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Life Insurance Business in Akwa Ibom State: Challenges and Strategic Options

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Abstract: *This paper investigates the challenges faced by life insurers in Akwa Ibom State as well as possible leeway to improving life insurance patronage in the state. This investigation becomes necessary given the growing concern by government toward better healthcare service for its citizen. The study employed a survey research design where data were collected from respondents chosen from eleven select insurance companies and analyzed using simple percentage statistics. The result indicates that income, low level of insurance culture, apathy, customer satisfaction, Information Technology alignment, growth and cost efficiency, and transparency and disclosure all constitute challenges to insurance business in the State. Based on these findings, it was concluded that income, low level of insurance culture etc., exert considerable effect of varying degrees on the life insurance business in the State. It is recommended, among others, that life insurance products should be made affordable by insurance companies by adopting a pricing strategy that will minimize executive excesses and maximize profit even when the product are sold at premium price. More awareness should be created among consumers and government should create jobs for its citizens to empower them reasonably enough to be able to buy life insurance in the State.*

Key Words: *Insurance Business, Life Insurance, Insurance industry, Insurance policy, Insurance market*

I Introduction

Every man wants to make good in life and probably live long enough to enjoy all that life has to offer, but it is rather a painful paradox that man's longevity remains the exclusive preserve of God Almighty. Even at better climes, where medical sciences have helped to improve the life expectancy of the people to an appreciable degree, fate still plays the final arbiter. But the irony however is that this uncertainty over man's fatality is probably what an industry like the insurance sub-sector thrives upon. Among the numerous services on offer at most insurance companies worldwide, is the life insurance policy. The life insurance policy, as the name implies provides a capital payable at death to the beneficiaries of the life assured. It is an aged long development when there was need to get security for humankind

In the opinion of Arodiogbu (2005), "humans have, from time immemorial, always sought security. This was perhaps the reason for the formation of families, clans, tribes, and other groups. Humans today have continued their quest to achieve security and reduce uncertainty because in some way we are still more vulnerable today than our ancestors". Besides, the physical and economic security formally provided by the tribes or extended families have diminished with industrialization, our income-dependent, wealth-acquiring life style renders us and our families more vulnerable to environmental and societal changes over which we have no control (Black and Skipper, 2005). Consequently, more formalized means are required for mitigating the adverse consequences of events and conditions ranging from unemployment, loss of health, death, old age, law suits, and destruction of our properties, and many other perils all of which are events that we cannot predict or completely prevent, but we can only provide for their financial effect, and the only way to doing that is through insurance.

The insurance Act 2003 grouped insurance into two broad classes of life and non-life or general insurance business. This paper is on the life insurance business. The life arm of insurance business include all insurance that pays benefits on a person's death, living for a certain length of time, incapacity, and injury or incurring a disease (Arodiogbu, 2005). In today's harsh and risk-prone habitation environment, every life is vulnerable to any of the above named peril either in the short run or in the long run, and this has given life insurance business a rising visibility. This is because of the role it has to play in mitigating the adverse effect of the event on the people and the economy. According to Naeche (2010:2):

> *The future of life insurance business in Nigeria is very bright and life market was going to drive the economy in the nearest future considering the nation's large population ..., it will play a leading role in the financial services industry and ... serves as financial intermediaries between investors and economic agents that lack sufficient financing. These economic agents may be households, businesses and governments. It emergence as financial intermediaries, with features different from those of banks as regards the time frame of investments, makes a major contribution to the development of the financial markets and the economy at large.*

The above statement is true especially in developed economies that have strong insurance industries. For instance, the life arm of South Africa's insurance market alone generates about 70 per cent of the industry's total income, (Naeche, 2010). In Nigeria, the industry has all it takes to re-write its history as a very important arm of the financial economy but in spite of the country's huge potentials that are capable of driving the biggest insurance market on the continent, the industry is plagued with numerous problems that make this investigation necessary. According to Popoola (2010), the industry has suffered setbacks with its insignificant contribution of just about 16% of the industry's total premium. Second, it has continued to record the lowest penetration level of about 0.2% in Africa's insurance market.

