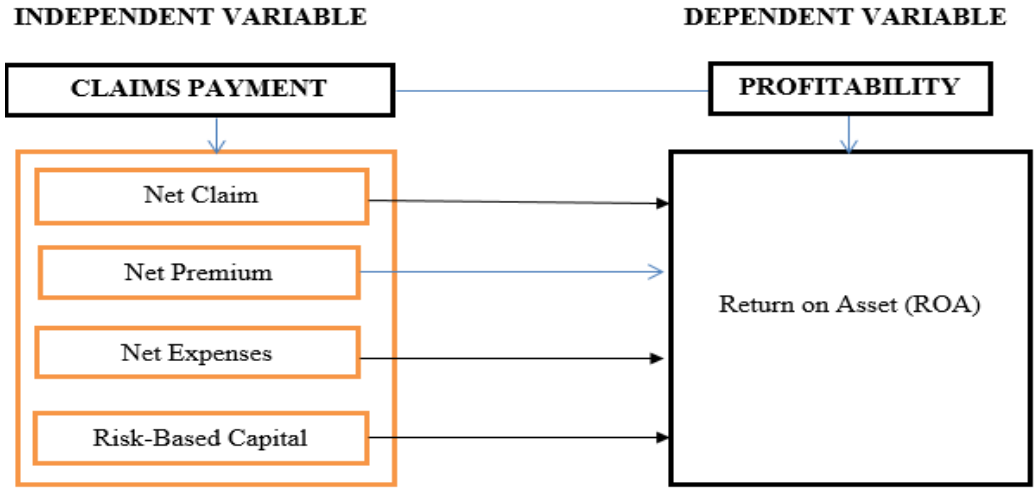
H_{02}: $ROA = \alpha + \beta NP + \mu$

H_{03}: $ROA = \alpha + \beta NE + \mu$

H_{04}: $ROA = \alpha + \beta RBC + \mu$

Where; ROA is the dependent variable and $X_1$to X_4 are the independent variables β_{01} = constant term β_{1}- β_{2}= $\mu_1$parameters to be estimated.

Conceptual Model



Source: Researcher`s View (2022)

From the above studies, it could be read that several empirical studies suggested that claim management can be linked with profitability of insurance companies.
And that Net Claim; Net premium growth; Claim Ratio; Risk based capital; and Expenses Ratio are sub-variables of Claim management. Hence, this study used Net Claim; Net premium growth; Claim Ratio; Risk based capital; and Expenses Ratio as independent sub-variable while Return on Asset is the parameter used for dependent sub-variable.

METHODOLOGY

Research Design

This study is a causal study because it shows the cause and effect relationships of the two variables ,independent and dependent variables. For this reason, the researcher employed ex-post factor research design due to quantitative nature of data required to prepare the report of this study.

Population of the Study

In this study, the target population is the total number of listed life insurance companies in Nigeria. At present, there are only fourteen (N = 14) life insurance companies in Nigeria

Sample Size

The study employed only six (6) selected Life Insurance Companies in Nigeria, located Head Office in Lagos State and have 9 years audited financial statements from period 2011 to 2019. Thus the selected insurance companies could represent the rest life insurance companies in Nigeria being 42.86% of the 14 currently listed life insurers on the stock exchange

Source of Data Collection

For purpose of this study, secondary source of data were used. The secondary data were collected from all relevant documents such as books, journal articles, published and unpublished research papers, reports of financial statement, and performance measures of insurance company through the Companies` Annual Report as obtained in the Nigerian Insurers Association digest between the periods of 2011-2019.

Model Specification

Based on the reviewing of the both empirical and theoretical review, the following mathematical model is confirmed to predict the effect of independent variables on dependent variable (ROA). This is as follows:

ROA= α+ β1 (NC) + β2 (NP) + β3 (NE)+β4(RBC) +μ

Where:

NC = Net Claim

NP = Net Premium

NE= Net Expense

RBS = Risk Based Capital

μ= is the error component for company i at time t assumed to have mean zero E [μ] = 0

α= Constant or interpretation of the parameters

β= 1, 2, 3and 4 are the slop of the coefficient or parameters that will be estimated

Data Analysis

The researcher analyzed the data through linear regression analysis with the aid of E-view, 9.0 and SPSS version 20.0.

