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A historical analysis of the insurance industry in the Nigeria economy 1902-1986

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A HISTORICAL ANALYSIS OF THE INSURANCE INDUSTRY IN THE NIGERIAN ECONOMY 1902 - 1986

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A DISSERTATION

SUBMITTED

BY

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CERTIFICATION

THIS IS TO CERTIFY THAT THE THESIS -

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IN THE NIGERIAN ECONOMY 1902-1986

SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES
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IS A RECORD OF ORIGINAL RESEARCH CARRIED OUT BY

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DEDICATION

To my Children,

Esther and Michael (Jnr.)

And

J.O.Irukwu

For his contribution to the development of Insurance Literature in Nigeria.

A B S T R A C T

This study examines the history of the insurance industry in Nigeria taking into congnizance the factors that affected the growth and development of the industry during the Pre-colonial and colonial periods. The study also analyses the contributions of the insurance industry to the growth and development of the Nigerian economy during the period under consideration.

In attempting to find a solution to the problems at hand, the simple historical methodology of cause and effect was employed to explain events. Also, empirical evidence was used to strengthen the quantitative aspects of our study. However, our empirical evidence was limited strictly to the use of aggregated secondary statistical data and the interpretation of such data. On the whole, the methodology employed was essentially inter-disciplinary.

Ever before the introduction of modern insurance practice in 1902, kinship relations provided the basis for protection against losses among the various communities in Nigeria, but the mode of practice differed from one community to another. However the colonalist adopted the policy of laizze-farre towards the insurance industry and as a result investments of insurance funds in the Nigerian economy was not a policy of the expatriate insurance companies as their attitude towards the economy was one of total profit maximization and economic expoitation.

The post-colonial period witnessed an intensive regime of government control and direct participation in the industry thus leading to the retention of the oligopolistic structure of the market and the existence of a sanitized and more professionally oriented market such that by 1988, a total of ninety-eight insurance companies, and one-hundred and eighty-four brokerage firms were operating in the market providing employment for more than a quarter of a million people all over the federation. Also, the volume of investments in the local economy by the local insurance industry has exceeded the ₦1 billion mark with profits rising by about 32% between 1980 and 1987. On the whole, the industry has successfully acted as major risk-bearer that has provided funds to stimulate the capital market thus leading to a greater level of industrial efficiency, construction of real estate properties, promotion of general commerce, mobilization of savings and provision of social stability.

PREFACE

This study aims at examining the historical background and the growth of the insurance industry in Nigeria. It also seeks to describe the contributions of the industry to the Nigerian economy during the period under study. That insurance existed and was practised in pre-colonial Nigeria is indisputable and the introduction of the Western model only came as a supplement which was accepted by Nigerians due to the inadequacies of the traditional insurance institutions, and also as a direct response to the challenges of modernization within the socio-economic system of the country. However, both the traditional and modern insurance systems have a common purpose i.e. the provision of security. It is hoped that this study will supplement existing works on other aspects of insurance and that it will fill a yawning gap in the economic history of Nigeria, West Africa, and Africa as a whole.

Chapter one of this work will serve as the introductory chapter in which the rationale behind this study will be explained. The concepts of risk and insurance, including the functions of insurance as well as the characteristics and basic principles of modern insurance will be examined because it is necessary to acquaint the reader with a working knowledge of these concepts and themes.

The second chapter discusses Nigeria's pre-colonial social and credit institutions, their mode of operation and limitations. The chapter also explains the contributions of the various traditional insurance institutions to the socio-economic development of the pre-colonial domestic economy of Nigeria. Furthermore, the difference between the traditional mode of insurance and modern insurance is examined.

Chapter three discusses the emergence of modern insurance business in Nigeria, and the subsequent expansion of the business which was completely dominated by the expatriates who introduced the business into Nigeria. The rise of African entrepreneurs and the emergence of professional insurance brokers will also be discussed. The chapter rounds-up with a description of the insurance industry role in the colonial economy.

Chapter four discusses the state of the market and background to government regulation, the reasons for State regulation, the establishment of a supervisory body by the Federal Government, and the effects of government policies on the Nigerian insurance market is well discussed. On the other hand, chapter five examines the industry's participation in the commercial and industrial development of Nigeria from 1969 to 1986.

Chapter six seeks to discuss the contributions of the various reinsurance companies to the development of the national economy. Furthermore, the industry's contributions to the manpower development efforts of the nation are explained in this chapter. Finally chapter seven rounds-up the work with a discussion on the SAP and its impact on the insurance industry, the problems facing the industry and recommendations made to solve these problems. A summary of conclusions brings the discussion to an end.

A work of this nature requires the input and assistence of many institutions and individuals in addition to the author. First, I would like to thank the University of Lagos for their Graduate Assistantship award, second, I also express my sincere appreciation to CODESRIA for their grant that enabled me to complete my field work and the final stage of this work. Next, I wish to thank the Head, Department of History who is also my supervisor Dr. B.A.Agiri, for his patience, untiring efforts and good counsel during the period of preparation of this work. Thanks are also accorded Professors Jide Osuntokun, Tajudeen Gbadamosi, and Dr.A.A.Lawal, for their support.

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LIST OF TABLES

		PAGE
TABLE I:	COMMERCIAL VEHICLES REGISTERED IN NIGERIA 1929 - 1939	61
TABLE II:	COMMERCIAL VEHICLES AND PRIVATE CARS REGISTERED IN NIGERIA 1946 - 1959	62
TABLE III:	DISTRIBUTION OF INSURANCE COMPANIES BY TYPE OF BUSINESS AND OWNERSHIP 1969 - 1978	86
TABLE IV:	SHIPPING MOVEMENTS AT NIGERIAN PORTS 1946 - 1960	98
TABLE V:	NAMES OF INSURANCE COMPANIES WHOLLY OWNED BY STATE GOVERNMENTS AS AT 31ST DECEMBER, 1988	100
TABLE V:	NAMES OF INSURANCE COMPANIES WHOLLY OWNED BY THE FEDERAL GOVERNMENT OF NIGERIA AS AT 31ST DECEMBER, 1988.	100
TABLE VII:	FIRST 25 LARGEST DIRECT INSURANCE COMPANIES IN NIGERIA BASED ON THE 1987 GPI.	104
TABLE VIII:	LIST OF REGISTERED REINSURANCE COMPANIES OPERATING IN NIGERIA AS AT 31ST DECEMBER 1986.	107
TABLE IX:	SUMMARY OF INSURANCE COMPANIES OPERATING IN NIGERIA AS AT 30TH NOVEMBER 1988	116
TABLE X:	INSURANCE BROKERS AND LOSS ADJUSTERS OPERATING IN NIGERIA AS AT 30TH NOVEMBER 1988	116
TABLE XI:	PROPORTION OF DISBURSEMENT ON INSURANCE TO TOTAL DISBURSEMENT ON SERVICES FOR 1975 - 1971 AND 1983	117
TABLE XII:	GPI OF INSURANCE COMPANIES IN NIGERIA BY CLASS OF BUSINESS 1969 - 1976	126
TABLE XIII:	GROSS PREMIUM INCOME OF INSURANCE COMPANIES IN NIGERIA BY CLASS OF BUSINESS 1977-1986	127

PAGE

TABLE XIV: INTEREST RATE STRUCTURE FOR INSURANCE COMPANIES IN NIGERIA 1978 - 1986 134

TABLE XV: ACTUAL CREDIT DISTRIBUTIONS IN NIGERIA 1982 - 1986 135

TABLE XVI: CONTRACTUAL SAVINGS THROUGH LIFE INSURANCE IN NIGERIA 1969 - 1986 137

TABLE XVII: FINANCIAL BENEFIT ACCRUED TO LIFE POLICY-HOLDERS IN NIGERIA 1969-1986 138

TABLE XVIII: INSURANCE INDUSTRY'S CONTRIBUTIONS TO THE DEVELOPMENT OF PRIVATE SECTOR ECONOMY BY TYPE IN NIGERIA 1969 - 1978 143

TABLE XIX: INSURANCE INDUSTRY'S CONTRIBUTIONS TO THE DEVELOPMENT OF PRIVATE SECTOR ECONOMY BY TYPE IN NIGERIA 1979 - 1986 144

TABLE XX: INSURANCE INDUSTRY'S CONTRIBUTIONS TO THE DEVELOPMENT OF PUBLIC SECTOR ECONOMY IN NIGERIA 1969 - 1978 145

TABLE XXI: INSURANCE INDUSTRY'S CONTRIBUTIONS TO THE DEVELOPMENT OF PUBLIC SECTOR ECONOMY IN NIGERIA 1979 - 1986 145

TABLE XXII: FINANCIAL TRANSFER OF RISK TO NON-LIFE INSURERS IN NIGERIA 1969 - 1986. 150

TABLE XXIII: AMOUNT PAID AS INDEMNITY TO NON-LIFE POLICYHOLDERS IN NIGERIA 1969-1986 151

TABLE XXIV: GROSS PREMIUM INCOME OF NIGERIA REINSURANCE CORPORATION 1978 - 1986 157

TABLE XXV: PUBLIC AND PRIVATE SECTORS INVESTMENT BY THE NIGERIA REINSURANCE CORPORATION 1978 - 1986. 158

PAGE

TABLE XXVI: AGRICULTURAL SECTOR'S CONTRIBUTION TO THE GROSS DOMESTIC PRODUCT AT CURRENT FACTOR COST 1981 - 1986 171

TABLE XXVII: CONTRIBUTIONS OF FINANCE AND INSURANCE TO THE GDP AT CURRENT FACTOR COST 1950 - 1959 AND 1980 - 1986. 190

LIST OF DIAGRAMS

DIAGRAM I: GPI OF INSURANCE COMPANIES IN NIGERIA 1969 - 1976.

DIAGRAM II: GPI OF INSURANCE COMPANIES IN NIGERIA 1977 - 1986.

DIAGRAM III: GPI AND FUNDS INVESTED BY NIGERIA RE. 1978 - 1986.

LIST OF ABBREVIATIONS USED

1.	A.C.I.I.	-	Associate of the Chatered Institute of Insurance London.
2.	A.C.I.B.	-	Associate of the Chartered Institute of Insurance Brokers..
3.	A.D.B.	-	African Development Bank.
4.	BEWAC	-	British West Africa Engineering Company.
5/	C.I.I.	-	Chartered Institute of Insurance London.
6.	CODESRIA	-	Council for the Development of Economic and Social Research in Africa.
7.	FEM	-	Foreign Exchange Market.
8.	GDP	-	Gross Domestic Product.
9.	GPI	-	Gross Premium Income.
10.	I.I.N.	-	Insurance Institute of Nigeria.
11.	J.R.A.I.	-	Journal of the Royal Antropological Institute.
12.	J.S.I.N.	-	Journal of the Insurance Institute of Nigeria.
13.	NICON	-	National Insurance Corporation of Nigeria.
14.	NCISN	-	National Cooperative Insurance Society of Nigeria.
15.	PA.Y.E.	-	Pay as You Earn.
16.	SAP	-	Structural Adjustment Programme.
17.	SFEM	-	Second-Tier Foreign Exchange Market.
18.	U.A.C.	-	United Africa Company.
19.	UNTBD	-	United Nations Board for Trade and Development.
20.	UNTAB	-	United Nations Technical Assistance Board.
21.	W.A.I.I.A.A.	-	West African Insurance Institute Alumni Association.

Tables of Contents

	Page
Certification	i
Dedication	ii
Preface:	iii-vi
List of Tables	vii-ix
List of Diagrams	x
List of Abreviations Used	xi
Table of Contents	xii - xiii
Chapter One:	
INTRODUCTORY CHAPTER	1 - 26
Chapter Two:	
Nature and Practice of Insurance in the Pre-Colonial Domestic Economy of Nigeria	27 - 53
Chapter Three:	
Emergence of Modern Insurance Business in Nigeria 1902 - 1959	54 - 80
Chapter Four:	
Regulation of the Insurance Industry in Nigeria 1960 - 1977	81 - 123
Chapter Five:	
Insurance Industry Participation in the Commercial And Industrial Development of Nigeria 1969 - 1986	124 - 155
Chapter Six	
Insurance Industry and The Contemporary Economy	156 - 174
Chapter Seven	
Emilogue And Conclusions	175 - 194

PAGE

APPENDIX I

Letter from E. A. Oke to Chief Obafemi Awolowo 195

APPENDIX II

Enterprises in which 100% of Equity held by the Federal Government shall be fully privatised 196

APPENDIX III

Enterprises to be fully commercialised 197

BIBLIOGRAPHY ... ... 198 - 211

CHAPTER ONE

INTRODUCTORY CHAPTER

This chapter seeks to examine the following sub-themes; - rationale for this study; a brief literature review of the existing works, the concepts of risk and insurance, forms of risks and the functions of insurance to man and society. Also, the characteristics of insurable risks, and the basic principles by which modern insurance business is carried out will be discussed.

RATIONALE FOR THIS STUDY

Although the central theme of this study is self-explicit, yet the question which the writer was confronted with almost everywhere that he went to seek for information and assistance on the subject matter was what is the relationship between history and insurance? It is, therefore, against this background that the rationale for this study will now be examined. First, it is important to recognise that "....... history is important in obtaining proper perspective because the roots of the insurance idea go far back in the pages of history."[1] Thus, by "... learning more about the past, one can better understand the present and appraise the future of insurance."[2]

It should be stated here that we cannot but continue to guess the past in the field of risk and insurance as long as we operate with partial knowledge and be contented with rules of relativity and probability. This shows that we have to research into the history of risks and insurance if we care to understand and explain the past of this important aspect of the socio-economic life of the individual.[3]

Another reason for undertaking this study is because of the fact that it falls within the realm of economic history; and both economic historians and economists have written on many aspects of the economies of Africa, West Africa and Nigeria, for example, pre-colonial and colonial transportation systems in West Africa and Nigeria, the growth and development of trade in Nigeria and West Africa, the growth and development of money and banking in Nigeria and West Africa to mention but a few. A study of the insurance industry in Nigeria during the pre-colonial, colonial and post-colonial periods has been excluded from such works, hence this attempt.

The need for this study also arises because insurance is an active complement to all commercial, business and socio-cultural activities of mankind. Thus, it is hoped that this study when completed will enlighten the generality of the people about the history and impact of the insurance industry on the Nigerian economy. Furthermore, the need to undertake a study of this nature is borne out of the fact that despite the dearth of written materials during the early stages and even in the present stage of growth of the insurance industry in Nigeria, one can attempt to present a work that contains some concrete and indisputable facts by analysing relevant documentary and non-documentary evidences that are available.

This study is also being undertaken in order to examine the participation of the insurance industry in the economic development of Nigeria during the colonial and post-colonial era. It is hoped that this study will supplement existing works on other aspects of insurance and that it will fill a yawning gap in the economic history of Nigeria, West Africa and Africa.

BRIEF LITERATURE REVIEW

Although some works have attempted to trace the historical background, and the role of the insurance industry in the economic development of Nigeria, none is a serious academic venture aimed at examining and writing a comprehensive history of the contributions of the insurance industry to the Nigerian economy. Indeed available literature on this subject in Nigeria is scanty, inadequate and dominated by experts and professionals in the field.

E.C.NnNesty[4] focuses on the early nature and practice of modern insurance business in Nigeria. He explains why the Royal Exchange Assurance Company of London established a branch office in Nigeria in 1921 and outline the expansion of motor insurance business in Nigeria in the 1930s and 1950s, but he failed to discuss the impact of this development on the Nigerian economy. J.O.Irukwu[5] aims primarily at explaining the basic principles of insurance namely insurable interest, utmost good faith, proximate cause, indemnity, subrogation and contribution; and the legislations that are operative in the Nigerian insurance market. He also attempts to explain the nature of social security institutions that existed in Nigeria before the introduction of modern insurance practices by the British merchants in 1902.[6] Again, this work did not discuss the impact of the various legislations on the economic development of Nigeria. Furthermore, J.I.Falegan[7] attempts a history of the insurance industry from 1902 to 1977 using Rostow's theory of stages of economic growth. This perhaps is the most comprehensive of the current literature but our initial investigations have shown that Rostow's theory is inadequate for an indepth study or analysis of the pattern of growth of the insurance industry in Nigeria. Also, in another of his work, Falegan[8] attempts to examine the various legislations governing the investments of insurance funds in Nigeria, but this work does not directly relate historically these legislations to the development of the industry.