In view of the above problems, it is considered necessary to investigate into the problems or challenges that account for the poor performance of the industry in Akwa Ibom State. The objective of this paper therefore is to examine the challenges of life insurance business in Akwa Ibom State with a view to suggesting possible strategic options for tackling the identified challenges to a negligible effect on the industry.

To achieve the above objectives, the paper is discussed in five sections as follows. Section one is the introduction which contains the problems of the research and the objectives of the paper among others; section two is the literature review which also focuses on conceptual issues and past literature on life insurance business and its impeding factors; section three is the methodology used in carrying out this investigation; section four presents and discuss the findings/results, and section five presents summary, conclusion and recommendation.

II Review of Literature and Conceptual Issues

1. Introduction

In many countries, the almost self-defining term – personal insurance is used instead to mean the same as life, accident, and other insurance covering a person. In other words, life insurance is any insurance that provide cover for a person, whether, on his death (technically referred to as life assurance), injury (technically referred to as accident insurance), disease (i.e. health insurance) incapacitation (i.e. disability and long-term care insurance) or for living for a certain length of time (i.e. endowment insurance, annuity or pension).

Technically, life insurance is define as a contract between the policy owner and the insurer, where the insurer agrees to pay a designated beneficiary a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal or critical illness. In return, the policy owner agrees to pay a premium – a stipulated amount at regular interval or in a lump sum (Ademeso, 2010). In life insurance, the value for the policy holder is derived not from actual claim event, rather it is the value derived from the "peace of mind" experienced by the policy holder due to the negating of adverse financial consequences caused by the death of the life assured. From the above, three main types of life insurance policies could be identified in actuarial literature (Black and Skipper, 2000) including:

i. Whole life insurance - which provides a death benefit for lifetime;
ii. Term life insurance - that provide a death benefit for a limited number of years and,
iii. Endowment life insurance - which is a term life insurance with a saving component.

In general terms, life insurance is a way of dealing with risk and a saving medium for consumers. It also plays important psychological and social roles. As Hofstede (1995) stated, 'the major function of life insurance is to protect against financial loss from loss of human life. Besides covering the risk of death, it also covers the risks of disability, critical illness, and superannuation'. Generally therefore, the purpose of life insurance is to provide peace of mind by assuring that financial loss or hardship will be lessened or eliminated in the event of the insured person's death or incapacitation or illness. Life insurance is therefore developed on the concept of human life value (Sayin, 2003).

Human life value approach focuses on the economic component of human life. Any event affecting an individual's earning capacity has an impact on the individual's human life value. This event may be premature death, incapacity, retirement or unemployment (Black and Skipper, 2000). The human life value concept provides the philosophical basis for the life insurance, which is a product designed to protect the individual against two distinct risks: premature death and superannuation (Browne and Kim, 1993). Thus, while death is not a risk, the time of death is a risk. For most people, death at any age may be considered premature when one dies before adequate preparation has been made for future financial requirements of dependants. Life insurance thus becomes the mechanism for one to ensure a continuous stream of income to the beneficiaries (Black and Skipper, 2000). In this regard, life insurance may be regarded as a saving medium, financial investment, or a way of dealing with risks (Omar and Owusu-Frimpong, 2006).

Historically, life insurance began in the US in the late 1760s when the Presbyterian Synods in Philadelphia and New York created the corporation for relief of poor and distressed widows and children of Presbyterian Ministers in 1759. Subsequently, the Episcopalian priest organized a similar fund in 1769. Thus between 1787 and 1837, more than two dozen life insurance companies were started, but fewer than half a dozen survived (Black and Skipper, 2005)

Life insurance in Nigeria is of recent and as such its patronage and practice is also met with some start-up and penetration hindrances. Its potentials are enormous, but still remain quite untapped in the Nigerian insurance industry due to some factors which this study is predicated. In a bit to tackling these perceived hindrances, the life insurance market has undergone significant changes in recent decades. These changes affect all major dimensions of the industry ranging from the market, clients, products, distribution, and business models. These dimensions alongside with its past and present status are presented in TABLE 1.