Presentation and Analysis of Result

The aspect deals with the presentation and analysis of the data collected. To test the hypotheses of this study, a multiple regression model is used. This is deemed suitable due to the nature of the variables are continuous rather than dichotomous categorical variables. The table that follows contains the data extracted from the selected Life Assurance Companies in Nigeria` Annual Reports which is used in running the regression and obtaining the results of the study. Multiple regressions have been used to estimate the relation between the independent variables of claim management (Net premium, Net Claim, Net Expenses, Risk-Based Capital) and the dependent variable of Profitability (Return on Asset). The technique of ordinary least square was used to estimate the regression coefficient in the model of the study.

Measurement of Variables

Return on Asset (ROA) = Premium income before taxes/Total Assets,
Net Expense (NE) = Total Net Claims/Total Net Premium,
Net Claims (NC) = Total claims paid in the year – Claims reserves and expenses
Net Premium (NP) = Total Premium Earned – Premium paid to Re-insurer.
Risk Based Capital (RBC) = Shareholders` fund, statutory deposit, reserves

Table 1

		MEAN	MEDIAN	MAXIMUM	MINIMUM	STD. DEV.
CLAIM RATIO	AIICO	0.389567	0.3542	0.5162	0.2873	0.089277
	CORNERSTONE	0.4177	0.3879	0.6044	0.2794	0.096804
	LASACO	0.242289	0.2309	0.7535	-0.171	0.255038
	MUTUALBENEFIT	0.272711	0.278	0.3788	0.198	0.060043
	CUSTODIAN	0.654078	0.5401	1.2551	0.096	0.394659
	ROYAL EXCHANGE	0.345956	0.3595	0.5149	0.1893	0.097134

	AIICO	2092296	1805888	3089539	1523430	510456.4
	CORNERSTONE	1251253	1251238	2198189	665654	539385.4
NET	**LASACO**	481811.9	513073	1246956	-36950	414153.2
CLAIM	**MUTUALBENEFIT**	1467216	1354066	2159465	1004168	408352.8
	CUSTODIAN	982617.1	1146571	1569158	155806	491397.7
	ROYAL EXCHANGE	1608221	1506511	2181184	920433	470921.6
	AIICO	5412219	5381915	6652101	4500457	758677.6
	CORNERSTONE	2890323	3298618	3637019	2085373	677055.5
NET	**LASACO**	1775514	2057280	2381021	216120	806585.2
PREMIUM	**MUTUALBENEFIT**	5365768	5283657	6579594	4448312	807307
	CUSTODIAN	1668260	1623629	2963063	924893	641032.4
	ROYAL EXCHANGE	4685857	4465718	5950253	3620280	739627.4
	AIICO	0.554073	0.455401	1.772551	0.70096	0.46359
	CORNERSTONE	0.638811	0.60367	0.441549	0.450839	0.00688
	LASACO	0.81811.9	0.13073	0;169561	0.36950	0.4153.2
RBS	**MUTUALBENEFIT**	0.146721	1.354066	0.159465	1.004168	4.08352.8
	CUSTODIAN	0.654078	0.540123	0.1.2551	0.09600	0.394659
	ROYAL EXCHANGE	0.345956	0.359500	0.514900	0.189300	0.097134
	AIICO	0.043822	0.036300	0.134800	-0.0223	0.048506
	CORNERSTONE	0.0112	0.053500	0.092600	-0.123900	0.07982
	LASACO	0.025744	0.0242	0.0489	0.0095	0.013189
	MUTUALBENEFIT	0.038811	0.0367	0.1549	-0.0839	0.060688
ROA	**CUSTODIAN**	0.028478	0.0325	0.0622	0.0012	0.018974
	ROYAL EXCHANGE	0.058489	0.0375	0.2076	0.0025	0.062131

Source: Author's computation, 2022 (Eview-9.0)