Again, in their contributions to our understanding of the development of insurance in Nigeria, M.O.Ojewola,[9] O.Lijadu[10] and J.N.Farnsworth[11] repeat the facts found in McNesty, Irukwu and Falegan's works with very little addition. F.O.Ogunlana[12] and G.K.Cadmus[13] works examined how the insurance industry can help in the economic survival of Nigeria. Both of these works like others, lack vital facts and empirical evidence; this again makes it impossible for us to appreciate the contributions of the insurance industry to the Nigerian economy. S.A.Alao,[14] focuses on the importance of life assurance, the privatisation of pension schemes and how these can be used as a tool for economic development. M.O.Ajaja[15] attempts to analyse how insurance firms can help in the control of crime in the society, thus helping to provide a safe economic environment that is necessary for further economic growth and social upliftment of the society.

Contributing further to our knowledge and understanding of the contributions of the insurance industry to the Nigerian economy, A. Oyejide and A. Soyode[16] attempt a brief explanation of the role of insurance companies as investors and the problems they encounter. Again, M. A. Adeyemo,[17] tries to examine the role of the insurance industry in the successful implementation of the Fourth National Development Plan, while E.O.Eze,[18] explains the importance of reinsurance companies to the national economy. In essence, these works repeat themselves. They also lack sufficient empirical evidence and, therefore, fail to contribute to our quest for a fuller knowledge of the extent of participation of the insurance industry in the Nigerian indigenous economy.

Available literature have shown that Nigerians have traditional systems of providing against any occurrence of loss that might befall any member of a group or a community thereby ensuring continuity in an individual's economic and social endeavours. Amongst the various communities in Nigeria, kinship relations provide the basis for protection against losses. For example, there are specific institutions that encourage savings for the future in case of losses among the Yoruba known as the Esusu.[19] Among the Igbo of Southeast Nigeria, similar institutions also exist, these institutions had various names such as Ogbo, isusu, or compiri.[20] Among the communities of Northern Nigeria, families do come together to help themselves in times of need, here kinship ties are very important although the institution might not be institutionalized as was the case in the Yoruba and Igbo communities.[21]

However, many of the above studies are largely normative, they do lack a historical approach, and as such, there is still a gap to write a full history of the industry and its impact on selected sectors of the economy.

THE CONCEPTS OF RISK AND INSURANCE

In this section, the concept of risk and insurance will be briefly examined because it will help us to attain a better understanding of our study as the discussion progresses.

The concept of risk is as old as the history of the creation of man and as such, it is not possible to be dogmatic about the definition of the concept especially as scholars or specialists in this area have failed to agree on a universally acceptable definition. Nonetheless, we shall attempt a working definition that considers "risk as the uncertainty of loss"[22] as it concerns "life, fire damage, theft of property and accidents and others".[23] Generally, this definition implies that it is not certain as to when a loss will occur and how severe it will be once it has occurred. Risk, has also been defined as the "possibility that something we do not want to happen will happen or that something we want to happen will fail to do so.[24]

From these definitions, two points seem to have clearly emerged; first, we have learnt that risk is a problem which every human being has to contend with and second, that risk is at the very centre of insurance"[25]. The implication of this statement is that without the existance of risk, there would be no need for insurance because every person and institution will be safe and secure.

Risks can broadly be classified into two categories, i.e. pure and speculative risks, fundamental and particular risks. Pure risks "... involve only the possibility of a loss; the deviation from expectations can be unfavourable only."[26] With this type of risks, the possibility of making a gain out of an event may be remote but at best the <u>status quo</u> will be maintained. Examples of pure risks are fire, accident and death. Whether these events occur or not, the result will be the maintenance of status quo. On the other hand, speculative risks are risks that hold out possibility of a gain or a loss. Thus risks that fall under this category are generally referred to as uninsurable risks, for example, shoplifting and expectation of making profits from a new product.

Fundamental risk has been defined as "... one that is impersonal both in origin and consequence. The losses that flow from fundamental risks are not normally caused by one individual and their impact generally falls on a wide range of people."[27] From this definition, we can conclude that risks that are fundamental in nature normally arise from some physical occurrence that is beyond the control of man or they may arise out of the nature of society we live in.[28] Examples of risks that are fundamental in nature are famine, earthquake, polution, and war. Due to the nature of these risks, they are generally unacceptable for insurance by modern insurers, the general concensus is that such risks are societal problems, and as such, the society as a whole, the government or the international community should be left to find possible solutions to them. On the other hand, a particular risk, is one that "... has its origin in individual events and its impact is felt locally."[29] In essence, an individual is likely to experience a loss from the occurrence of a particular risk.

Examples of particular risks are - accidental damage to personal effects, and theft of property.

Since we have been able to establish the basis upon which insurance rests, it is only proper at this juncture to examine the concept of insurance before moving on to examine the modern and basic principles of insurance. Willet, has defined insurance as "... that social device for making accummulation to meet uncertain losses of capital which is carried out through the transfer of the risks of many individuals to one person or to a group of persons."[30] Similarly, it has been defined "... as a means whereby groups of people, facing similar risks, can club together for the protection against certain financial losses."[31] Under this situation, each individual transfers his risk to the club, and in return he pays a little sum of money known as the premium. In the final analysis, some people who may be unfortunate to have to suffer losses, will claim compensation from the club or fund. Thus, the loss of the few is borne by many. Furthermore, Pfeffer, in his work defined insurance as "... a device for the reduction of the uncertainty of one party called the insured, through the transfer of particular risks to another party called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured."[32]

All these definitions were selected after a careful study of some of the various definitions associated with the concept of insurance, and also like the concept of risk, it has been difficult to find a suitable definition that is universally acceptable for the concept of insurance. Two facts seem to have emerged from our discussion so far. First, our earlier stand that this study falls within the realm of economic history, which has integrated the allied disciplines of political economy and social history, is further consolidated with the definitions given. Second, the definitions also help to consolidate an earlier point that the concept of risk is the essential ingredient needed for insurance to survive or take place, this is because, underlying the various definitions of insurance is the concept of risk pooling, and the desire of various people to come together to pool the resources at their disposal to protect themselves against any loss that might occur.

FUNCTIONS OF INSURANCE

The discussion here will be under two sub-heads i.e. primary and secondary functions. In a nutshell, it can be said that "the primary function of insurance is to spread the financial losses of insured members over the whole of the insuring community by compensating the unfortunate few from the fund built up from the contributions of all members".[33]

All that is being said here is that the basic function of insurance "... is to provide a risk transfer mechanism by means of a common pool into which each policy holder pays a fair and equitable premium, according to the risk or loss he or she brings to the pool."[34]

One of the secondary functions of insurance, is that it serves as stimulus to business enterprise. Under normal circumstances, "no prudent industrialist would consider investing large sums of money in a project without some suitable safeguards."[35] This means that such money will be tied-up as a substantial reserve either in a bank or in the private hands of the owner. But with the existence of insurance, these funds or reserves are released for further investment and development. Thus, insurance, helps in promoting trade and industry in the economy.

Another secondary function of insurance is that it provides security and consequently the desired peace of mind to an investor. Every individual and corporate enterprise desires security and peace of mind, and insurance provides this and reduces the level of anxiety on the part of individuals or business enterprise. Indeed, the provision of safety and security "... is a psychological factor that is difficult to measure in terms of specific benefits."[36]

Furthermore, a well organised insurance market is known to contribute immensely to "a healthy and vigorous economy as it helps to bring about a closer approach to an optimum allocation of the factors of production and hence optimum price levels."[37]

Again, another function of insurance is that "by action taken or recommendations made during the course of their business insurers have a considerable effect on the reduction of losses, both in their incidence and extent."[38] Furthermore, "this result is a subsidiary goal for most kinds of insurance, but undoubtedly more loss prevention work occur because of insurance than would occur without it."[39] For it is known that insurance companies engage themselves in loss prevention campaigns, health education by life insurers, motor vehicle safety research, the conduct of industrial surveys and inspection of electrical and mechanical installations.

Another benefit derivable from the operation of insurance is that it helps in keeping families and businesses together because insurance companies often supply the financial aid which permits a family to survive and business to continue despite serious adversities which may have occurred. For example, if the life support of a family dies or is seriously injured so that he becomes permanently disabled, the family is bound to experiance financial hardship especially if the family depends on the personal income of the person for survival. But with the existence of insurance, such a situation is avoided. Also, "... a fire or a liability suit can cause the failure of a business. Such perils can be met through insurance which provides money at the time of need in order to keep the business intact."[40]

The existence of insurance also encourages thrift. This is because the premium which an insured pays against potential or possible loss is an obligation which the insured owes his family or beneficiaries, as such, the payment of premium becomes a matter of compulsion rather than choice; and a habit of regular savings is developed. In addition, the long term contracts effected under life insurance has special advantages in stimulating savings and thus build substantial cash reserves that can be called on either in times of emergency or retirement. From the small amounts collected from every policyholder, a large reserve is built up and from this reserve, a substantial amount is invested in the economy by insurance companies, thus further promoting economic and social wellbeing of the society as a whole. Such investments could be on the building of housing estates, construction of tourist facilities such as hotels of international standard, buying of government stock and bonds and giving loans to policyholders.

Still on the functions or benefits of insurance, it has been observed that insurance provides a basis for credit because "several kinds of insurance are invaluable as the foundation for credit transactions."[41] For instance, most banks insist on the production of life insurance as a collateral before loans are given to prospective applicants. This help to ensure that the loan will be repaid inspite of uncertain contingencies such as death or disability of the borrower. Also, fire insurance is used by mortgages who loan money with real or personal property as collateral. Thus, one could see that insurance is a necessary tool for a sound credit economy. From the discussion thus far, one will not be wrong to assert at this point that insurance is a necessary tool and complement for the take-off and rapid development of any nation socially and economically.

CHARACTERISTICS OF INSURABLE RISKS

It is an uphill task to attempt to compile a list of the types of risks that can be accepted for insurance as not all risks presented to the modern insurer are normally accepted to be insured. Against this background, we shall discuss the characteristics that are generally associated with insurable risk.

The first characteristic of an insurable risk is that the loss arising from such a risk must be capable of financial measurement and as "insurance can only provide monetary compensation, sentimental value and esteem cannot be replaced in the event of loss. Thus, the scope of insurance is limited "... to the precise financial consequences of an insured event."[42] One point that must be mentioned here, is that it is extremely impossible, in a majority of cases to know the financial value of the risk before the occurrence of the event, thus, what insurers are primarily concerned with is that the loss must be capable of financial measurement whenever and wherever it occurs.[43] The only modification to the rule can be found in modern life insurance where "... it is rather more difficult to say that the financial loss suffered by a wife when her husband dies is a specific sum of money... the level of compensation to be paid in the event of death has been determined prior to taking out the policy."[44]

A second characteristic of an insurable risk is that "there must be a large number of similar, homogeneous risk before any one of that number is capable of being insured."[45] The reason for this is that "if an insurance fund was made up from the contributions of a relatively small number of members, the contributions by individuals might have to be so high as to be totally unacceptable."[46]

Another feature of an insurable risk is that there must be insurable interest. The doctrine of insurable interest simply states that "... the person seeking the insurance must be legally entitled to insure the article or event".[47] Furthermore, and as earlier stated, the insured must suffer some form of financial loss due to the occurrence of the risk insured. If this provision is not strictly enforced by modern insurers, some unscrupulous persons might insure the life or property of a criminal with the hope of being indemnified by the insurer when a loss occurs, thus, in these circumstances, he is attempting to make a gain where he has no legal interest.

Again, any insurable risk must be fortuitous in nature. This means that events that will occur with certainty cannot be insured as there will be no uncertainty of loss, and risk. For the risk to be an insurable one, the frequency and severity of such a risk must be completely beyond the control of the prospective person to be insured. But, one finds a slightly different situation in life insurance as death is one of the events that is certain to happen; but the truth of the situation is that life insurance "still involves fortuitous events as it is the timing of death that is beyond the control of the person effecting the policy".[48] An interesting point that one notices with life policies, is that most of these policies provide adequate cover against the risk of suicide. The argument that has been put forward in defence of this situation is that "... there is usually a limitation period, often one year, after the commencement of the contract, during which suicide is excluded. This is intended to frustrate the deliberate arranging of an insurance policy when suicide is contemplated."[49]

Also an insurable risk must be pure in nature and it must not be a speculative risk. Furthermore, particular risks are normally insurable risks provided they meet the other criteria of insurable risks enumerated. On the other hand, the same situation does not apply to fundamental risks. While some fundamental risks can be insured, other cannot be insured, an example is the standard exclusion of war risks from all modern insurance contract.

Another characteristic of insurable risk is that the risk to be insured must not be against public policy; in other words, while it is possible to insure losses arising from a motor accident, it is totally unacceptable and inconsistent with public policy to insure against fines imposed on an offending motorist by the police or courts, this is because the fine imposed on such a person is meant to penalize him.

BASIC PRINCIPLES OF MODERN INSURANCE

In this section, we shall attempt an explanation of the principles on which modern insurance business is based, but we shall not concern ourselves with the technical details of these principles. The principles to be examined are insurable interest, utmost good faith, and indemnity.

The existence of insurable interest is an essential ingredient of any insurance contract and it has been defined as "... the legal right to insure arising out of a financial relationship, recognized at law between the insured and the subject-matter of insurance."[50] The subject-matter of insurance "can be any form of property or an event that may result in a loss of a legal right or creation of a legal liability."[51] Put in a more simpler form, insurable interest means that " a person who wants to purchase an insurance service must stand to benefit from the existence of the life or property to be insured and stand to suffer some pecuniary loss by its destruction."[52] Four essential features have been identified with the principle of insurable interest and these are:-

(a) there must be some property, rights, interest, life, limb or potential liability capable of being insured;

(b) such property, rights, interest, etc, must be the subject-matter of insurance;

(c) the insured must stand in a relationship with the subject-matter of insurance whereby he benefits from its safety, wellbeing or freedom from liability and would be prejudiced by its damage or the existence of liability;

(d) the relationship between the insured and the subject-matter of insurance must be recognized at law.[53]

Another important principle of modern insurance that will be briefly explained here is the principle of utmost good faith. Before moving further, it is important to mention here that insurance contracts are quite different from ordinary commercial and non-insurance contracts. In the latter case, the operative doctrine is that of <u>caveat emptor</u>, i.e. the buyer should beware, this is because each party to the contract can examine the item to be purchased or service to be rendered thoroughly before agreeing to be a party to the contract, it is not necessary for each party to disclose information requested.[54] But with an insurance contract, the situation is the reverse, i.e. the operative doctrine is that of uberrima fides or utmost good faith. Simply defined

> utmost good faith ... means that each party to a proposed contract is legally obliged to reveal to the other, all information (material fact) which would influence the other's decision to enter the contract, whether such information is requested or not.[55]

In the above quotation, the phrase - material fact has been defined as "a fact that would influence the mind of a prudent underwriter in assessing a risk."[56] Finally, the duty to disclose does not rest with the proposer alone, for it is like a double-edged sword because the duty to disclose all relevant information rests on both the insurer and the proposer.

At this juncture, we shall examine the principle of indemnity and its corrollaries of subrogation and contribution. "Indemnity, for the purpose of insurance contracts, could be looked upon as exact financial compensation sufficient to place the insured in the same financial position after a loss, as he enjoyed immediately before it occurred."[57] An interesting point to note here is that the principle of indemnity applies to all insurance contracts except life assurance and personal accident insurance. The reason for this is that a person's life or limb cannot be measured monetarily. Thus, caution is greatly exercised when the contract is effected in life and personal insurance. Furthermore in "life assurance the amount by which a person may be insured is limited by his own ability to meet premiums. In personal accident policies offering weekly benefits, it is limited to an amount that will not provide an unreasonably high benefit in relation to a person's normal earnings."[58]

As earlier mentioned, the principle of subrogation and contribution are corollaries to the principle of indemnity, thus, our discussion on the latter will be incomplete without brief explanation of these corollaries. "Subrogation is the right of one person, having indemnified another under a legal obligation to do so, to stand in the place of that other, whether already enforced or not."[59] Subrogation operates in a very simple way because any profit the insured might make from an insured event is recouped by the insurer who has already idemnified the insured. It is important to state here, that it is not that the "insured cannot recover from a source in addition to his own insurers; what is being said is that, should he succeed in so doing, the money he acquires is not his but is held in trust for his insurer who has already provided an indemnity."[60]

On the otherhand, "contribution is the right of an insurer to call upon others similarly but not necessarily equally liable to the same insured to share the cost of an indemnity payment."[61] Furthermore, "... if an insurer has paid a full indemnity it can recoup an equitable proportion from the other insurers of the risk."[62] Finally, "if a full indemnity has not been paid, then the insured will wish to claim from other(s) also to receive an indemnity, and the principle ... enables the total claim to be shared in a fair manner."[63]

Conclusively, it is hoped that the above discussion have raised the level of our understanding of the concepts mentioned. This exercise is viewed necessary because it will help in reducing complications that the reader may be faced with as the work progresses.