As indicated in the above continuum, we have observed over time an increase in complexity that has brought forward a significant change in the market. However, as of today, the business characteristics of the past still apply due to the existing portfolio and coexist with the present situation. This coexistence has emerged from a traditional growth of the insurance undertaking with its inherent gradual diversification and from mergers and acquisitions. Consequently, several business models subsists using different types of insurance products: classical life insurance products with guaranteed interest rates and unit-linked life insurance products (Omar and Owusu-Frimpong, 2006).

This evolution has strongly augmented the complexity of the processes and the IT environment. For instance, today, there are multiple investment processes and multiple accounting principles (Lux GAAP, IFRS, other GAAP depending on subsidiaries and branches). This has triggered a need for multiple accounting / financial platforms and also for multiple systems regarding life insurance contract management in many developing countries like Nigeria.

2. Conceptual and Empirical Framework

The framework presented below contains factors considered as the challenges to life insurance business. Discussions in this study are therefore done within the ambience of the framework presented in Fig. 1. From Fig. 1, factors that affect life insurance in Akwa Ibom State are growth and cost efficiency, transparency and disclosure, IT alignment, low level of insurance culture, income, apathy, customer satisfaction. These concepts vis-à-vis challenges are discussed from empirical stand points in order to provide empirical support to author's intuitive postulations. As indicated in the framework, one of the challenges to life insurance is the growth and cost efficiency. Falling profits and deteriorating market capitalization have spawned a situation, where business growth and cost efficiency have become vital for the life insurance industry. Inferring from Moller (2004), business growth which can be achieved by enhancing innovative products and by entering new or niche markets as well as by new distribution channels have become a hindrance as it is appears to be far from the rich of many life insurance companies. Moreso, cost efficiency which can be achieved by process optimization and by a better use of information Technology seems to be another herculean task for many life insurance businesses.

Transparency and disclosure is another challenge that seems to dogs the life insurance industry. A continuously evolving regulatory environment and severe competition trigger the need for transparency on products for clients as well as for intermediaries. At the same time, disclosure requirements get more and more demanding. This ranges over several reporting levels: Management Information System (MIS) for local and group dimension, regulatory, clients and intermediaries. Particularly group reporting becomes more and more complex regardless of the size of the insurance undertaking.

Another challenge in literature is Information Technology (IT) alignment. IT needs to align to the business issues triggered by the first two challenges and to the business strategy. IT strategies must therefore be set up in a way that IT is not only operationally efficient but also cost-effective. For this reason, Chief Information Officers (CIOs) are experiencing a shift in their objectives from merely supporting the business by IT to increasing the value added of IT and creating a competitive advantage.

In particular, growing complexity can significantly enlarge functional scope of an application and therefore strengthens the need for flexible systems. Yet many existing systems were not designed to withstand such an evolution. Rather often, data models and program modules are insufficient to match the new prerequisites.

Poor socio-economic status especially income of the people also poses great challenge. According to Uko (2010) when an insurer sells life insurance for an insured, he only waiting for death to occur before he can compensate, as with whole life insurance. That is the insurance company is only liable to pay claims only if death occurs. But sooner or later, people began to lose interest in the policy because they felt it did not make adequate provision for the upkeep of the life assured while he or she is still alive.

There is Apathy for life insurance. It is however instructive to note that there is still apathy for insurance business generally in the country, as not many individuals are willing to buy a life policy for reasons which are both complex and superficial. Giving reasons for the crisis of confidence in the industry, Uko (20210) stated that there is fraud by insurance agents, low level of professionalism, as most people that handled the marketing of insurance services are primary school certificate holders or non marketing graduates (i.e. to human capital problem), failure to pay claims, bureaucratic process toward claim payment and the absence of a regulatory framework.

Low Level of Insurance Culture is another challenging factor. In a recent study of quality of life in developing countries with reference to South Africa (Moller, 2004), income and social security (own wages, ability to provide for family, insurance against illness/death and income in old age) have been treated as one of the major indicators of quality of life. This standpoint stresses the significance of insurance to human life.