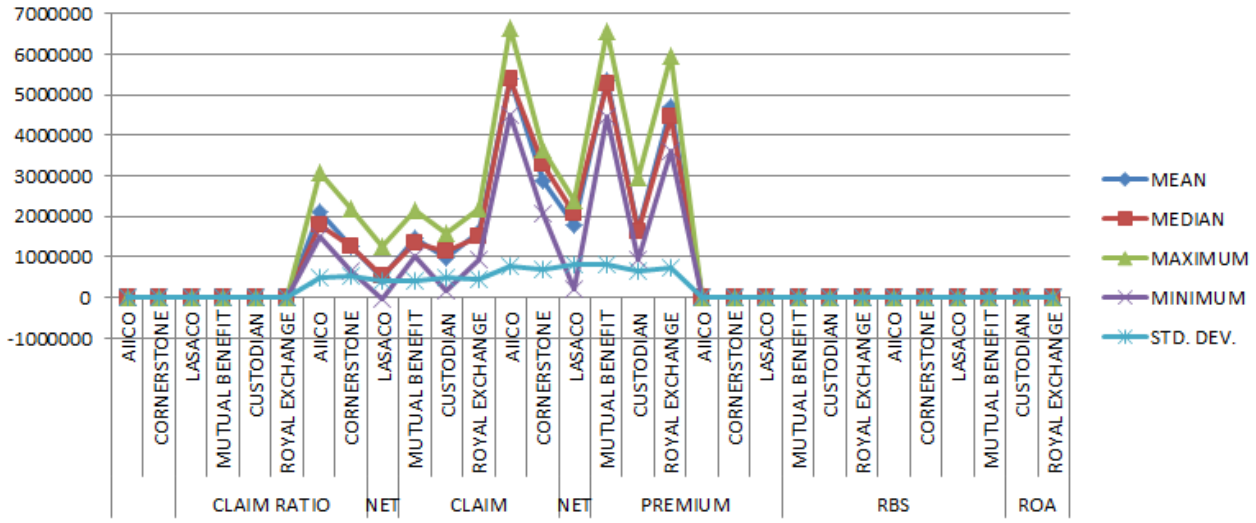


Fig: 1 Descriptive Statistics

Interpretation:

Table 1 presents the descriptive statistics of the data employed in this study. On ration data, the minimum and maximum value for the sample of insurance companies considered shows -0.171 and 0.7535 with an average of 0.255038 and standard deviation of 0.255038 respectively. The table shows that Custodian Assurance Plc in tern of claim ration has significant highest value of 0.654078 with Maximum value of 1.2551, followed by AIICO Insurance Plc with derived claim ration of 0.389567. However, the study shows that Royal Exchange Plc has a strength 0.345956 claim ration; Cornerstone Plc with 0.4177 and Mutual Benefit Plc0.272711 as well as LASACO Assurance Plc with 0.242289. This indicates that Custodian Assurance Plc has significant strength in paying the highest claim in the industry.

Also on net claim, the figure above shows that AIICO Insurance Plc shows 2092296 with deviation of 510456.4 followed by Royal Exchange Plc with net claim mean value of 1608221 and standard deviation of 470921.6. The net claim mean value maintains by Cornerstone Insurance shows 1251253 which deviate with 539385.4. However, LASACO Assurance plc with net claim mean value of 481811.9 with deviates with 414153.2. Custodian Insurance

Plcmaintains982617.1 with standard deviation of 491397.7 and LASACO Assurance Plc with 481811.9 and deviation of 414153.2, while Mutual Benefit plchas the lowest mean value of 1467216 with standard deviation of 408352.8 in the distribution. This evidence shows that AIICO Insurance Plc is one of the leading insurance companies in Nigeria.

Furthermore, the values obtained on net premium shows that AIICO Insurance Plc has the highest net premium mean value of 5412219 with deviation of 758677.6 followed by Mutual Benefit plc with net premium mean value of 5365768 and standard deviation of 807307. The net premium mean value maintains by Royal Exchange Plcshows 4685857 which deviate with 739627.4. However, Cornerstone Insurance plc with net premium mean value of 2890323 with deviates with 677055.5. Custodian Insurance Plc maintains 1668260 with standard deviation of 641032.4 while LASACO Assurance Plc has the lowest mean value of 1775514 with standard deviation of 806585.2in the distribution. This evidence shows that AIICO Insurance Plc is one of the leading insurance companies in Nigeria.

Finally, the measure of profitability using ROA data shows that ROYAL Exchangeplc has the highest ROA with mean value of 0.058489 followed by AIICO Insurance Plc with 0.043822. MUTUAL Benefit Plc covers 0.038811 and CUSTODIAN Insurance has ROA of 0.028478. LASACO Assurance Plc with 0.025744 while CORNESTONEPlchas the lowest mean value on ROA: 0.0112 in the distribution. This is evident that ROYAL Exchange Plc and AIICO Insurance Plc are the leaders in the Nigerian Insurance industry for the last nine years.