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CHAPTER TWO

NATURE AND PRACTICE OF INSURANCE IN THE PRE-COLONIAL DOMESTIC ECONOMY OF NIGERIA

This chapter intends to discuss the nature of insurance in traditional societies in Nigeria. A modern dictionary definition of insurance describes it as "undertaking by a society, or the state to provide safeguard against loss ... in return for regular payments".[1] A technical definition of insurance is that it is "... a means whereby group of people facing similar risks can club together for protection against certain financial losses".[2] But these definitions can hardly be accepted as workable within the Nigerian traditional setting. Thus, for the purpose of this chapter, insurance shall be taken to mean the realisation within an individual of the need to provide against the occurrence of future loss through traditional insurance organisations.

The period of study in this chapter will be limited to the pre-colonial period and in an attempt to establish a case for our topic, examples will be drawn from among the Yoruba, the Igbo and Hausa communities of Nigeria. Also, examples will be drawn from Britain and other countries alike to strengthen the base of our discussion. Furthermore, the study will cover a discussion on the approaches normally adopted to study the pre-colonial domestic economies of African societies.

APPROACHES TO THE STUDY OF PRE-COLONIAL DOMESTIC ECONOMIES

To understand the pre-colonial domestic economy of Nigeria better, it becomes imperative to examine and explain some concepts that are generally associated with the pre-colonial domestic economies of West African societies. First, some economic anthropologists, economic historians, rural sociologists, and economists have tagged the pre-colonial domestic economy of Nigeria a 'primitive economy', while others have tagged it a 'peasant economy'. For the purpose of simplicity and better understanding, the author of this study has chosen the latter description (i.e. peasant economy) because it best suits our purpose as will be seen in the explanation given below.

A widely accepted definition of the concept of a 'peasant economy' is that

> ... peasant refer to a socio-economic category. It describes a socio-economic system of small-scale producers with a relatively simple, non-industrial technology; it implies that it has its own particular local character, partly because of intricate community inter-relationships and partly because, in economic and social affairs, it both contributes to and draws upon a town in trade, cultural exchange and general ideology.[3]

Some works[4] on the nature of the pre-colonial domestic economy of Nigeria have revealed that the economy was to a large extent a 'peasant economy'. It must be stated here that the concept of the 'peasant economy' was adopted because it "... emphasizes that the range of data is wider than the 'primitive' to include monetary economic systems..."[5] This paper will not elaborate on the characteristics[6] of a 'peasant economy'. It is just enough here, to assert that the pre-colonial domestic economy of Nigeria was essentially a 'peasant economy'.

In the study of pre-colonial domestic economy, three approaches have emerged and this has resulted in a controversy between the proponents of each theory. The classical approach which was developed and used by scholars like R.C.Thurnswald[7] and W. E. Armstrong[8] involved the strict application of the general theories of economics to the study of Africa's pre-colonial domestic economy. They however "... recognised the need for further analysis and a new approach to some basic problems".[9] In view of this development, a new school of thought known as the 'substantivists' emerged with a new approach to the study of Africa's pre-colonial domestic economy.

G. Dalton,[10] K. Polanyi and G. M. Arensberg[11] who are exponents of this school argue "... that traditional exchange was conducted according to the principles of reciprocity and redistribution".[12] This simply means that "... exchange between individuals or house-holds reflected social or political patterns, not the play of market forces..."[13]

Furthermore, another school of thought known as the neo-classical theorists or the formalists led by R.Firth[14] and W.O.Jones[15] believes that Africa's economic past should be studied with a "... selective applicability of Western economic theory".[16] In essence this school of thought believes, and has argued that Africa's economic past should be studied by a combination of economic theories and developing new terminologies to fill the gaps which established economic theories cannot adequately explain. Thus, it can be said that this chool of thought represents a melting pot of both the classical and substantivists schools. However, the debate now seems to be all over without total victory for any of the schools; and in the words of a renowned scholar.

> ... economic theory developed with reference to Western examples alone is too narrow, while the ... tendency to accentuate the differences in human behaviour at the expense of common elements seems to deny the possibility of an economic science.[17]

On the above conclusion therefore, this paper will not lean exclusively on any of the theorie⁄ as postulated by the different schools of thoughts, all that will be done here is to present or advance enough evidence to show and prove that contrary to popular belief, insurance was practised in Nigeria during the pre-colonial period. However, it is important to mention here, that before the development of modern insurance practices in the Western world, the various societies had their own methods of providing against the occurrences of any loss, these were manifested in the existence of the Burial Societies, Slate Clubs and Friendly Societies, to mention but a few in pre-industrial Britain and Germany. Thus, each society had its own pattern of development and also had various institutions that catered for the needs of the society at any given point in time.

INSURANCE PRACTICE IN THE PRE-COLONIAL DOMESTIC ECONOMY OF NIGERIA

It is no longer contested that Nigerians have traditional systems of providing against any occurrence of loss that might befall any member of a group or a community thereby ensuring continuity in an individual's economic and social endeavours. Ever before the introduction of modern insurance in 1902,[18] among the various communities in Nigeria, kinship relations provided the basis for protection against losses, but the mode of practice differed from one community to another. Generally, however, most of the traditional insurance organisations operated as credit and social security organisations.

Among the Apoi-Ijo of Okitipupa Division of Ondo State in Nigeria, there existed (and still exists) the concept of mutual help and this was executed through an organisation known as the Otu. "The Otus were companies formed by the mutual consent of young people for any purpose ..."[19] The organisation was normally headed by somebody designated as the Olori-Otu or head of the association. Members made regular contributions in cash or kind to the coffers of the Otu in anticipation of the time when they would need the Otu's financial support for marriage, funeral and child naming ceremonies. Such support would also be given to a willing member who builds a house or takes a title. Thus, it will not be wrong to say that the primary responsibility of the various Otu was to see to the welfare of every member and where necessary the community as a whole.[20] In essence, the problem of an individual was regarded as a problem for all the Otu members and any emergency financial needs of a member were totally taken care of by the Otu.

Furthermore, among the Yoruba, there existed various organisations that performed similar roles as that of the Otu and can be compared to the roles of a modern insurance company. For example, the Esusu society served as a general insurer[21] for members of the society. This society encouraged savings for the future and in most cases, this institution readily provided financial support to any member of the society who unfortunately experienced a loss and was in need of money to settle urgent and or pressing problems. As an expert has described the organisation:

> The *esusu* is a great convenience to traders, enabling them to anticipate, by several months, the saving up of a given amount of capital. Or, a person may have the misfortune to lose a father or a mother whose funeral may require a large amount to be borrowed. Instead of having recourse to the moneylenders he approaches the '*Olori-Ajo*' (literarily, the head of the club) and asks to be allowed to be the next to take his share from the pool. Unless he has already been anticipated by one whose claim is equally or even more urgent, his request is granted.[22]

From the above, it is evident that the *Esusu* society had a common pool into which every member contributed his own agreed subscription. It is important to note here that whenever a loan is given out, proper records are kept and a little sum is charged as interest. Thus, it becomes clearer that what was being practised in pre-colonial Yorubaland can be said to be a system of insurance in its own way for the following reasons; there existed a common pool into which every member contributed a fixed sum of money either on a daily, weekly, or monthly basis; interests were charged for any loan taken by members; the savings were for a definite period lasting between three months and one year during which no disbursement was made to members.[23] All these characteristics compare favourably with modern insurance practice where premiums[24] are paid on a regular basis to a common pool, interests are charged on policy-loans or where in the case of endownment policies no payment is made until the end of the agreed term stated on the policy.[25]

Furthermore, both the Esusu society and modern insurance companies dealing in life business have a common objective of encouraging and promoting the habit of savings amongst their members. Above all, member of the Esusu society and a modern policy holder are fully assured of protection and ready financial assistance whenever a loss is experienced. However, one major difference between the two systems is that while the Esusu society caters for every genuine purpose for which money is urgently required a modern-day policy holder has to buy several policies from an insurance company before he can be assured of the same level of protection which an Esusu society member enjoys.

What is more, whereas the pool of a modern insurance company is composed of funds generated from life and non-life business i.e. general business, the pool of an Esusu society is made up of subscriptions generated for all purposes as was mentioned above; thus drawing a clear line of demarcation between modern insurance practice and the mode of practice during the pre-colonial period in Nigeria. Also, the various organisations were not free to invest the funds raised as a modern insurance company is permitted to do, they only kept the money collected in trust for their owners. Also, the pre-colonial or traditional insurance organisations did not pay interest on the accumulated subscriptions of a member, and there was no specialized underwriter[26] and specialised institutions in pre-colonial Nigeria. Certainly, there exist other differences and these will be discussed later.

Other major mutual help associations among the Yoruba included the Aro and Hunters' Guild - Egbe Ode. The Aro was a specialized association just as the hunters' guild was, and it was made up "... of those engaged in agriculture for lending to individual members the collective help of the remaining members".[27] The importance of this association can be seen from the fact that it complemented the financial assistance which a kin group provided in times of loss to a member who hitherto without the existence of such associations would have found it difficult to start off immediately after the occurrence of a loss. On the other hand, the objects of the hunters' guild included "... the regulation of matters of professional interest to the members, mutual help, the taking of disciplinary measures against members who had violated professional and fraternal obligations..."[28]

At this juncture, one would not be wrong to assert that the nature of insurance in Nigeria during the pre-colonial era was similar to what obtained in pre-industrial Europe. In Britain, for example, before modern insurance evolved people came together to form a club and this was known as the Slate Club. The primary aim of the club was to collect "... small weekly contributions of money usually saved until Christmas, when the total is distributed to members".[29] Furthermore, the popular English guilds were reported to have arisen out of family ideals for mutual assistance. The situation was also the same in Germany. As a chronicler of the English guilds had rightly pointed out "they (i.e. the guilds) seem on the whole to have been Friendly Associations made for mutual aid and contribution to the pecuniary exigencies which were perpetually arising from burials, legal enactions, penal mulcts, and other payments and compensations."[30]

To further emphasize the point being made here, another example can be taken from the practice of mutual life assurance during the Roman period. In ancient Rome, there existed burial societies that not only helped in the burial of dead members but also paid "... a sum of money to the relations of the deceased ..."[31] Also, there were friendly societies, called colleqia, these societies helped their members in times of distress, such as sickness or unemployment. "In the Middle Ages the Crafts Guilds organised funds for their fellow craftsmen if they were ill or they were too old to work."[32] Furthermore, the early traders of Babylon, Greece, and Phoenecia had evolved a system that later became known world-wide as the contract of bottomry.[33] The practice of bottomry by the Romans around or about 300 B.C., marked the final evolution of the practice of the system because the Romans introduced lasting changes into the system and this has made some writers argue that the principles embodied in the bottomry bond were similar to those of modern insurance principles as we understand them today.

From the explanation and examples cited so far, one can clearly see that these early modes of insurance practice provided the basis upon which modern insurance principles and practice were built. Thus, one would not be wrong to say at this point that without the early ideas as explained above, it would have been difficult for the propounders of modern insurance to have their ideas accepted by the generality of the people. There will be nothing more appropriate here than to conclude this paragraph by saying that; although, it has been generally agreed that the existence of modern insurance in the ancient world is doubtful, yet "... there is good and substantial evidence of the use of other forms of contract that in their essence and content resemble insurance".[34] Finally, these contracts "... eventually formed the tradition and groundwork on which rose the super-structure of the (modern) insurance system."[35]

Moving a step forward in our discussion of the nature of insurance in pre-colonial Nigeria, the mode of practice among the Igbo of South-eastern Nigeria will now be examined. Among the Igbo, there existed many social and economic associations which included kingroups in their membership but their operations are not based on the kinship principle. Instead, the operations of these associations "... are based on the principle of contract or agreement: The life of such associations is terminable at a specified time in the future (and) the reciprocal rights and obligations of members are limited to those in the agreement".[36] Furthermore, the membership of such associations "... is open to all qualified persons, the criterion of "qualification" being the potential ability of a prospective member to bear the burden of the agreement".[37] It is against this background that the traditional insurance organisations in Igboland are going to be examined. However, from the above explanations there is a clear difference between the mode of practice in Yorubaland and in Igbo communities. While among the Yoruba communities, there was no written or formal agreement, the Igbo had written agreements and contract terms; what is more, stiff penalties were usually meted out to any member or party who defaulted.

The traditional insurance organisations among the Igbo have various names such as the "Contribution Club", the Ogbo, Isusu and Mitiri. Generally, these organisations are expected to provide "... ready cash to the trader, to the person who must take a title or pay bride wealth, to the debtor who must pay his creditor, and to a father who must pay his children's school fees".[38] According to Shirley Ardener who had worked extensively on the Ogbo system among the Mbaise Igbo, the group was controlled by seven headmen called Ndi ishi Ogbo who were vested with the power to collect subscriptions from members who subscribed through them and in case of default, the family head would make up for it and reclaim from the defaulters afterwards. It is worth-mentioning here that the headman was the only person empowered to dictate the take-out procedure; this privilege, he normally exploited in favour of regular subscribers.[39] In cases of serious defaults,

> ... a contributor ... ran the risk of losing all the payments he had hitherto made. If he had claimed his takeout share, he and/or his guarantors were held responsible for the unpaid contribution.[40]

The above situation can be compared to what obtains in modern insurance practice where a default in the payment of premiums in some policies automatically renders the policy null and void and of no effect.

However, a common criticism of the Ogbo system described above is that the system "... places too much power in the hands of a few headmen (as) their privilege of nominating for take-outs by contributors under them is often abused".[41] To find a solution to this problem, a new system was evolved. The new system of contribution was "... based on the principle of direct registration and individual responsibility to the club".[42] Aside from this innovation, every other aspect of the "Contribution Club" was retained and more often than not, the new clubs organised on the above principles were normally organised by teachers, traders, tailors, etc.[43]

At this juncture one can safely say that like modern life assurance companies, "... Contribution Clubs serve many functions in Igboland, one of which is the encouragement of thrift".[44] Furthermore, the various "... associations serve as mutual insurance societies, enabling the socially ambitious to invest the savings he accumulated in his youth while guaranteeing him continued economic support and prestige during his old age".[45] Conclusively, one can say that "... even today, these associations have not outlived their usefulness, nor have they lost their appeal to the people".[46]

In Northern Nigeria, the situation was quite different in that families and trade group do come together to help themselves in times of danger and kinship ties were regarded as being very important but they had no institutionalised organisations as was the case in the Yoruba and Igbo communities. To further substantiate the point being made here, Forde and Scott asserted that "... non-interest bearing loans took place only from wife to husband or between close kin".[47] This situation can be attributed to the fact that charging interest on loans is against the tenets of Islam, the predominant religion in this area.

Aside from the institutions discussed above, other institutions that also served as mutual insurance organisations in pre-colonial Nigeria included the extended family unit, the age-grade associations and the clan unions. The extended family unit scheme allowed any member of the family who is financially handicapped to be assisted by all members of the family and in extreme cases, the entire clan is called upon to help any needy member. Thus, the system guaranteed the survival of any individual because the problem of one was regarded as the problem of all. Although there was no regularised form of premium contribution, "... a kind of tax or free donation by each member, depending on the means and ability to contribute..."[48] was used to meet the need of an individual.