Ironically, insurance services seem not to have been so accepted enthusiastically in developing countries. The abysmal level of insurance culture in developing economies has attracted relative interests among researchers and practitioners alike. Risk has been identified as a central fact of life in the rural areas of less-developed countries (Udry, 1994). Some of the problems associated with this have been marketing (Omar, 2002) and lack of knowledge of life insurance product (Carrin, 2002).

Customers' Satisfaction is discussed for many decades in the areas of consumer and marketing research (Hennig-Thurau and Klee, 1997; Fornell, 1992) as lacking in insurance business. The services literature which also covers insurance services recognizes the importance of creating satisfied customers (e.g. Crosby and Stephens 1987; Parasuraman *et al*., 1985). Hence, according to Crosby et al. (1990), the lack of customers' satisfaction poses a challenge to the growth and development of insurance industry.

III Methodological Issues and Data Set

In this study, a survey research design was employed. By this design, data were obtained from 50 respondents selected from a population of 57 staff through the process of randomization from ten insurance firms in Uyo metropolis who has life unit as their insurance portfolio. The firms are Leadway Insurance, African Allianece, Guarantee Trust Assurance, UBA Metrpolitan Life Insurance, Cornerstone Insurance, UNIC Insurance, ADIC Insurance, Industrial and General Insurance ltd, AIICO Insurance, Royal Exchange Insurance, and British American Insurance branches in Uyo Metropolis, Akwa Ibom State. The sample for this study was derived using Taro Yamen's formula for sample size determination given as $n= N/1+N(e)^2$, where N = Population; n = sample size. e = error term. Using the formula and with 5% significance level, the sample size was 50 $[57/1+57(0.05)^2]$.

However, the staffs used for this study were those in the senior category from grade level 08 to 14 and were all graduates. The distribution of the questionnaire was done by the researcher with assistance from 10 graduating students of Banking, Finance and Insurance Department, University of Uyo. Each member of the team was assigned one company to administer the questionnaire. The analysis of the data was done using only descriptive statistic which was percentage frequency. For each of the challenges identified, respondents were required to indicate their level of agreement or disagreement to the proposition. Their responses were measured by different levels of agreements and disagreements thus: Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and No comment (NC). TABLE 2 presents the data summarizing the responses obtained from the field respondents and the percentages for each of the research hypothesis.

IV FIGURES AND TABLES

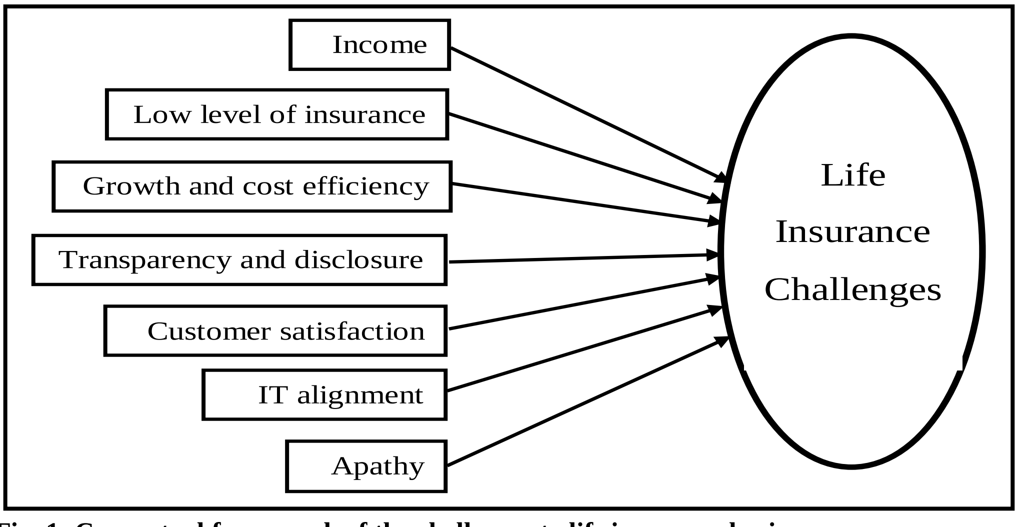

Fig. 1: Conceptual framework of the challenges to life insurance business
Source: Author's inferences