Diagnostic Test

Unit Root Test

It has been demonstrated that if time series variables are non-stationary, regression results in these time series will lead to spurious and misleading conclusions. To get over this problem, the researcher tested for stationarity of the time series. Augmented Dickey Fuller (ADF) test is used to investigate whether variables used in this study have a unit root or not. The results of the unit root test are presented below.

Table 2: Unit Root Test

Variable	Level (P-VALUE)	First Difference (P-VALUE)	5% Critical value	Order of Integration
ROA	0.9963	0.9655	0.05	I(0)
NP	0.9246	0.7182	0.05	I(0)
NC	0.9966	0.008976	0.05	I(0)
NE	0.3578	0.5384	0.05	I(1)
RBS	0.7845	0.5601	0.05	I(0)

Source: Author's computation, 2021 (Eview-9.0)

Interpretation

It can be seen from Table 2 that all variables are non-stationary at level. This is because their P-value of Augmented Dickey Fuller (ADF) is greater than significance value. However, NE is stationary at level and at first different as the p-value is less than McKinnon 5% critical value respectively. This result shows that all variables are integrated of order one.

Co-integration Test

In this study, the researcher carried out co-integration test for the variables in the models using Johansen's test of co-integration. The result of co-integration for the variables is shown in table 4.3 below. The result shows that there exists three co-integrating equation at 5% level of significance. This result indicates that there is a long run relationship between the dependent and all the independent variables used in both models. Thus, error correction model can be estimated for the models.

Table 3: Co-integration test result for variables used in the two models

Unrestricted Co-integration Rank Test (Trace)				
Hypothesized No. of CE(s)	**Eigenvalue**	**Trace Statistic**	**0.05 Critical Value**	**Prob.****
None	0.340647	1.346079	-3.320969	0.9963
At most 1	0.880307	0.384333	-3.320969	0.7182
At most 2	0.134700	3.178539	-3.403313	0.3578

Source: Author's computation, 2021 (Eview-9.0)

Trace test indicates 3 co-integraten(s) at the 0.05 level

* Denotes rejection of the hypothesis at the 0.05 level

There is a long run association between the dependent variable: profitability (Return on Asset) and the independent variable: Claim Management

Interpretation of Model Results

The results of the Ordinary Least Square analyses are presented in this section. The results are analyzed one after

the others beginning with the result of model one.

Table 4: Estimation Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NP	-3.342139	2.573258	-1.298797	0.2507
NC	0.446500	0.404003	1.105190	0.3114
NE	0.413724	0.434136	0.00952984	0.3844
RBS	0.345661	0.225121	0.567812	0.2234
R-squared	0.724604	Adjusted R-squared		0.708404
F-statistic	44.72934	Durbin-Watson stat		0.388409
Prob(F-statistic)	0.000000			

Source: Author's computation, 2021 (Eview-9.0)

Model Estimation and Interpretation

Re-stating the regression model:

ROA= α+ β1 (NC) + β2 (NP) + β3 (NE) + β4 (RBS) + μ

The fitted multiple linear regression model form is;

ROA= 0.446500 + 0.446500β_1 + (-3.342139)β_2+ 0.413724β_3 +0.345661β4 (RBS) +μ

From the result in Table 4, the fitted regression model indicate that the positive relationship between the dependent (ROA) and explanatory variables Net premium, Net claim and Net Expenses ratio. Thus the β_0 is 0.446500 indicates that if all explanatory variables Net premium, Net claim and derived claim ratio are zero the ROE will be 0.446500which is constant. The β_1 indicates that for every one unit change in the dependent variable ROA the Net claim will increase by 0.446500 and β_2 shows that for every one unit change in the dependent variable ROA the independent variables Net Claim will reduce by -3.342139. And β_3 shows that for every one unit change in the dependent variable ROA the independent variables Net Expense Ratio will increase by 0.413724.

***The R^2* (R-squared)** approximately 72.5%, and this shows a very good fit, meaning that there is a strong relationship between the variables used. Thus, it shows that 72.5 percent (72.5%) changes or variation in ROA is explained byNet premium, Net claim and net expense ratio leaving 27.5 percent (27.5%) changes or variations in ROA to the (white noise) error term. The goodness of fit result thus shows that there is a strong positive relationship between Claim Managementand the performance Insurance Companies in Nigeria.