The extended family scheme was adversely affected by the introduction of modern technology and life style to Nigeria which has resulted in rapid changes of the country's socio-economic structure. On the whole, members of the hitherto closely knitted family units began to drift apart in different directions in search of white collar jobs, western education and better social amenities that were not present in their various villages. Commenting on the usefulness of the extended family system, A. G. Hopkins argues that "... far from being a drag on development, it often provided the funds which enabled enterprising individuals and groups to launch new undertakings, and it offered them a refuge if their venture failed".[49]

In this regard, a good example can be drawn from the Igbo community where a great concern is expressed for the future, although this is not to suggest that concern for the future was not expressed in other communities in Nigeria. Among the Igbo, the extended family system is symbolized by a big compound which

> ... consists of a number of economically independent households each with a man or a woman as the householder. All the householders and their dependents recognize the authority of the compound head (who) ... in effect ... is a shield of protection and the wall or fence surrounding his compound is his group's castle.[50]

With this setting, it is not unusual for one to discover eagerness and willingness on the part of everybody to help a needy blood brother, close or distant relation.

This tradition of mutual help is also demonstrated by the Igbo in diaspora. For example M. J. Herskovits described the activities of the Igbo slaves in Haiti thus

> ... their strong communal and tribal ties made it advantageous for those who owned them (i.e. Igbo slaves) to obtain more of them, since newcomers were accorded help, care and instructions by those who had preceded them.[51]

Reaffirming the above point; V. C. Uchendu commented thus:

> their (i.e. Igbo) willingness to help less fortunate get adjusted to new situations is not a recent development. Even in the slave plantations of the new world, Igbo slaves helped their newly arrived countrymen to adjust themselves.[52]

Thus, one can see that despite its shortcomings, the extended family system provided a strong and reliable social and financial base for the whole members of the family.

Like the extended family system, the various age-grade associations that had been in existence (and are still in existence) before the introduction of modern insurance to Nigeria served as another channel through which the survival of an individual was guaranteed when a mishap is experienced. The question now is, how did the various age-grade associations mobilize funds to help needy members? To raise funds, each member was expected to pay a fixed amount of monthly dues at each meeting and in some cases, members taxed themselves, out of which a member's need could be met. Thus, if misfortune befell any member who could not meet the financial demands as the situation dictated, he could easily and readily fall back on his age-grade association for assistance.

It is important to point out here that today the age-grade associations are recording a reasonable level of success in their activities because the members always believe that it is the primary function, aside from others, of the associations to always help a needy member. Thus, in the Igbo community, "... the ideal behaviour expected among age mates may be characterized as "brotherliness" - that is, brotherliness as defined by mutual trust, help, loyalty and affection."[53] Also among the Tiv communities in Benue State of Nigeria, "... most

Tiv, especially young men, define age-sets (Kwagh) ... primarily in terms of ... mutual aid."[54] Furthermore, "... as a man gets older, the span of the lineage within which he recognizes age-mates increases, but the primary function of the age-set changes from mutual aid ... to mutual protection."[55]

The various clan unions were (and still remain) organisations for providing a member with financial assistance in times of difficulty. At the regular monthly meetings of such unions, each member pays a regular due and like the age-grade associations, a special levy or tax is imposed on every member to raise enough funds to meet the need of any member who deserves to be assisted financially. To buttress this point, Chief O.O.Omoraga comments that the age-grade associations and the various clan unions undertook to bear the financial burden on behalf of their members in special cases such as funerals, schooling, marriage, to mention but a few."[56]

IMPACT OF TRADITIONAL INSURANCE ON THE PRE-COLONIAL DOMESTIC ECONOMY

A major problem in the study of the pre-colonial economic history of Africa is the lack of adequate statistical data. This observation is very true of the present study especially that of the contributions of the traditional insurance schemes to the development of the pre-colonial Nigerian communities. Nonetheless, from the discussion above, and the fieldwork carried out by the present researcher, it becomes clear that the schemes actually helped in uplifting the social and economic life of the people. For instance we discovered during our investigation that most of the organisations represented institutions which people easily and confidently fell back on for a guaranteed financial support. In other cases, the existence of traditional insurance schemes enabled persons to save for the future, thus, helping to ensure prosperity for those concerned in the short-run, and security in the long-run.

Again, the specialized traditional insurance organisations such as the Aro and the Egbe Ode in the Yoruba community provided relief for their members who suffered economic losses in their business ventures. Furthermore, it is a well known fact that some of the traditional insurance organisations helped in the educational advancement of their communities by encouraging their indigenes to acquire western education. This step contributed in no small measure to the production of the first set of educated Nigerians who worked as junior clerks in the various foreign companies that were operating in the country during the period under review. It is important to mention that proper and accurate records were kept by these institutions who employed the use of simple method of counting in which contributions by each individual are marked by single strokes in an exercise book or ledger. Also, it is an obvious fact that the practice of traditional insurance in pre-colonial Nigeria led to the emergence of a specialized crop of individuals who became very knowledgeable in the conduct of society affairs, financial regulations, and credit control.

At this juncture, it can be said that the early traditional insurance organisations, allowed a reasonable spread of risks incurred by an individual in the community. Furthermore it can be argued that the existence of traditional mode of practising insurance formed the basis upon which Nigerians were able to accommodate the modern form of insurance when it was eventually introduced into the country. Although, most of the institutions discussed above had other social functions to perform, yet they remained a means of ensuring ready financial assistance to people who unfortunately experienced a loss. Commenting on the usefulness of the traditional insurance and social institutions, Chief F.I. Ikanoba said "the importance of these insitutions can be seen from the ready financial assistance one obtains from such bodies in times of need".[57] Also Pa A. Odior, observes that the traditional insurance institutions appeals more to some people especially the more elderly ones because of the simple method of keeping records and documents.[58] It is worth mentioning here that both the traditional and modern practice of insurance rely heavily on the operation of trust and utmost good faith, these essential elements, no doubt, highly contributed to the success and continued existence of the two modes of insurance practice.

The viability, strength, and efficacy of the traditional mode of insurance practice in pre-colonial Nigeria is demonstrated in the continued existence of the above mentioned organisations in present-day Nigeria still serving the purpose which they have been serving since the pre-colonial period. All said and done, one can comfortably assert that insurance practice existed in Nigeria during the period under consideration and to say that insurance was not practised in pre-colonial Nigeria, is to deny Nigeria of her rich and dynamic economic and socio-cultural past.

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15. See Jones W. O., 'Economic Man in Africa', in Food Research Institute Studies Journal, Vol. 1, 1960, pp. 107 - 34. He also discusses extensively the formalist theory.

16. Hopkins A. G. op. cit., p.6.

17. Curtins P. D., op. cit., p. 236.

18. In this paper, 1902 is taken as the commencement date of modern insurance business in Nigeria because it was in this year that the Royal Exchange Assurance Company of London appointed a Law Firm Irwing and Bonnar as its agents in Lagos. This is not to suggest that modern insurance business was not transacted in Nigeria before 1902. Also see, B. Supple, The Royal Exchange Assurance: A History of British Insurance 1720 - 1970, London Cambridge University Press, 1970.

19. 'An Intelligence Report of the Apoi-Ijaw Area of Okitipupa Division'; Ondo Province. N.A.I. 1940, p.8.

20. Ibid. p. 8.

21. The term 'general insurer' is used here in its ordinary literary sense and not in a technical sense.

22. Fadipe N. A., The Sociology of the Yoruba, Ibadan: Ibadan University Press; 1975, p. 256. Also see, A. G. Hopkins, op. cit., p. 70.

23. For a detailed discussion of this variety of esusu in which no share out is made see Fadipe N. A., op. cit., p. 257.

24. Technically, "The Premium is the monetary consideration passing from the insured to the insurer. As such it is necessary element in the formation of the insurane insurance contract" - Hansell, D. S., Elements of Insurance, (Fourth Edition), Great Britain, Macdonald and Evans, 1985, p.221.

25. The policy is a mere written or typed evidence of an insurance contract. Hence, the policy can not be taken to be the contract. For further explanation see Hansell D. S., op. cit., pp. 212-220.

26. An underwriter is "one who is prepared to accept insurance risks", or more simply, he/she is one who has received special training in the acceptance of risk. See Hansell D. S., op. cit., p.21.

27. Fadipe N. A., op. cit., p.256.

28. Ibid., p. 251.

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30. Quoted by Clayton G., - *British Insurance*, London, Elek Books, 1971, p.20, from Cornelius Walford, *Guilds*, 1888, p.5.

31. Clayton G., *op. cit.*, p.19.

32. Gerald E. S. *et.al.*, *The New Wonder Encyclopedia*; London, Ward Lock & Co. 1967, p.165.

33. This type of contract is one whereby money or commercial goods are advenced for trade purposes either as true loans at a certain fixed rate of interest under which the lender had no right to share in the proceeds of the trading venture, or as mixed loans and partnerships which in addition to the payment of a fixed rate of interest to the lender irrespective of the result of the trading, entitled him to receive a share of the profits.

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55. *Ibid.*, p. 75.

56. Interview with Chief O.O.Omoraga on the 30th August, 1990.

57. Interview with Chief F. I. Ikanoba on the 2nd September, 1990.

58. Interview with Pa A. Odior on the 6th September, 1990.

CHAPTER THREE

EMERGENCE OF MODERN INSURANCE BUSINESS INTO THE NIGERIAN MARKET 1902 - 1959

Our discussion in the last chapter established the fact that before modern insurance was introduced into Nigeria, Nigerians had their own system of providing against future occurrence of risks. However, it must be emphasised that both the traditional and the Western insurance systems have remained together to meet the needs of their different target population.

One of the reasons why modern insurance practice evolved in the Western World was due to the increase in the number of ocean-going vessels that were engaged in transporting goods from Europe to other continents. These vessels were exposed to various hazards on sea and at port, this made it became necessary to evolve a system of compensating victims of such hazards.[1] Modern insurance was introduced into Nigeria early in the 1900s.[2] That was a period of increased commercial activities between Europe and West Africa in textiles, agricultural raw materials and some other merchandise goods. The turnover of ships travelling from Britain in particular to West Africa had grown rapidly with the introduction of the steamship since the 1850s, reliable statistics have shown that between 1863 and 1900 a total of 526 vessels berthed at the Lagos port with a total tonnage of 531,871 for the same period.[3] With this, it became necessary to insure the goods and the vessels; consequently, the British merchants who were already used to the principles and practice of modern insurance insured their ships and cargo in the London insurance market. The practice was later carried to Nigeria.

With the establishment of various trading posts along the Nigerian and West African sea coast, the above arrangement soon proved to be inadequate because of the following reasons. First, the length of time required to complete a single insurance transaction between Lagos and London was extremely slow.[4] Second, and perhaps more importantly, available communications facilities were highly inadequate and unreliable. It was in the face of these problems that a structural change was introduced into the insurance market in Nigeria.

THE EARLY ERA OF FOREIGN COMPANIES DOMINATION OF THE NIGERIAN MARKET

In 1902, a law firm - Irwing and Bonnar was appointed by the Royal Exchange Company of London as its agent in Lagos;[5] and by 1919, this agency had developed into a full agency office with a Resident Inspector. These steps were taken as the London Head Office had received "detailed reports on the economic situation and prospects of insurance in ... West Africa ... by 1919".[6] In 1921 Lagos became a full branch office, and remained the only locally established insurance company with an office in Nigeria until 1949.[7] This situation should not surprise anyone because while the post 1914 - 1918 war boom that extended to about 1929 had positive effects on, and contributed to the growth and development of the British insurance industry[8] the situation was not the same in Nigeria, the tempo of insurance business was generally low and consequently, there was an evident lack of encouragement and interest in the insurance business. However, this is not to suggest that the general trend and level of growth of the industry was static.

The Royal Exchange concentrated more on fire insurance during its early days in Nigeria, the reason for this being that Lagos had a sizeable number of industries and expatriate population, and also because of the fear of enemy attack on vital installations during the second world war period. Another reason is due to the fact that there were many cases of fire outbreak in Lagos in the 1910s and 1920s because of poor urban layout. But investigation has shown that the level of fire insurance business was generally low during the period under consideration and this represents a lack of rapid development in the country's economy. The company extended its services to cover general accident insurance in Nigeria when it acquired two leading motor insurance specialists in London in 1917 and 1918 respectively; these were the

Car and General and Motor Union insurance companies. By 1927, the company was already receiving an upward sum of £56,000 in premium income.[9] Furthermore, the company "introduced a significant innovation in 1937 in the form of a West African Provident Fund Scheme for local clerks - a contributory scheme which in the circumstances of the time appeared bold and imaginative."[10] However, this scheme can be seen as one of the instruments of colonial exploitation because it was a means of ensuring very huge profits for the company and these profits were finally transferred to the British market for further investments.

The entry of new insurance companies into the Nigerian market did not begin until 1949 when three companies registered their presence through the appointment of general agents who were given power of attorney "to accept risk, issue policies, adjust and settle claims and ... undertake all insurance transaction on behalf of the overseas principals."[11] A leading Nigerian trader, Sir Mobolaji Bank-Anthony, was appointed by the Law Union Insurance Company of London to act as its agent in Nigeria. The Norwich Union Finance Insurance Society of London appointed the British Engineering West African Company (BEWAC) to transact business on its behalf in Nigeria, while the United African Company (UAC), was appointed by the Northern Assurance of London. Other Foreign insurance companies that had representatives in Lagos as at 1959 included the Fire Insurance Society, Tobacco Insurance Company, and Legal and General Assurance Society Limited of London.[12]

The above situation had two major impact on the early insurance scene in Nigeria. First, corporate bodies such as the UAC and BEWAC established separate insurance departments manned by expatriates, or in some cases, the personnel required to man these departments were provided by the principal insurance companies. Second, with the increased number of insurance companies in Lagos after 1949, there arose a need for more agents to be appointed. This led to a situation whereby the general or major agents appointed sub-agents some of which were accountants, lawyers, bank managers, motor dealers and many others all over the country. Despite the increase in the number of agents and the presence of a full branch office of the Royal Exchange Assurance in Nigeria, the volume of business was still small. This situation clearly shows the general attitude of the colonial government, the insurance companies, agents and populace to the insurance sector of the economy.

As already mentioned above, the operations of the Royal Exchange Assurance was threatened after 1949. One reason for this was that the post 1945 period was that of economic boom in Nigeria. As a result there was an increase in produce trade between Nigeria and Britain and this led to a sharp increase in the number of motor lorries in the country used for conveying the agricultural produce from the interior to the sea port.[13] Also, both the small produce traders and the big foreign buying agents normally got monetary advance from the banks to help them cope with the financial requirements of their trade, but the banks always insisted on the production of insurance bonds as security for the advances before the money was released to the traders and buying agents. This development no doubt gradually but steadily led to the laying of a stronger foundation for the insurance industry in Nigeria. The overall effect of these factors was an upward trend in the volume of business written. This encouraged the various head offices of insurance companies in London that had agencies in Lagos to upgrade such agencies into branch offices. As a result, the domination of the Nigerian market by the Royal Exchange Assurance for more than a quarter of a century was brought to an end.

Comparatively, although the volume of business transacted locally in the Nigerian market before and during the second world war period was small, the situation was not the same with the British market because it has been established that despite the rejection of certain risks during the war, the volume of business transacted increased tremendously.[14] This is due to the fact that most of the British companies were able to come together to form a common pool for accepting selected war risks, imposing special war clauses and extra premium on the risk accepted.

At this juncture, it will not be out of place if one asks the question-what was the state of marine and life insurance businesses in Nigeria before 1959? For marine insurance, it is true that the number of ships entering the Lagos Port[15] from European countries during this period was on the increase because of the fact that a number of shipping companies operated regular cargo services, such shipping companies included the Elder Dempster Lines Limited, the American West African Line and the Werman Linie and Allied Companies. In addition, the United African Company Limited operated some ships under charter. Yet, this did not mean an increase in the volume of marine insurance business because the hull and the cargo were usually insured in their countries of origin, but when a loss is incurred and a claim is to be paid, such settlements, more often than not, were paid from the funds of the Nigerian office of the principal insurance company. This trend continued unabated until the Nigerian government made it compulsory in 1976 for imports to be insured in Nigeria before such goods are brought into the country.