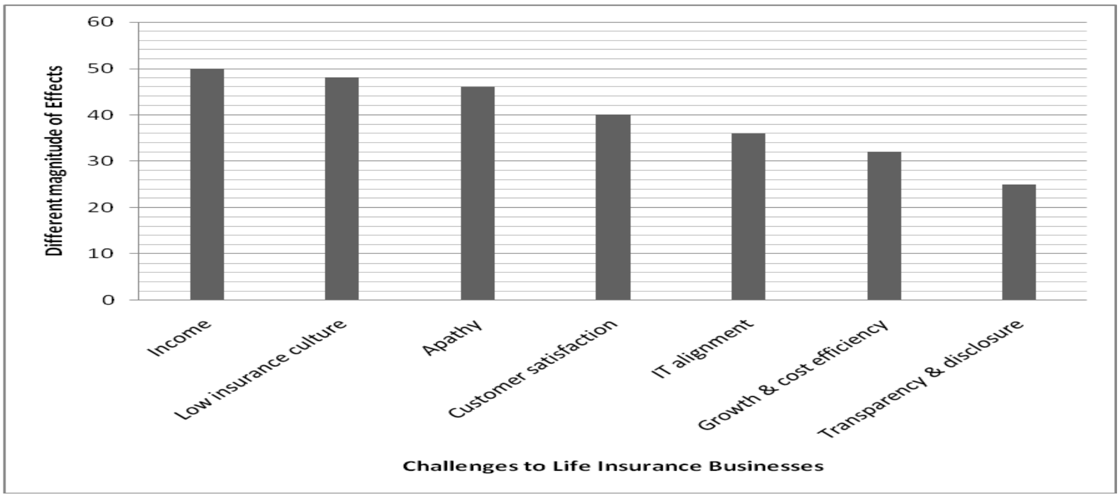

Fig. 2: Impediments to life insurance business and their degrees of effects
Source: Constructed from Result of the study.

TABLE 1: Dimensions of Life Insurance Industry

Dimension	The past	The present
Market	Single market	Multiple markets
Clients	Retail / Mass Affluent	Private clients
Products	Standard products	Tailor-made products
Distribution	Single channel	Multi channel
Business model	FoS ("Freedom to provide services")	FoS / branch / subsidiary

Source: Authors' inference from works cited in this study

TABLE 2: Summary of responses to challenges of Life Insurance Business in Akwa Ibom State

	Challenges facing life Insurance Businesses													
	G&CE		T&D		ITA		LLoIC		Income		Apathy		CS	
O	**R**	**%**	**R**	**%**	**R**	**%**	**R**	**%**	**R**	**%**	**R**	**%**	**R**	**%**
SA	12	24.00	10	20.00	18	36.00	28	56.00	38	76.00	24	48.00	18	36.00
A	20	40.00	15	30.00	18	36.00	20	40.00	12	24.00	22	44.00	22	44.00
NC	0	0.00	8	16.00	6	12.00	0	0.00	0	0.00	2	4.00	4	8.00
D	10	20.00	12	24.00	5	10.00	2	4.00	0	0.00	2	4.00	2	4.00
SD	8	16.00	5	10.00	3	6.00	0	0.00	0	0.00	0	0.00	4	8.00
Total	50	100.00	50	100.00	50	100.00	50	100.00	50	100.00	50	100.00	50	100.00

Source: Field survey 2010. Note: O = Options, R = Response

The various challenges for which response were sought were growth and cost efficiency (G&CE), transparency and disclosure (T&D), IT alignment (ITA), low level of insurance culture (LLoIC), income (I), apathy (A), and customer satisfaction (CS).