Adjusted R^2 shows actual variations in ROA captured by the independent variables introduced in the model after taking into considerations effect of additional explanatory variables on R^2. It can be seen that adjusted R^2, due to data transformation still explains about 70% of the total indicating a strong relationship between variables used.

The F-statistics measures the overall significance of the model shows that the researcher cannot reject the alternative hypothesis. The F-statistics shows that the model is statistically significant and as such the study states that Claim Management has significant effect on Profitability of Life Assurance Companies in Nigeria. From the above result it was observed that NC and NE have positive effect to ROA.

The Durbin Watson test of autocorrelation in the model shows a presence of serial autocorrelation. This is because the calculated value of DW in the model falls between 2 and 4-Du at 5 percent critical level. Where D_U = 0.388409 and 4-Du = 3.61 at 5% critical level. With this result, the researcher accepts the hypotheses that there is presence of serial autocorrelation in model.

Test of Hypotheses

Re-statement of Hypothesis One:

$H0_1$: Net Claim has no significant effect on Profitability of Life Assurance Companies in Nigeria

Table 5: Net Claim and Profitability

	Net Claim has no significant effect on Profitability of Life Assurance Companies in Nigeria
Chi-Square	9.787[a]
Df	4
Asymptotes. Sig.	0.0095

1. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 6.0.

Table 5 shows the chi-square figure of 9. 787[a] and the p-value read below the table value of 0.05. (i.e,0.0095<0.05). This confirms that Net Claim has significant influence on Profitability of Life Assurance Companies in Nigeria

Decision: Since the p-value which the study is accept or reject the H_1 that states "Net Claim has no significant effect on Profitability of Life Assurance Companies in Nigeria is <

0.05, the H_1 is accepted therefore and the null hypothesis is rejected.

Re-statement of Hypothesis Two:

$H0_2$: Net Premium has no significant influence on Profitability of Life Assurance Companies in Nigeria

Net Premium has no significant influence on Profitability of Life Assurance Companies in Nigeria

Table 6: Net Premium and Profitability

	Net Premium has no significant influence on Profitability of Life Assurance Companies in Nigeria
Chi-Square	9.758[a]
Df	4
Asymptotes. Sig.	0.0081

Source: Author's computation, 2021 (SPSS-20.0)

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 6.0.

Table 6, shows the chi-square figure of 9. 758[a] and the p-value read below the table value of 0.05. (i.e,0.0081<0.05). This confirms that Net Premium has significant influence on Profitability of Life Assurance Companies in Nigeria

Decision: Since the p-value which the researcher is to accept or reject the H_1 that states Net Premium has no significant influence on Profitability of Life Assurance Companies in Nigeria is < 0.05, the H_1 is accepted therefore and the null hypothesis is rejected.

Re-statement of Hypothesis Three:

$H0_3$: There is no significant relationship between Net Expenses and Profitability of Life Assurance Companies in Nigeria

Table 7: Net Expense and Profitability

		Expenses Ratio	**Profitability**
Expenses Ratio	Pearson Correlation	1	.003**
	Sig. (2-tailed)		.005
	N	9	9
Profitability	Pearson Correlation	.003**	1
	Sig. (2-tailed)	.005	
	N	9	9

Source: Author's computation, 2021 (SPSS-20.0)

b. Correlation is significant at the 0.05 level (2-tailed).

Decision Rule: If p-value is lesser than 5% (0.5) significance level of the alternative hypothesis is accepted and reject null hypothesis while if the p-value is greater than the significance level the null hypothesis is accepted and reject alternative hypothesis. The table above shows that a coefficient of .003 at p= 0.5 (r = .003, p < 0.5). The p-value (0.003) is lesser than the significant level of 0.5, thus the alternative hypothesis is accepted and null hypothesis is rejected

Re-statement of Hypothesis Four:

$H0_4$: Risk-Based Capital has no significant effect on Profitability of Life Assurance Companies in Nigeria

Risk-Based Capital has no significant effect on Profitability of Life Assurance Companies in Nigeria

Table 8: Risk Based Capital and Profitability

	Risk-Based Capital has no significant effect on Profitability of Life Assurance Companies in Nigeria
Chi-Square	9.417[a]
Df	4
Asymptotes. Sig.	0.0089

Source: Author's computation, 2021 (SPSS-20.0)

c. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 6.0.