The situation was not different for life and other classes of insurance business. One reason attributable to this situation was that very few Nigerians were enlightened to take advantage of such policies, and, also most of the agents were not well developed technically to handle life insurance businesses. What is more, the early insurance practitioners "... did not consider it worthwhile to insure the life of Nigerians. They concentrated their attention on expatriate personnel and their families, neglected Nigerian life as being too full of risks ..."[16] Furthermore, the early crop of practitioners "... in covering accidents, required more stringent conditions for insurance of Nigerian-owned vehicles and property. This large market was thus excluded by definition."[17] This situation remained for a very long time because the expatriate insurers despite the narrow market which they covered always realized enormous profits at the end of the trading year.

The period 1929 to 1959 witnessed a general and constant increase in the number of commercial vehicles and private cars that were registered in Nigeria as can be seen from the tables below:

TABLE I: COMMERCIAL VEHICLES REGISTERED IN NIGERIA 1929 - 1939

YEAR	NUMBER	YEAR	NUMBER	YEAR	NUMBER
1929	2,940	1932	2,718	1935	2,800
1930	3,130	1933	2,855	1937	1,819
1931	2,829	1934	2,562	1939	559

SOURCE: (i) Annual Report of the Public Works Department; 1935, Lagos, Government Printer.

(ii) Digest of Statistics, Vol. 7, No. 4 (Oct. 1958) Lagos, Government Printer.

TABLE II: COMMERCIAL VEHICLES AND PRIVATE CARS REGISTERED IN NIGERIA 1946 - 1959

YEAR	COMM. VEHICLES	PRIVATE CARS & TAXIS
1946	1,413	702
1947	2,716	1,881
1948	1,993	2,199
1949	2,356	2,112
1950	2,898	2,465
1951	2,901	3,457
1952	3,788	3,784
1953	4,159	3,783
1954	4,332	4,026
1955	5,830	5,398
1956	7,184	6,185
1957	5,551	5,830
1958	7,220	7,459
1959	6,682	9,257

SOURCE: (i) Digest of statistics, vol. 8 (Oct. 1959).

(ii) Annual Abstract of Statistics, 1963.

The increase in the number of motor vehicles in Nigeria can be attributed to the continuous growth of the produce trade in which many of the commercial vehicles were used to evacuate agricultural produce. A greater proportion of these motor vehicles were owned by the UAC because it introduced a system of hire purchase and vehicle hire service of big lorries to convey produce goods such as cocoa, cotton, groundnut etc, from the hinterland to the coast; and as an agent of one of the insurance companies all the vehicles were insured as it was part of the colonial government regulation that all vehicles must be insured either comprehensively or on third party basis. This regulation represented a major shift in government policy towards the insurance industry from 1945. In that year, the colonial government passed the Motor Vehicle (Third Party Insurance) Ordinance[18] which introduced compulsory insurance for all motor vehicles.

Several reasons can be cited as being responsible for this shift in policy. First, the British government in an attempt to improve the economic and social conditions of the citizens of her colonies, passed the Colonial Development and Welfare Act of 1945 in which rules were stipulated and money allocated for the development of each colony. As a result of this, and because of the economic importance of Nigeria to the British government, the colonial government in Lagos introduced into Nigeria a fresh and more revolutionary economic policy through the passing of the Ten-Year National Development Plan 1945 - 1955. Under this plan, more funds were made available for investments and development projects touching on transport;[19] thus, it was no surprise that the above law relating to motor insurance business was introduced in Nigeria. Another reason that can be cited as being responsible for the shift in government policy was that from the above tables it can be clearly seen that the number of motor vehicles in Nigeria was constantly on the increase, thus making it necessary for government to ensure that motor insurers had a legal framework on which to operate in order to safeguard their interests and that of the public as a whole. The sum total is that, these developments no doubt helped to increase the volume of business in this class of insurance, as motor insurance business alone accounted for 70 percent of the market sales.[20]

However, some early insurance practitioners[21] in Nigeria have argued that insurance of motor vehicles during the period under consideration was rare and that there were very few private cars[22] in Nigeria. From the discussion thus far, we can assert that this argument is not correct. However, if the number of private cars in Nigeria was not as high as that of Britain during the period under consideration, it simply reflected the underdevelopment and poverty of the Nigerian economy and society, because only few elite had cars and they were restricted to Lagos and some of the major towns in the southern and northern parts of the country. In fact, some people did not see cars in their districts until the late 1940.

Another class of insurance business that attracted the attention of the colonial government during the period under consideration was workmen's compensation. Before the Workmen Compensation Ordinance of 1942[23] was introduced, the government had been under pressure as early as 1930 through the activities of the International Labour Organisation that had always agitated for labour to be organised. Thus, as a first step, the British in February 1940 enacted the Colonial Development And Welfare Act. This act "... empowered the Secretary of State for the Colonies, with the concurrence of the British Treasury to make schemes for any purpose likely to promote the development of the resources of any colony or the welfare of its people."[24] The first result in the labour sector of the economy was experienced in 1941 when the colonial government in Lagos appointed a Labour Officer to oversee the activities of emergent labour unions whose figure stood at 12 in 1940 with a total membership strength of 4,337 persons.[25]

The year 1945 marked a major turning point in Nigeria's labour history. In that year, the economy experienced a general strike by the Nigerian workers who were protesting against the exhorbitant cost of living, racial discrimination and poor working conditions. Since the question of workmen's compensation cannot be completely isolated from the general area of better working conditions for the Nigerian worker, the colonial government in 1948 made rules to provide for better implementation of workmen's compensation measures as contained in the Workmen's Compensation Ordinance of 1942. The new rules required employers and insurers "... to render six-monthly returns giving details of accidents and workmen injured and the compensation admitted and paid".[26] It is unfortunate to report that "despite these rules, the response of private employers was disappointing, as they failed to furnish full and regular particulars."[27]

In its determined effort to introduce a comprehensive legislation in this class of insurance business, the government passed the Workmen's Compensation Act in 1958.[28] This piece of legislation made it compulsory for employers to insure their employees against the sustenance of injury during working hours. Under the 1958 Act which repealed the 1942 Workmen's Compensation Ordinance, if a worker is injured or died in the course of discharging his duties, the employer must pay compensation to the injured worker or dependants of the deceased in accordance with the provisions of the act. Furthermore, the substential damages awarded by the courts in the liability cases decided persuaded many potential defendants to take out various types of liability insurance cover to protect themselves against the occurrence of such risks in their factories and offices.[29]

At this juncture, one point that cannot be disputed is that the insurance market was completely dominated by foreign companies. This has made Falegan to describe the period as that of 'traditional incurance'[30] in Nigeria. This, however, can be said to be an inappropriate description because Nigeria has its own traditional system of insurance as was discussed in chapter two above. Therefore, the period can be appropriately described as the era of foreign companies domination of the insurance market in Nigeria.

The domination of the Nigerian insurance market by foreign owned companies was further encouraged by the support given to the companies by the British Government in London and the colonial government in Lagos. This clearly shows that the colonial government adopted a laissez faire policy towards the insurance industry in Nigeria, and since economic link between Nigeria and Britain was very strong and based more on the centre i.e. Britain, she stood at a great advantage of reaping most of the economic gains from Nigeria. This represented a form of economic exploitation and further gives credence to the school of thought that believes that colonialism in Africa was nothing short of political domination, social degradation and economic exploitation. What is more, the Colonial Office in London gave mandatory instructions to businessmen who were coming to Nigeria, to insure only with the insurance companies who had their origin and head offices in Britain.

THE RISE OF AFRICAN ENTREPRENEURS AND THE EMERGENCE OF PROFESSIONAL INSURANCE BROKERS

With the growth of nationalist agitations in Nigeria, the socio-economic and political atmosphere in Nigeria took on a new look and the insurance industry was not exempted from this wind of change, progress and development. First, when nationalists agitations started, they wasted no time in calling for equal employment opportunities for all races in the country, but like every pronouncement, it is easier said than implemented. For example, since 1902 when the first insurance agency office was opened in Lagos, Nigerians had found it consistently difficult to be employed as junior clerks in the various insurance establishments that sprang up in the latter years. However, this situation gradually improved when many indigenous entrepreneurs who had emerged during the years preceeding the attainment of political independence ventured into insurance business and the first in the series was the African Insurance Company incorporated in 1950[31] by K. O. Mbadiwe.

Two other wholly indigenous companies were incorporated in Nigeria to transact insurance business in 1951[32] and 1952[33] respectively. These were the Nigerian General Insurance Company that was incorporated by the defunct Western Regional Government of Nigeria, and the Lion of Africa Insurance Company which was a joint-venture between some Nigerians, foreigners and the Nigerian Colonial Government. In 1958,[34] two other joint venture insurance companies - the Guinea Insurance, and the West African Provincial Insurance Companies were launched into the Nigerian market. All these were in direct response to nationalist agitations. What is more, these insurance establishments certainly gave Nigerians the much needed opportunity to be employed as middle management personnel, and they also afforded many junior workers the opportunity to be trained on the job and subsequently got promoted to positions of responsiblities. A general characteristic of the joint-venture businesses was that the expatriates always held the controlling shares, thus giving them the opportunity of holding the senior key management positions and directing the affairs of the companies to their own advantage.

The next important stage in the development of the local insurance market was the emergence of professional insurance brokers. The insurance broker is a necessary complement to the insurance company because of the following reasons; first, the insurance broker professes to be an expert in insurance; this places the firm in a position of offering professional advice and help in arranging insurance covers on behalf of his clients. Second, the insurance broker is required to obtain the best terms possible for his client and as a professional, he can be sued by his client if there is sufficient proof that his advice was faulty.[35] Finally, he must be fair minded and ensure equity between both parties to the contract.

From 1953, brokerage firms indigenous and expatriate began to do business in Nigeria. In that year, a brokerage firm Dyson and Diket (Insurance Brokers) with Nigerian interests had appeared in the market; the Nigerian partner was Sonny Odogwu. The company later became the African Underwriters and this change can be attributed to the nationalist agitation of that time. It is now known as African Insurance Brokers Limited.[36] The first full expatriate brokerage firm was C. T. Bowring and Company which was established in 1955.[37] When it arrived in Nigeria, it had already negotiated from London to handle the insurance accounts of Costain, a Civil and Building Engineering firm that had its head office in London and a subsidiary office in Lagos.[38] No sooner it settled down to business in Nigerian than it was appointed to overhaul the insurance policies of the Nigerian Ports Authority and make necessary recommendations to improve them.[39] Other government parastatals appointed it as their insurance brokers. Thus, this brokerage firm enjoyed large and wide patronage in the insurance market at the expense of their indigenous counterparts. Also, in 1957,[40] Glanvill Enthoven, a brokerage outfit with 50 percent Nigerian participation was launched into the market. The following year, a wholly indigenous brokerage firm T. A. Braithwaite (Insurance Brokers) and Company was established and for a very long period competed with the foreign and joint-venture firms for business.

Like any new venture, and due to lack of expertise on their part, the indigenous brokers had to depend on trial and error during their initial years in the market. They had difficulties in coping with market demands and with the stiff competition from the foreign brokers who were also operating in the Nigerian market. They operated from a weak position because only a small proportion of the insuring public patronized their services.

However, this trend was reversed when the country attained political independence as the insurance accounts of government parastatals that were formerly handled by foreign brokerage firms were on the orders of Federal Government transferred to the indigenous brokers.[41]

THE INSURANCE INDUSTRY AND THE COLONIAL ECONOMY

From the discussion so far, we have been able to establish that the colonial period was characterized by the domination of the insurance market by foreign owned insurance companies and brokerage firms. The implication of this situation was that, it became evident that most of the insurance companies came to Nigeria to exploit the economy which accords well with one of the aims of colonialism. It was not surprising that these companies only operated within the market and repatriated profits to their various head offices. Unfortunately, there is a lack of documentation on their financial acitivities during the colonial era in Nigeria which has made it extremely impossible to demonstrate statistically the amount of profit repatriated by these companies.

Indeed, insurance business was operated in such a way that it took no cognisance of the economic interests, aims and aspirations of Nigeria. Infact, the local agents, branch offices of the expatriate insurance companies, and most indigenous companies that were operating in the market at that time all played a major role in the repatriation of funds abroad. The final result of this urgly situation was that insurance funds were not made available for local investment to benefit the Nigerian populace and economy. To worsen the situation, "... majority of the entire insurance business in Nigeria were reinsured outside the country by both the foreign ... and indigenous companies." This further shows that the insurance companies were not interested in the development of the insurance industry in Nigeria because they failed to pool their resources together to establish a reinsurance company in the country during the colonial period. This would have helped in reducing the outflow of hard currencies for reinsurance purposes, as it is common knowledge that the provision and existence of reinsurance facilities within the local market is a necessity. What is more, reinsurance is an integral part and active complement to the operations of insurance companies.

Furthermore, the foreign insurance companies did not deem it proper to erect their own permanent buildings, rather they adopted and operated the philosophy of renting or leasing property from the local indigenes which they used as offices. Thus, one can assert that investments of funds in the Nigerian economy was not a policy of the expatriate insurance companies and that their attitude towards the economy was one of total profit maximisation and economic exploitation of Nigerians in terms of personnel and staff welfare.

As mentioned earlier, Nigerians were deprived of the opportunity of attaining middle and senior management level positions in the insurance companies that were predominantly expatriate because they were restricted to mere administrative routine duties.[43] Little attention, if any was paid to the training of Nigerians and professionalization of the manpower needs of the industry. This situation led to a great shortage of trained Nigerians who would have taken control of the various insurance companies operating in the market during the period immediately following the attainment of independence. As a result, "those who later found themselves in positions of responsiblity in the emerging indigenous companies were confronted with problems which they were ill-equipped to cope with".[44] Therefore, it was no surprise that "... the indigenous companies were not run on sound insurance principles and very few Nigerians knew anything about the management of insurance companies and ethics of insurance operation."[45]

The lack of attention by the colonial government to manpower development within the insurance industry was a part of its laissez-faire policy in some matters of economic development. This simply means that the private firms were allowed to operate freely without any form of government intervention in the operations of the market in form of control. The government stood rigidly by this point because it believed that "... the expatriate firms which dominated the market thoroughly understood and practised the ethics of insurance."[46] Thus, the colonial government felt it was unnecessary to pass legislations that sought to control the colonial insurance market and "... reforms in the field of commercial law in general were seldom in the priority list of the colonial power."[47] But, this was not the attitude of the Home government towards the insurance industry in Britain. The British Government had passed several legislations to control or supervise the various insurance institutions that were operative in the market and at the same time also made laws that protected the consumers of insurance products. For example, it passed the Life Assurance Act in 1774[48] to control the operations of life offices and which introduced the concept of insurable interest into the transaction of life business; this provided a reasonable level of protection for the consumers.

Also as a result of its laissez-faire policy, the colonial government failed to encourage the formation of an insurance association, institute, and committees such as the Life Offices Committee and the Fire Offices Committee and others. Whereas, the Home government gave full backing to the formation of such bodies in the British insurance market because these associations play a major role in the reduction of risks through public enlightenment campaigns on road safety, fire prevention, and others in the society.

This in turn has helped to reduce the amount of claims the insurance companies have had to pay to their clients. In the final analysis, more funds are made available for investment in the economy. But in Nigeria, the first of such bodies, namely the Insurance Institute of Nigeria did not emerge until the dawn of independence in 1959,[49] and when it did, it catered only for the interest of its members who were mostly expatriates, and placed emphasis on the promotion of insurance education in Nigeria.

From the above, it can be seen that the colonial government failed to make any major contributions to the growth and development of an independent local insurance market in Nigeria, except as an appendage of that in Britain. As a result, the industry contributed little, if any, to the economic development of the country.

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CHAPTER FOUR

STATE REGULATION OF THE INSURANCE INDUSTRY IN NIGERIA 1960 - 1977

In this chapter, we shall examine the state of the insurance industry in Nigeria and the drive of the Nigerian government to put the industry on a strong and sound footing.

STATE OF THE MARKET AND BACKGROUND TO GOVERNMENT REGULATION

In 1960, Nigeria attained her independence, and this meant the beginning of unrestricted self governance in all aspects of life, i.e. politically, socially, economically and culturally. The stage was set for a rapid socio-economic take-off of the country. Although, there was a great dearth of an indigenous capitalist class in Nigeria before 1955,[1] it is no longer contested that the period immediately before 1960 was one when Nigerians became fully aware of their economic, political and social rights; and many Nigerian became big time traders and some went into joint-venture businesses with foreign partners. The big foreign commercial firms also diversified their ventures and went into primary industries. Under this situation, the Nigerian economy witnessed the emergence of manufacturing industries in pharmaceutical, shoe-making, confectioneries etc, and some minor assembly plants especially bicycles and motor-cycles plants.[2] This development led to a general enthusiasm on the part of Nigerians to want to venture into all aspects of business including insurance, thus leading to a gradual removal of the domination of insurance by foreign investors.