3. Results and Discussion

With the potentials that litter the breadth and width of Akw Ibom State, one would have expected the business of life insurers to have assumed its epochal status in economy and business landscape of the State. But life insurance business is still developing in the State. The factors that have consistently militate against this expected growth have been identifies in this study to include growth and cost efficiency (G&CE) transparency and disclosure (T&D), IT alignment (ITA), low level of insurance culture (LLoIC), income (I), apathy, and customer satisfaction (CS). Of all these factors income – a socioeconomic variable exerts the greatest challenge as attested for by all (50, 100%) respondents agreeing to it. The factor that followed is low level of insurance culture (LLoIC) with a total of 48 (96.00%) agreeing response rates. Apathy is shown as the third factor with a total of 46 (92.00%) agreeing response rate; customer satisfaction followed with a total of 40(80.00%) agreeing response rate. The fifth factor is Information Technology alignment with a total of 36 (72.00%) agreeing response rate; the sixth factor is growth and cost efficiency (G&CE) with a total of 32 (64.00%) agreeing response rates and finally, transparency and disclosure (T&D) with a total of 25 (50.00%) agreeing response rate.

The major finding therefore is that the challenges as identifies have different degree of effect on life insurance business in Nigeria. The greatest of the challenge is income. This finding confirms the statement of Popoola (2010) that factors that affect life business are not only about poor awareness, but largely due to the impact of income. Ademeso (2010) added that insurance is not accorded high priority by Nigerians due to the low economic power of the average man. He says that a man, who is struggling to feed his family and have a roof over his head, will not want to talk about tomorrow because insurance is all about tomorrow. Until there is an environment where a man can take care of his needs reasonably and comfortably, he explains that he can start to think about future security. The magnitude of each of these factors can best be viewed in the pictorials presented in Fig. 2:

The above finding has lots of implications. First it implies that not all factors exert same effect. In other words, some factors are more devastating than others; as such their consideration for solution must be discriminatory to avoid the danger of giving same treatment to all factors. This discriminatory treatment will help in tackling the challenges that most affect the industry strategically. Also, it allows for a sequential approach to the challenges, giving priority to factors of great effect.

V. Conclusion and Recommendations

The primary purpose of life insurance is to provide financial stability to families in the event the breadwinner dies. In addition, owning life insurance has many other benefits in terms of cash value, tax and estate planning. However, with these benefits, the life insurance business would have grown to an enviable level in the financial sector of the Nigeria economy but for numerous challenges.

From the above, it can reasonably be concluded from the analysis that several factors exert considerable effect of varying degrees on the life insurance business in Nigeria. Specifically, income, low level of insurance culture, apathy, customer satisfaction, Information Technology alignment, growth and cost efficiency, and transparency and disclosure—all constitute challenges to insurance business in Nigeria. In, income represents an important part of the challenges to tackle with a great deal of efforts.

Based on the analysis and conclusion made, the paper recommends that since income represent the greatest challenge, efforts should be shown toward making life insurance products affordable by insurance companies, this they can do by adopting a pricing strategy that will minimize executive excesses to enable the company make profit even when the product are sold at premium price. On the part of government, more jobs should be created to put more food on the table of the people while the implementation of the new minimum wage for workers should commence without further delay to enable workers patronize life insurance product.

For such challenges as low level of insurance culture, insurance firms should formulate and implement relevant marketing strategies towards addressing the nonchalant attitude of Nigerians to life insurance. For instance, specific marketing strategies are required to encourage the young generation below 46 year of age, the divorced/separated, and the less-educated to embrace and appreciate the role of life insurance. Since, the basic issue associated with this lack of interest rests mainly in their lack of appreciation of the roles or benefits of life insurance services; it is recommended that significant marketing communication activities be targeted more at this set of people. This will help to kindle their interest in the business and brings the life insurance institution to the highly exalted position it belongs in their perception

The problem of apathy arises as a result of fraud perpetrated by agents. To tackle this challenge, life insurance firms should develop a measure that would help in checking the excesses of the agents and their practices. Customer satisfaction could be engendered through ethical and sincere practices like prompt and less bureaucratic claim payment.

For Information Technology alignment, although, the renewal of a business-critical IT application system represents a challenge itself, it also represents an important part of the solution to cope with the other challenges. However, easy-to-integrate IT applications based on a modern architecture remain necessary.

There should be transparency in the operations of the insurer and full disclosure of material fact on the part of the insured. With all of these in place, growth and efficiency in the life insurance would have been achieved.

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