From table 8, the chi-square figure of 9.417[a] and the p-value reads below the table value of 0.05. (i.e, 0.0089<0.05). This confirms that Risk-Based Capital has significant effect on Profitability of Life Assurance Companies in Nigeria

Decision: Since the p-value which the study is to accept or reject the H_1 which state that Risk-Based Capital has no significant effect on Profitability of Life Assurance Companies in Nigeria is < 0.05, the H_1 is accepted therefore and the null hypothesis is rejected.

SUMMARY OF FINDINGS

This study sought to determine the effect of Claims Payment on Profitability of Life Assurance Companies in Nigeria between the periods of 2011 - 2019. The study applied the Ordinary Least Squares (OLS) regression technique, Chi-square and correlation analyses to determine the effect of Claim Management on Profitability of Life Assurance Companies in Nigeria. In the study, four hypotheses were tested to reach at vivid conclusion. At first hypothesis that was tested, Net Claim against Profitability of Life Assurance Companies showed that the p-value read below the table value of 0.05 (0.0095<0.05) therefore, confirmed that Net Claim has significant effect on Profitability of listed Life Assurance Companies in Nigeria. Also, the second hypothesis which was tested, Net Premium against Profitability of Life Assurance Companies confirmed that Net Premium has significant influence on Profitability of listed Life Assurance Companies in Nigeria as the p-value read below the table value of 0.05. (0.0081< 0.05).

Furthermore, the third hypothesis that tested: There is no significant relationship between Expenses Ratio and Profitability of Life Assurance Companies in Nigeria showed a coefficient of .003 at p= 0.005 (r = .003, p < 0.05), which indicated that there is significant relationship between Expenses Ratio and Profitability of Life Assurance Companies in Nigeria. Finally, the fourth hypothesis on Risk-Based Capital against Profitability of Life Assurance Companies confirmed Risk-Based Capital has significant effect on Profitability of listed Life Assurance Companies in Nigeria as the p-value read below the table value of 0.05. (0.0089<0.05).

CONCLUSION AND RECOMMENDATIONS

Based on the various findings examined, the study views return on asset as one of the essential and vital tools of profitability. It is more essential for insurance firms because it is used to measure the company's propensity and capacity to pay claim to its clients, motivate its employees, and maximizes the wealth of its shareholder. The findings established that Net Claim, Net Premium, Net Expenses and Risk-Based Capital have significant effect on profitability of Insurance Companies in Nigeria. This study therefore concluded that Net Claim, Net Premium, Net Expenses and Risk-Based Capital greatly affect the performance of insurance companies in Nigeria.

These following recommendations are made based on the conclusion:

1) That insurance companies should at all cost put in place strategies to ensure proper management of Net Claim, Net Premium, Net Expense and Risk-Based Capital and entrust these in the hand of experts to yield the required results
2) That the claim managers should work in cooperation with other sections of the insurer from the policy formation stage to its cessation. This will not only avert the payment of fraudulent claims but will definitely promote timely payment of genuine claims and increase the profitability of firm through effective cost control
3) That the insurance firms should not forget the main reason for their existence which is bringing the insured back to her pre-loss position by paying genuine claims. Therefore, all efforts should be made to pay genuine claims promptly as this increase the confidence of the general public in insurance and the industry as a whole.
4) That insurance company should pay a careful attention to other administrative cost, such as the underwriting cost, which is capable of reducing the company's profit margin and may disrupt claim prompt payment.
5) Claims manager should put forward strategic plans to ensuring that insurance claims complaint files are properly kept, monitored and handled for needs that may warrant its usefulness in the future.
6) State-of-the-art training mechanism should be put in place to enhance and improve the working pattern of a claim officer, which invariably might affect the organizational efficiency of insurance companies.
7) Claims handling procedures should be promptly managed to avoid deficiency in organization's operational objectives.
8) That the institution regulators and other stakeholders, within the industry, should at regular interval intensify effort to ascertaining the claims handling procedural methods in use by insurance companies in Nigeria
9) Government should ammonize their resources and technical knowhow with the Nigerian insurance industry in ensuring that insurance claims are well designed to curtail fraudulent claims experienced in the past.

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