In 1960, there were about twenty-five insurance companies operating in Nigeria and most of them were foreign-owned,[3] hence there was an urgent need for this situation to be reversed. And the opportunity to do this came immediately after the achievement of independence when a large number of indigenous companies commenced insurance business. The pattern of ownership therefore rapidly changed from foreign-owned companies to indigenous ones.[4] In response, some of the established foreign insurance companies sought to identify themselves more closely with the country. First, most of the local offices were upgraded to the status of subsidiary companies in which Nigerians held a substantial proportion of the shares. This compelled the setting up of local boards of directors with indigenous members instead of maintaining the former system of administering the companies from metropolitan London. However, the local boards still had to report directly to the boards of their head offices in London. Second, efforts were made by these companies to increase the number of their indigenous staff in direct response to political pressures and restrictions on expatriate quotas.

To create a self sustaining and independent local insurance market, the Federal Government invited Mr. I.K.R. Rao an Indian expert on insurance matters to study the possibility of insuring the produce of the former Nigerian Produce Marketing Board with an indigenous insurance company.

However, it was an uphill task trying to change the tide of events over a short period of time. This can be said to have accounted for the continued dominance of the insurance market in Nigeria by foreign companies. For, by 1963, the number of foreign owned insurance companies stood at forty-eight while that of wholly indigenous companies stood at just thirteen. Furthermore, by 1969, a total of twenty-seven insurance companies transacted business in the Nigerian market, with seventeen foreign companies, five wholly indigenous companies, and five joint-ventures.[5] A striking feature of the market at that time was that the Royal Exchange Assurance Company, the Northern Assurance Company and the Royal Group Insurance Company, all foreign firms, controlled sixty percent of the total volume of business transacted.[6] But by 1971, the story was different because the number of foreign owned companies had drastically reduced to twelve, whereas, a tremendous increase was noticed in the number of wholly indigenous companies whose numerical strength stood at forty-four, and joint-ventures stood at fourteen.[7] One major reason for the reduction in the number of foreign insurance firms was the contraction of the local market, the complaint of the firms that they were not making enough profits and their anticipation of the new government policy that materialised in 1972 as the Indigenisation Decree.

Indeed, the period from 1960 to 1971 witnessed a general awareness by Nigerians in the buying of insurance policies. First, the Federal Government introduced the Pay-As-You-Earn (P.A.Y.E.) system of taxation in 1961 and recognised the premium paid by the individual wage earner on his insurance policy as tax-free deduction. This encouraged many workers in the cities and towns to buy insurance policies especially life assurance policies. Second, many young Nigerians realized that the existing kinship system that had provided traditional insurance (see chapter II) was gradually breaking down and each young worker began to plan for his own future. Interest on longevity became keener, and some took insurance policies to demonstrate their status and acceptance of modernity. Furthermore, the introduction of housing loans for certain categories of workers in the major cities stipulated that houses built with loans from government agencies must be insured against fire. Corporate bodies also began to take more interest in insuring their movable and immovable properties against theft, fire, and other risks.

Thus, the number of insurance companies increased rapidly in scope and by 1975, the total number of companies operating in the market stood at sixty-nine.[8] (See table III). As the economy continued to develop, the need for more insurance companies, brokerage firms, consultants and agents to meet the demands of both individuals and corporate bodies increased. This led to a situation where the market became filled with mush-room companies that were manned by inexperienced personnel who engaged in the perpetration of fraud and other unprofessional conduct. The Federal Government of Nigeria which is constitutionally empowered to make laws for the effective supervision and control of the insurance industry then took necessary steps to check the situation. These efforts were aimed at building a strong viable, and sound insurance industry for the country.

As indicated above, it is necessary for the country to have a fully localized industry that will greatly reduce the level of dependence on foreign insurers, more so, as the industry is one that requires minimum investment in fixed capital and yet generates huge profits and is thus eminently suitable for localisation.

Aside from the above reasons, the Federal Government's regulation of the activities of the insurance industry can be linked up to the 1964 UNCTAD Declaration on the need for every developing country to have a fully localized insurance market. At its first meeting in 1964, the UNCTAD had observed and resolved in part "that a sound national insurance and reinsurance market is an essential characteristic of economic growth".[9] The UNCTAD also recommended that, "technical reserves and guarantee deposits of insurance and reinsurance companies should be vested in the country where the premium income arises; (and that) adequate conditions of security, liquidity and income must, however, be assured."[10] Further-

TABLE III

DISTRIBUTION OF INSURANCE COMPANIES BY TYPE OF BUSINESS AND OWNERSHIP

	1969		1970		1971		1972		1973		1974		1975		1976		1977		1978	
	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%
A. LIFE																				
(a) NIGERIAN	1	16.7	1	14.3	1	16.7	1	12.5	1	11.1	2	22.2	2	22.2	2	33.3	2	33.3	2	33.3
(b) JOINT	1	16.7	1	14.3	1	16.7	2	25.0	3	33.3	4	44.5	4	44.5	3	50.0	4	66.7	4	66.7
(c) FOREIGN	4	66.6	5	71.4	4	66.6	5	62.5	5	55.6	3	33.3	3	33.3	1	16.7	–		–	–
Total A	6	100.0	7	100.0	6	100.0	8	100.0	9	100.0	9	100.0	9	100.0	6	100.0	6	100.0	6	100.0
B. Non-LIFE																				
(a) Nigerian	3	23.1	16	61.5	28	73.7	33	76.7	34	77.3	31	75.6	32	74.4	25	67.6	25	65.8	30	71.4
(b) Joint	3	23.1	3	11.6	3	7.9	4	9.3	4	9.1	16	14.6	7	16.3	9	24.3	13	34.2	12	28.6
(c) Foreign	7	53.8	7	26.9	7	18.4	6	14.0	6	13.6	4	9.8	4	9.3	3	8.1	–	–	–	–
Total B	13	100.0	26	100.0	38	100.0	43	100.0	44	100.0	41	100.0	43	100.0	37	100.0	38	100.0	42	100.0
C. LIFE AND NON-LIFE (Mixed)																				
(a) Nigerian	1	12.5	5	50.0	4	44.4	7	50.0	9	52.9	14	70	12	70.6	13	81.2	12	80.0	12	80.0
(b) Joint	1	12.5	1	10.0	1	11.2	7	50.0	7	41.2	6	30	5	29.4	3	18.8	3	20.0	3	20.0
(c) Foreign	6	75.0	4	40.0	4	44.4	–	–	1	5.9	–	–	–	–	–	–	–	–	–	–
Total C	8	100.0	10	100.0	9	100.0	14	100.0	17	100.0	20	100.0	17	100.0	16	100.0	15	100.0	15	100.0
D. ALL COMPANIES																				
(a) Nigerian	5	18.5	22	51.2	33	62.3	41	63.1	44	62.8	47	67.1	46	65.7	40	67.8	39	66.1	44	69.8
(b) Joint	5	18.5	5	11.6	5	9.4	13	20.0	14	20.0	16	22.9	16	22.9	15	25.4	20	33.9	19	30.2
(c) Foreign	17	63.0	16	37.2	15	28.3	11	16.9	12	17.2	7	10.0	7	11.4	4	6.8	–	–		–
GRAND TOTAL	27	100.0	43	100.0	53	100.0	65	100.0	70	100.0	70	100.0	69	100.0	59	100.0	59	100.0	63	100.0

Source: Omoruyi, S.B. and Demuren, O.A., "The Growth of Insurance Business in Nigeria" in Economic and Financial Review, Vol. XVIII, No. 1, (1980).

more, the UNCTAD also recommended how the developed countries can help the developing economies to achieve their aims and aspirations of evolving a sound insurance market, for example, the developed countries should assist and encourage the developing countries to evolve strong national insurance and reinsurance markets; and they should give their support to all reasonable measures aimed at increasing the retention capacity of the developing countries. Also, the developed countries were expected to place at the disposal of the developing countries their training facilities and other forms of technical assistance in insurance matters. More importantly, the developed countries should not constitute themselves into a stumbling block in an attempt by the developing countries to achieve their goals.[11]

The recommendations of UNCTAD demonstrate the concern of some world organisation for the development of a stable localised insurance market because it is the pivot of economic development. Today, it is to the credit of UNCTAD that most, if not all of its resolutions and recommendations have been fully and well implemented as will be shown in subsequent pages of this chapter.

REASONS FOR STATE REGULATION:

At this stage it is necessary to ask "what is state regulation of insurance"? It can be defined as state supervision which

> In a developing country is the establishment of a sound national insurance market, providing adequate cover of risks at fair prices, contributing to the economic and social development of the country, and reducing the outflow of foreign exchange due to insurance and reinsurance purchased abroad.[12]

This definition was formulated and unanimously adopted in 1973 when the Controllers of Insurance in Africa met under the auspieces of the UNCTAD. It has been observed that the new element in this definition "is that the effective protection of the public requires two sorts of supervisory activities; supervision of the insurance companies ... mainly to secure their solvency; and supervision of the national market as a whole, to promote its soundness and efficiency."[13]

Historically, one of the reasons why the State in developed countries found it necessary to intervene in the activities of the insurance market is intrinsically linked to the nature of insurance business; in which every proposer having completed the contract by paying his premium receives the policy document as evidence of the existence of a contract between him and the insurer. This document bears a promise that if and when a certain event occurs, he will be entitled to claim an indemnity for loss. However, "what the policyholder wants is not only the right to present a claim, but also the certainty that he will obtain his indemnity, which depends on the trustworthiness of the insurance company which issued the policy."[14] This is why insurers who are operating in the market have to be competent, and remain steadfast in the discharge of their obligations to the insured.

It has also been argued that apart from protecting the public, State regulation is a socially desirable measure. In any bilateral contract of insurance the policyholder is generally regarded as the weaker party, and it becomes imperative on the government to control the insurance sub-sector of the economy in order to set a high moral standard within it. Thus, in Britain, a major reason for government willingness to regulate the insurance industry was due to the urgent need to protect the public against the sale of insurance covers by fictitious or totally unsound companies. In fact, before the introduction of government regulatory measures towards the end of the 19th century, anybody could establish an insurance organisation by merely filling an application with the Registrar of Commercial Companies and by paying the necessary fees which amounted to just a few pounds sterling. Furthermore, such companies would tend to present unaudited and inaccurate accounts to the public at the end of each trading year. Therefore, it was not uncommon to find numerous fake and inexperienced insurers operating in the market, such insurers normally disappeared once a policyholder presented a claim that the company could not cope with. This British example was also true of Nigeria.

Yet, another reason for State regulation was the need to enforce the maintenance of the prescribed margin of solvency by insurers, and the difficulty in auditing the accounts of the insurance companies. Initially, in Britain as in Nigeria, insurance supervision only went as far as ensuring that published accounts of insurance companies were checked and certified as being the true financial position of the company. This system was known as 'freedom of publicity', and it did not provide sufficient protection to the policyholders because final accounts published normally give a static picture of events, whereas, insurance policies are designed to project into the future and thus, they are regarded as being dynamic in nature. After much criticism, a new system of auditing aimed at ensuring a dynamic long-term solvency of the insurance companies was developed. It was styled 'substantive' and unlike the former system, it shows that it is not a purely formal one.[15]

In addition, it became necessary for government to regulate the conduct of insurance business because of the need to ensure that the principle of equity was observed between the insurer and the insured. This means that fairness must exist between both parties to the contract; more especially, the terms of the contract and the tariffs must be fair to both parties in such a way that the insurer will not run at a loss due to the existence of low tariffs prescribed by the law; and, the public should not be denied the services or insurers due to the existence of very high tariffs which they could hardly afford. This point further confirms the need for government regulation of insurance business; because, the above explanation indicates that the insurance contract is one of considerable complexity.

In chapter I, the doctrine of insurable interest was discussed as one of the cardinal principles of insurance. In order to ensure proper compliance with the provisions of this doctrine, the British government had found it necessary to introduce legislations between 1745 and 1909 to eradicate any element of gambling from insurance trasactions.[16] Before, the introduction of the doctrine and government regulatory measures, it was common for unscrupulous persons to effect insurance policies on lives or properties "where they had no financial interest in the potential loss other than the profit they would make if it occured".[17] Thus, it became difficult to distinguish between insurance and gambling, but with the introduction of this doctrine and the supporting laws, this problem was totally eliminated.

Furthermore, government found it necessary to regulate the activities of the industry because certain forms of insurance-covers have been made compulsory by law in many parts of the world. For instance, the provision of third party motor insurance, marine, aviation and employers liability insurances are classified all over the world as compulsory insurance. This means that individuals or corporate bodies concerned must take these policy covers.

Finally, the concept of national interest has been identified as a reason for State regulation because of the fact that the sector in which the insurance industry operates tends to affect appreciably the national economy as a whole. Thus, while acknowledging the services of some foreign insurance concerns operating legally in the local insurance market, the final goal of most developing countries is the establishment of a national insurance market where "domestic insurers provide the bulk of ordinary mass consumed insurance cover, whilst special classes of insurance, large risks, etc. continue to call for international co-operation."[18]

NATURE OF STATE REGULATION OF THE NIGERIAN INSURANCE MARKET

Government regulation in the operations of the Nigerian insurance industry can be seen mainly from three perspectives i.e. legislation, direct participation and control. The various legislations enacted by the government provided the basis for governmental control, and participation in the insurance market. By law, only the Federal Government is empowered to make legislations governing the activities of the insurance industry; the various state governments are only permitted to participate directly in the market by establishing insurance companies. The companies so established are bound by Federal legislations in terms of mode of operations and control.

Before 1960, there was no concerted effort aimed at enacting laws to control the activities of insurance companies in Nigeria, but in 1961, the Insurance Companies Act[19] was enacted by the Nigerian Government. The main object of this Act was to ensure that all insurance companies register with the Registrar of Insurance Companies in the Ministry of Trade and that all such companies made annual returns to the Registrar. A major defect of the act was that it lacked penalty clauses which could have ensured the control and supervision by the government. Therefore, any insurer could refuse to register or make annual returns as required by law. It can be argued that the Act was not intended to introduce strict control measures into the market. Furthermore, the 1961 Act was silent on how insurance companies should invest their funds, consequently, the outflow abroad of foreign exchange continued unabated.

The Insurance (Miscellaneous Provisions) Act[20] was enacted in 1964 to arrest the continuous and "... excessive outflow of insurance funds - premiums, profits reserves, etc., out of the country, and hence facilitate their retention within the country."[21] For example, the Act provided that every insurer should invest at least forty percent of its previous year's premium in Nigerian securities. Like the

Insurance Companies Act of 1961, the 1964 Act was not strong enough to regulate and control the activities of insurance companies in Nigeria because it did not provide for any sanction for breaking the law.

After the passage of the 1964 Act, the government became eager to ensure a strict compliance with the provisions of the 1961 and 1964 Acts. Such efforts however proved abortive due to the practical problems associated with the establishment of an insurance supervisory and enforcement body; and also due to the normal civil service bureaucracy, with the result that the control of the activities of insurance companies in Nigeria was further delayed.

Notwithstanding the existence of the above legislations, the situation within the insurance industry did not improve because more unscrupulous insurance companies - indigenous and foreign-owned, brokers and agents managed by inexperienced and unskilled people flooded the market thereby further damaging the already battered image of the insurance industry. A major reason for this situation was the relative ease with which an insurance company could be established with a low capital requirement of N50,000 for registration and the loose and fragile pre-registration conditions.[22]

In view of these problems, the Federal Government made a request to the United Nations Technical Assistance Board - (UNTAB) in 1965 for an expert in insurance to undertake a comprehensive review of the insurance market in Nigeria.[23] In October 1966, Dr. K. Reichel arrived in the country as the special adviser and was assigned the responsibility of formulating new administrative and technical policies and assisting in the establishment of a National Insurance Corporation for the country.[24] On assumption of duty, Reichel in 1967 attempted to implement the provisions of the 1961 and 1964 Acts but failed because they were structurally defective and functionally ineffective. As a result, the Federal Government passed another legislation the Insurance Companies Regulations Decree of 1968[25] to aid the quick and full implementations of these Acts. Under the new decree, all registered insurance companies operating in the Nigerian market were required to apply for re-registration with the Registrar of Insurance, showing evidence of strong financial standing.

The Companies Decree 1968,[26] further consolidated the provisions of the Insurance Companies Regulation Decree of 1968, because all existing foreign companies were compelled to be fully registered in Nigeria. In other words, such companies incorporated locally in Nigeria must have as part of their names, the word - "Nigeria". This development finally put to rest, the practice of some expatriate companies who had insisted on the use of the agency system to operate in the Nigerian market. Furthermore, the Companies Decree of 1968 had the effect of removing the distinction that had hitherto existed between the paid-up capital and the margin of solvency of indigenous and expatriate insurance companies. This means that both the indigenous and expatriate insurers would henceforth maintain the same level of solvency and register with the same amount as their initial paid-up capital. The overall implications of this situation were two-fold; first, the expatriate firms were subjected to the payment of company tax to the Federal Government of Nigeria; and second, they also attained a reasonable degree of autonomy in terms of preparations and keeping of accounts, investments and business operations in Nigeria.

The Federal Government after studying the recommendations contained in the Rao Report of 1962.[27] Reichel Reports of 1966 and 1967[28] promulgated Decree No. 22 of 1969[29] which established the National Insurance Corporation of Nigeria - (NICON) on 1st July 1969. This singular event completely changed the tide of events in the Nigerian insurance market because it enabled the government to launch itself fully and directly into the Nigerian insurance market by way of direct participation as an insurer and reinsurer. As stated above, prior to the incorporation of NICON, expatriate insurance companies not only controlled about ninety-five percent of the market, but also reinsured heavily with their parent companies abroad. But with the formation of this Federal Government owned company, the underwriting of more sophisticated risks such as public liability, bonds, engineering insurance, contractors-all-risks, personal accidents, oil risks, and the popular risks earlier underwritten by the early expatriate companies such as motor, fire, marine, workmen's compensation and Life insurance became risks that were handled locally. The newly established company was also empowered by the decree establishing it to accept ten percent of each reinsurance treaty as legal cessions from every registered insurance company within the Nigerian market.

The launching of NICON into the Nigerian market to underwrite marine and aviation business shattered most foreign companies which hitherto, had dominated the marine and aviation insurance business,[30] because most of the existing indigenous companies were unable to underwrite this class of business due to their inexperience and the enormous amount of claims that normally accompany marine and aviation accidents. In fact, the Nigerian government had earlier passed the Marine Insurance Act in 1961.[31] The passage of this Act at that time confirmed that marine insurance business was very popular due to the volume of trade and high turnover of ships from Europe particularly from Britain to Nigeria (see table below). Like the other Acts passed in the same year, the Marine Insurance Act was patterned after the 1906 British Marine Insurance Act.

TABLE IV: SHIPPING MOVEMENTS AT NIGERIAN PORTS 1946-60

PERIOD	U.K. REGISTERED VESSELS		FRANCE		NORWAY		OTHER COUNTRIES		TOTAL	
	NUMBER	NRT ('000 TONS)	NUMBER	NRT ('000 TONS)	NUMBER	NRT ('000 TONS)	NUMBER	NRT ('000 TONS)	NUMBER	NRT ('000 TONS)
1946	475	1,323	23	26	22	72	147	401	667	1,822
1954	682	1,641	81	187	163	388	492	767	1,418	2,983
1955	660	1,622	247	291	143	370	539	889	1,589	3,172
1956	609	1,565	197	298	162	429	586	992	1,554	3,284
1957	794	1,754	159	365	142	368	664	1,169	1,759	3,656
1958	948	2,367	172	485	193	525	799	1,409	2,112	4,786
1959	907	2,395	200	635	231	630	893	1,655	2,231	5,315
1960	858	2,698	200	696	205	598	970	1,966	2,233	5,958

SOURCE: Annual Abstract of Statistics, 1963

NOTE: 1. NRT - Net Registered Tonnage.

After the passage of Decree No. 22 of 1969, came the promulgation of the Nigerian Enterprises Promotion Decree of 1972[32] and 1977[33] respectively. These laws, although aimed at the entire economy, had particular effects on the insurance industry because some of the provisions of the laws made it possible for the Federal Government to acquire shares and participate directly in the conduct of insurance business. For instance, the Nigerian Enterprises Promotion Decree 1972 enabled the Federal Government to acquire equity shares to the tune of forty-nine per cent in all the viable expatriate insurance companies that were still in the Nigerian -

market. At the same time, the Federal Government invoked the relevant sections of the decree to withdraw and cancel the licences of insurance companies (both indigenous and expatriate) that were considered not viable and unsuitable to operate in the market. When the 1977 Enterprises Promotion Decree was promulgated, the level of indigenous and government participation in insurance business was increased from forty-nine per cent to sixty per cent. Under a new arrangement, the Federal Government allocated eleven percent equity shares acquired from viable foreign insurers to all the state governments in the country, while it retained majority of the shares and sold the remaining to private individuals. This gesture from the Federal Government encouraged and also prompted State Government that were yet to venture into insurance business to do so by incorporating new insurance companies to operate in the market. Below are tables indicating the names of wholly owned state and Federal Governments insurance companies.

TABLE V: NAMES OF INSURANCE COMPANIES WHOLLY OWNED BY STATE GOVERNMENT AS AT 31ST DEC., 1988

NOS.	N A M E	OWNERSHIP	YEAR OF INCORPORATION
1.	THE NIGERIA GENERAL INS. CO.	OYO, ONDO, OGUN STATES.	1951
2.	GREAT NIGERIA INC. INS. CO.	"	1960
3.	UNIVERSAL INS. CO.	IMO AND ANAMBRA STATES	1961
4.	GATE-WAY INS. CO.	KWARA STATE	1970
5.	MANILLA INS. CO.	AKWA IBOM AND CROSS RIVERS STATES	1971
6.	RIVBANK INS. CO.	RIVERS-STATE	1972
7.	TRANS-NIGERIA ASSURANCE CO.	OYO-STATE	1979
8.	LASACO ASSURANCE CO.	LAGOS STATE	1979
9.	CONFIDENCE INS. CO.	ONDO STATE	1980
10.	YANKARI INS. CO.	BAUCHI STATE	1982

SOURCE: Nigerian Insurance Year Book 1988.

TABLE VI: NAMES OF INSURANCE COMPANIES WHOLLY OWNED BY THE FEDERAL GOVERNMENT OF NIGERIA AS AT 31ST DEC., 1988

NOS.	N A M E	YEAR OF INCORPORATION
1.	NATIONAL INS. CORPORATION OF NIG.	1969
2.	THE NIGER INSURANCE COMPANY	1969
3.	NIGERIAN AGRICULTURAL INSURANCE COY.	1988

SOURCE:- Nigerian Insurance Year Book 1988

Despite government efforts to lay a very strong foundation for the insurance industry, some unscrupulous insurers still exploited some loopholes in the existing legislations to defraud the government and the public. In order to check and introduce new corrective measures into the operations of the industry, the government promulgated Decree No. 59 of 1976.[34] Experts and non-experts alike have all agreed that the Insurance Decree of 1976 was revolutionary in nature because it introduced measures which were uncommon in many insurance markets either in developing or developed economies.

In a nutshell, the 1976 Insurance Decree repealed the Insurance Companies Act 1961 and the Insurance (Miscellaneous Provisions) Act 1964. The decree established a strong financial foundation in all the insurance companies and introduced a proper machinery for effective control and supervision of the industry. Section (8). 1 of the 1976 Insurance Decree stipulated that the initial capital requirement for registration of a direct insurer dealing in non-life business should be ₦300,000; while that of a direct insurer dealing in life business only was fixed at ₦500,000; and for a composite insurer, an initial capital requirement of ₦800,000 is required. Also, section (10).1 of 1976 Insurance Decree stipulated that the initial capital requirement is to be deposited with the Central Bank of Nigeria in all cases. The receipts of such deposits must accompany the application form for registration to the Director of Insurance in the Federal Ministry of Finance.

If registered, the insurer may get a fifty percent refund of the initial deposit to enable him have enough liquid cash to operate the business. On the other hand, the whole money deposited is refunded if the application is not granted.

Another reason why the 1976 Insurance Decree has been described as revolutionary was that for the first time, the activities of insurance intermediaries i.e. brokers, agents, and loss adjusters were brought under strict government survellance as they were required to pay a registration fee before a licence is issued, and renewed annually. Furthermore, the legislation stipulated the maximum commission and brokerage payable to the agents and brokers, and all direct insurers were bound to adopt the regulated premium rates.[35] What is more, the legislation introduced the compulsory insurance of imports with insurers registered in Nigeria. All these measures are considered to be innovations that depart from the normal pattern of fashioning Nigerian insurance laws after British models. It is pertinent to note that government direct participation in the industry will not ensure a keen competition for business amongst the various firms, for example, in the Nigerian market, the National Insurance Corporation which has a monopoly of government business controlled 33.17 percent of the industry Gross Premium Income as at 1987,[36] thus placing itself in a comfortable position against other competitors (see table VII).

The uncompetitive nature of the Nigerian insurance market has been criticised and compared with the more open policies operative in Britain. Yet, events within the industry has shown that since the promulgation of the 1976 Insurance Decree, sanity has returned to the market and a sound mode of professional conduct has also been established. Although, the decree like any man - made law, has its own short-comings, such as under-capitalization of insurance companies, the government should be praised for its foresight and courage in promulgating and implementing the provisions of the legislation.

The next stage of government regulation was how to curb excessive outflow of foreign exchange to overseas reinsurance markets. Any insurance market must be backed-up with local facilities for reinsurance so as to provide a solid financial background and other associated professional services for the insurance companies operating within the market. Furthermore, reinsurance companies stand as evidence of guaranteeing a reasonable degree of safety and confidence to the policyholder who is assured of ready funds to indemnify him whenever the insurance company from which he has bought a policy goes into liquidation or is starved of funds in the payment of compensations for a catastrophic loss. Also, reinsurance makes it possible for the geographical spread of risks such that the liabilities of the direct insurer are not heavily concentrated in one region or location. Furthermore, reinsurance enables direct insurers to underwrite large risks which hitherto they would not have been able to accept.[37]

TABLE VII:

FIRST 25 LARGEST DIRECT INSURANCE COMPANIES IN NIGERIA BASED ON THE 1987 GROSS PREMIUM INCOME

S/No.	Insurance Company	Gross Premium Income (N 'M)	Percentage Share of The Market GPI
1.	National Insurance Corporation of Nigeria	314.8	33.17
2.	The United Nigeria Insurance Company Limited	77.9	8.21
3.	American International Insurance Company Limited	65.0	6.85
4.	Royal Exchange Assurance Company Limited	47.3	4.98
5.	The Lion of Africa Insurance Company Limited	41.1	4.33
6.	Great Nigeria Insurance Company Limited	36.3	3.82
7.	Guinea Insurance Company Limited	22.3	2.35
8.	The Niger Insurance Company Limited	22.9	2.41
9.	Phoenix of Nigeria Insurance Company Limited	22.3	2.35
10.	Law Union and Rock Insurance Company Limited	21.4	2.25

Table VII cont.

S/No.	Insurance Company	Gross Premium Income (N 'M)	Percentage Share of The Market GPI
11.	Sun Insurance Officer (Nigeria) Limited	20.9	2.20
12.	N.E.M. Insurance Company Limited	20.2	2.12
13.	The Universal Insurance Company Limited	19.01	2.00
14.	African Alliance Insurance Company	18.7	1.97
15.	British-American Insurance Company Limited	17.83	1.88
16.	Crusader Insurance Company Limited	17.80	1.87
17.	Prestige Assurance Company Limited	16.2	1.70
18.	Leadway Assurance Company Limited	12.7	1.33
19.	Lagos State Assurance Company Limited	8.8	0.92
20.	The Nigerian General Insurance Company Limited	7.7	0.81
21.	Fire, Equity and General Insurance Company Limited	7.3	0.76
22.	Unity Life and Fire Insurance Company Limited	7.0	0.73
23.	The Gate-Way Insurance Company Limited	6.2	0.65
24.	Amicable Assurance Company Ltd.	5.5	0.57
25.	Kapital Insurance Company Limited	5.13	0.54

Source of Data: 1. Research and Development - Nigeria Re, Lagos.

2. *Nigeria Insurance Year Book 1988*, p. 192.

<u>Notes:</u> 1. No. 14 operated life business only while Nos. 9, 10, 11, 17, 19, 21 and 25 operated non-life business only. The rest are composite companies. Amicable Assurance Company started life business in 1987.

2. These 25 largest companies control about 90.9% of the market gross premium income.

3. GPI = Gross Premium Income.

Having realized the importance of reinsurance, an employee of the Royal Exchange Assurance (E. A. Oke) called for the establishment of a National Reinsurance Corporation in 1967.[38] (See full text of letter in Appendix 1) but the Government only promised to look into the issue and this was not done until 1977 when the decree establishing the Nigeria Reinsurance Corporation was promulgated.[39] The Corporation was charged with the primary responsibility of transacting reinsurance business for and on behalf of the Federal Government of Nigeria. More specifically, the new company is empowered "to operate as a professional reinsurer 'within and outside' Nigeria, and to carry on all classes of reinsurance business, including life insurance and reinsurance against loss of any kind arising from any risk or contingency in respect of any matter whatsoever."[40] Other objectives of the Corporation include the avoidance of "wasteful and destructive competition and to create a focal point for the collection of market statistics; and to provide training facilities which would enhance insurance and reinsurance expertise".[41] The corporation accepts twenty percent compulsory treaty ceded to it by all direct insurers operating in the Nigerian market. In addition, the corporation serves as an acceptance house for the five percent treaties of direct insurers due to the Africa Reinsurance Corporation. Furthermore, the Corporation, accepts ten percent of each treaty ceded to the Third World Pool which it manages.[42] The table below shows that as at 1987, a total of five reinsurance companies were operating in Nigeria.

TABLE VIII: LIST OF REGISTERED REINSURANCE COMPANIES OPERATING IN NIGERIA AS AT 31ST DECEMBER, 1986

NOS.	NAME	TYPE OF OWNERSHIP	YEAR OF INCORPORATION
1.	African Reinsurance Corporation	Joint (O.A.U. & A.D.B.)	1978
2.	Continental Reinsurance Co. Ltd.	Private indigenous	1985
3.	Globe Reinsurance Co. Ltd.	Private indigenous	1987
4.	Nigeria Reinsurance Corporation	Federal Govt. of Nig.	1976
5.	Universe Reinsurance Co. Ltd.	Private indigenous	1983
	Total = 5		

Source: Nigeria Insurance Year Book 1988.

Notes: 1. O.A.U. - Organisational of African Unity.

2. A.D.B. - African Development Bank

The discussion thus far, has made it clear that the Nigerian Government intervened in the operations of the insurance industry because of the need to effectively supervise and control the activities of insurance companies, brokers, agents and all those who directly or indirectly deal in insurance business. This desire led to the passing of various legislations between 1961 and 1977. As indicated above, some of the legislations enabled the government to establish tough and effective control over the activities of the industry as a whole, while others enabled the government to participate directly in the insurance market.

THE ESTABLISHMENT OF A SUPERVISORY BODY

In this section, we shall examine the activities of the body charged with the responsibility of supervising the various insurance companies and organisations operating in the Nigerian market. This is necessary because government control measures are not likely to achieve their objectives, unless there is an effective supervisory body whose aim it is to ensure full implementation and compliance of the provisions of the regulatory measures.

Based on the advice and report of Dr. K. Reichel,[43] an Insurance Division was created in the Federal Ministry of Trade in 1974, and at its inception, this division was placed under the Department of Commercial Law of the Ministry. Initially, the division was charged with the responsibility of implementing the provisions of the Insurance Act 1961 and the Insurance (Miscellaneous) Provisions Act 1964, but due to the various loopholes contained in the Acts, it became virtually impossible for the newly created Insurance Division to control the Insurance operators in the market. At inception, the Insurance Division was headed by a superintendent of Insurance, assisted in the discharge of his duties by a Deputy Superintendent, and a host of other junior administrative staff.

When the Insurance Decree of 1976 was promulgated, the title of the head of the Insurance Division was upgraded to that of a 'Director' and the division to a 'Department'. It was then moved to the Federal Ministry of Finance in 1979, following the recognition of insurance companies as non-banking financial institutions. The Director of Insurance was now better placed to implement government policies as they affected the insurance industry. He ensured that no insurer broker or agent started operating in the market before being properly registered and duly licensed. In fact the authorization to transact insurance business is an "... indispensable pre-requisite of insurance supervision. By applying for a licence the insurance company places itself under insurance supervision and becomes bound to observe the rules and regulations governing the local insurance market."[44]

By preventing non-licensed insurers from operating in the Nigeria market, the Director of Insurance secures fair and equal terms of competition for all insurers transacting business in the market. Many factors are considered before an insurer is issued a licence to operate in the market.

Among them are first, the competency and trustworthiness of the insurer, second, the ability of the insurer to improve the market by introducing new and improved policy covers at "... fair prices by injecting additional stimulus through sound competition and hy creating higher retention capacity, or whether the new insurer will tend to harm a market already overburdened by too large a number of relatively weak insurance concerns."[45]

Another means by which the Director of Insurance controls the market is by ensuring that at any given point in time all insurance companies must be solvent. An insurance company is deemed to be solvent when "its technical reserves, financed by the company's regular portfolio* income, are sufficient to cover all its presumable insurance liabilities, without any interference from outside, that is from share capital and other private funds."[47] Put in another form, "solvency is the result of a sound portfolio based on strong tariffs producing enough money to meet all claims and other insurance expenses from within that portfolio."[48]

Third, the Director of Insurance is empowered by law to regulate and prescribe adequate tariffs for the insurance companies. This is very necessary when we talk about the transaction of long term and compulsory insurance business such as life and pensions, workmen compensation, motor, etc. The controlling authority must ensure that the companies do not apply unreasonable tariffs that may lead to insolvency.

Furthermore, the controlling authority must ensure that the terms and wordings of proposal forms and policies are clear enough such that the proposer will not be placed at a disadvantage during the period of negotiating the contract. Recently, the Federal Government promulgated the Insurance Decree 1987 to enforce the preparation of clear and unambiguous wordings of proposal forms and policy covers by insurers.

To aid the Director of Insurance in the discharge of his duties mentioned above, each insurance company must submit annual statistical returns to his office. Such statistics must contain vital information such as the gross premiums written, the gross claims paid, and the results of ceded reinsurance, all these must be distinctly shown on the returns being made. This is necessary, because not only does the Director of Insurance uses the statistics for controlling individual companies, but also for computing a synthetic picture of the entire insurance industry and "for guiding the government insurance policy, as well as for supervising any given company by comparing its results with the average results of the entire market."[49]

On the issue of personnel, the Director, ensures that only qualified and competent professionals are appointed to head or manage the affairs of registered insurance companies and brokerage firms. For the purpose of clarity the accepted professional qualifications are the Diploma of the Chartered Insurance Institute of London (A.C.I.I.) or that of the

Chartered Insurance Brokers (A.C.I.B.) Institute of London. Also, all insurance executives must be morally capable as they are expected to have and maintain a crime free history.

Furthermore, the Director of Insurance monitors the investible funds generated through insurance and reinsurance. It is his duty to ensure that such funds are channelled into the prescribed sectors of the economy..

For the effective discharge of its duties, the Insurance Department is divided into units. The Administrative Unit sees to the effective running of the Department on a day to day basis. The Audit and Actuary Unit is responsible for auditing the final accounts submitted by the companies and brokers, and also for analysing and making projections from the statistics compiled by the Department. The Inspectorate Unit is charged with the responsibility of inspecting documents submitted and making necessary comments on such documents. Since the Department is empowered to entertain complaints against insurers from members of the public, and from insurers against brokers and agents, the inspectorate unit also conducts proper investigations into such complaints and make recommendations to the Director of Insurance on the steps to be taken. However, it must be pointed out that the inspectors seldom carry out physical and on-the-spot inspection of companies, brokers and agents. Where this is absolutely necessary, the consent of the Director must be sought and obtained before such an inspection is conducted.

EFFECTS OF GOVERNMENT POLICIES ON THE NIGERIAN INSURANCE INDUSTRY

The state of the insurance market as at 1960 has been fully discussed above and from it, one can clearly see that it was absolutely necessary for the government to regulate the market in order to restore sanity, financial prudence, and sound underwriting procedures. To a very large extent, one would not be wrong to say that the government has succeeded in achieving this aim, but this task was not accomplished until after the promulgation of the Insurance Decree of 1976. The various criticisms of this law notwithstanding, it was adequate to meet the challenges and requirements of the time.

The various legislations enumerated above made it possible for government to monitor the investment of insurance funds in the Nigerian economy, and also to restrict the outflow of foreign currencies for the purposes of re-insurance business. Government policy has also ensured the eradication of men with doubtful integrity from operating insurance business in Nigeria and at the same time ensuring as much as possible that only men and women who are transparently honest and professionally qualified are allowed to practise insurance as a professional career in Nigeria.

Also, the industry has now gained a greater degree of credibility and trustworthiness with the cancellation of the licenses of companies considered unviable. This action served as a note of warning for any insurance company that had the intention of cheating its clients. Indeed, government regulation of the insurance industry has been a great blessing and a step in the right direction because "apart from flushing out the unscrupulous insurers, the various government policies have succeeded in enlarging the scope of the market by increasing the classes of risks underwritten."[50]

Another noticeable effect of government participation in the insurance business is that it has helped to a very large extent to reduce unemployment in the country.

However, it is the general concensus of most employees in the private sector of the insurance industry that government direct participation in the market has led to an absolute monopoly of government insurable risks by the government owned companies. It has been argued that "government has, and is still monopolizing its insurable risks by legislating that only the National Insurance Corporation should underwrite government business,"[51] and "this has led to a situation where competition for business amongst the various insurance companies is not keen since they have a limited market to cover".[52] Obviously, this situation has not helped the industry, rather the market has retained its oligopolistic structure which was partly responsible for the initial problems of the industry.

The decision of the government to participate directly in the market has led some scholars[53] to question the rationale behind state participation in sub-sectors of the economy that is generally believed to be an exclusive preserve of private business entrepreneurs. This is particularly true of the Nigerian dituation and that of the other African countries where it has been persistently argued that government should direct its lean resources to providing tother social amenities for the people. Since economic policies are not static, the issue of government direct participation in the industry depends on the political and economic philosophy of the government in power. Hence, the present Nigerian Government[54] has decided to seel off its shares in all insurance companies where it has interests to the public, and also commercialize the National Insurance Corporation of Nigeria. From what has been discussed so far, it would seem that inspite of its limited resources the supervisory and policy implementation organ of the insurance industry as established by the government has performed its duties satisfactorily and is striving hard to improve on its services.

Aside from the above, government policy has also succeeded in creating a localized insurance market in the country, this in essence means that the dominance of the market by foreign insurance concerns has been completely erased. (See Table IX on the next page).

TABLE IX: SUMMARY OF INSURANCE COMPANIES OPERATING IN NIGERIA AS AT 30TH NOVEMBER, 1988

Nos.	Type of Ownership	Total Number	%
1.	Private indigenous	61	62.2
2.	Wholly State Government	10	10.0
3.	Wholly Federal Government	3	3.3
4.	Joint ownership	24	24.5
	GRAND TOTAL	98	100.0

Source: (a) Nigerian Insurance Year Book 1988

(b) Federal Ministry of Finance and Economic Development, Insurance Department, Ikoyi.

Notes: - (i) Joint Ownership represent companies jointly owned by private individuals and foreign partners, or State Government, foreigners, private individuals and the Federal Government.

(ii) Foreign participation limited to 40%; - Indigenisation Decree 1977.

TABLE X: INSURANCE BROKERS AND LOSS ADJUSTERS OPERATING IN NIGERIA AS AT 30TH NOVEMBER 1988

NOS.	TYPE OF OWNERSHIP	TOTAL NUMBER
1.	Federal Government and Foreigners	1
2.	State Governments	2
3.	Private Indigenous and Foreigners	14
4.	Private Indigenous	167
	GRAND TOTAL	184

Source: Nigerian Insurance Year Book 1988

In as much as this policy i.e. localization, has its advantages (already discussed above), yet it has its own disadvantages which has been extensively deliberated upon by various scholars. From the tone of most of the works, it would seem that localization of the insurance industry in Nigeria is associated with several negative effects. For example, it has been argued that localization has led to an unprecedented rise in premium rates; this is intrinsically linked to the need for insurers operating in the Nigerian market to buy reinsurance cover abroad and at the same time cope with high management expenses. The table below sums up the point being made here.

TABLE XI:

PROPORTION OF DISBURSEMENT ON INSURANCE TO TOTAL DISBURSEMENT ON SERVICES FOR 1975 - 1979 AND 1983

YEAR	TOTAL DISBURSEMENTS ON SERVICES (A)	DISBURSEMENT ON INSURANCE (B)	PROPORTION OF (B) TO (A)
1975	568.3	5.1	0.9
1976	1982.4	8.0	0.5
1977	1797.2	10.3	0.6
1978	2212.3	14.5	0.7
1979	2995.3	42.0	1.4
1983	3602.6	64.0	1.8

Source: Federal Office of Statistics, Lagos.

Notes: (1) All figures are given in ₦ and in millions.

From the above, one can see that before the establishment of the Nigerian Reinsurance Corporation in 1977, the amount of foreign currency disbursed on insurance services was lower than what was disbursed two years after the corporation was established and even up till 1983. This development has debunked the argument that the localization of the insurance industry and the establishment of a local Reinsurance Corporation will stop the heavy outflow of hard-earned foreign currency for insurance and reinsurance purposes.

On a final note, it has been observed that "whether or not governmental control and intervention in the insurance institutions ... fulfils its proper role, and whether the controls are adequate or imperfect, they at least, have (their) merits ... and are capable of periodic improvement and adaptation."[55] What is more, the numerical strength of the industry and the volume of business written (as can be seen from earlier tables) have placed the Nigerian market topmost in the West African region and Africa as a whole.

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13. Kelly, A., _op. cit._, p.3.

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23. Ibid. (1964).

24. Okwor E., "The Development of The Nigerian Insurance Market and Government Contribution and Participation." (Unpublished private paper) 1984. p.5.

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26. Ibid. (1968).

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28. See Reichel K.E., First Report on Insurance in Nigeria, Lagos, 1966; and Second Report on Insurance in Nigeria, Lagos, 1967.

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31. Nigeria, Federation of (1961) Laws of the Federal Republic of Nigeria. Lagos. Federal Ministry of Information.

32. Ibid. (1972)

33. Ibid. (1977)

34. Nigeria, Federation of (1976) Laws of the Federal Republic of Nigeria, Lagos. Federal Ministry of Information.

35. See, Section 32 (1) (2) a, b (3) of the 1976 Insurance Decree for provisions of the regulated premium rates, and section 34 (1) a, b, for amount to be paid as commissions and brokerage.

36. See Irukwu J.O. (Ed.), Nigerian Insurance Year Book, Lagos, Nigeria Reinsurance Corporation; 1988; p.129.

37. For a detailed explanation of the functions of reinsurance see "Insurance Reinsurance And The Nigerian Economy" in J. S. Irukwu (Ed.) 10 Years OF Professional Reinsurance In Nigeria. Lagos; Nigeria Reinsurance Corporation, 1987. pp. 69-70.

38. A private letter dated 4-12-67 from Mr. E. A. Oke to the Commissioner for Finance And Vice Chairman, Federal Executive Council, Lagos.

39. Nigeria, Federation of (1977) Laws of the Federal Republic of Nigeria. Lagos: Federal Ministry of Information.

40. Section (2) of the Nigerian Reinsurance Corporation Decree No. 49 of 1977.

41. See Irukwu J.O. (Ed.) 10 Years of Professional Reinsurance In Nigeria. Lagos; Nigeria Reinsurance Corporation; 1987, p.51.

42. See Engeham C. R. "Recent Development in Reinsurance in Nigeria: A Broker's View" in J.O.Irukwu (Ed.), 10 Years Of Professional Reinsurance in Nigeria. Lagos. Nigeria Reinsurance Corporation, 1987. p.19.

43. See Reichel K. E. "Final Report on Insurance in Nige ia" 1967. Also see, Business Times (Nig.) of July 2nd, 1985 pp. 9., 11, and 20.

44. Kelly A. op. cit., p.5.

45. Ibid. p.5.

46. <u>Ibid</u>. p.5.

47. <u>Ibid</u>. p.12.

48. <u>Ibid</u>. p.12.

49. <u>Ibid</u>. p.7.

50. Interview with Mr. Debo Otufale of the Accident Department of NICON. Date of interview was 4th October, 1989. Time was between 3.30 p.m. and 4.00 p.m.

51. Interview with Mr. Tunde Adeniran of Marine And General Insurance Company, Lagos. Date of Interview was 19th August 1989. Time was between 12.00 hrs. and 12.30 hrs. p.m.

52. Interview with Mr. Tunde Alabi of Fidelity Bond, Ikeja. Date of interview was 2nd November 1989. Time was between 9.00 a.m. and 9.15 a.m.

53. See Falegan J.I., "The Nigerian Insurance Industry: A Proposal For Reform" in <u>Journal of World Trade Law</u>, Volume 16, No. 3, May/June 1982, pp. 189 - 206. Also see Nwankwo G.O., <u>The Nigerian Financial System</u>, London, Macmillan, 1980, pp. 115-120. Also see Falegan, J.I., "Insurance And The Capital Market", in <u>Bullion</u>, Central Bank of Nigeria, Volume 8, No. 2, April - June 1983, pp. 26 - 32. Also see, Omoruyi S.E. and Demuren O.A. "The Growth of Insurance Business in Nigeria" in <u>Economic and Financial Review</u>, Central Bank of Nigeria, Volume 18, No. 1, June 1980. pp. 21-39.

54. This refers to the Babangida Administration that took over power in August 1985. The administration has recently introduced a scheme to privatise and commercialise some companies in which it maintains controlling shares.

55. Okwor E. "Government Control, State Intervention And Effective Management of Insurance Institutions in Developing Countries", in <u>Federal Might</u>. volume 1, No. 7, October/December, 1979. p.66.

CHAPTER FIVE

INSURANCE INDUSTRY PARTICIPATION IN INDUSTRIAL AND COMMERCIAL DEVELOPMENT OF NIGERIA 1969-1986

For any economy to grow and develop, it is necessary for all its sectors and sub-sectors to contribute their own quota to the developmental process. It is against this background that we shall examine the impact of the insurance industry on the socio-commercial and industrial development of the Nigerian economy, using aggregated statistical data in support of our analysis.

SOURCES AND GOVERNMENT CONTROL OF INSURANCE FUNDS

Various items make up the insurance fund; these are premiums, statutory deposits or paid-up capital, returns on investments, profits and miscellaneous receipts. However, in this work, we shall limit our discussion of the fund to the premiums collected by insurance companies from 1969 to 1986. This is because, of all the constituent parts of the insurance funds already mentioned the figures for gross premiums collected from the insuring public during the period under consideration can easily be computed without attracting criticisms from other scholars, and practitioners.

Insurance companies fall into three main categories; long term business, short term business, and those that transact both long, and short-term businesses. More specifically, life insurers fall under the first category, while general or non-life insurers fall into the second category. The third category is made-up of companies that transact life and non-life businesses. Life insurers accumulate vast sums of money by selling life policies and as previously explained, one major feature of all life policies is the provision of security for the owner of the policy while alive as well as guaranteeing financial stability for the beneficiaries of the policy, if the life insured dies before the maturity date stated on the policy. On the other hand, non-life or general insurers also generate vast sums of money on a short-term basis by providing policy-covers for motor, marine, aviation, fire, engineering, employers liability, contractors-all-risks, accident and miscellaneous insurances. (See the tables on the next pages for amount of premium collected by life and non-life insurers from 1969 to 1986).

While table XII shows the total amount collected as premiums before the promulgation of the 1976 Insurance Decree, table XIII shows the amount collected as premiums after the promulgation of the Decree. The tables and diagrams justify the observation that the Insurance Decree of 1976 has had a great and sustainable impact on the Nigerian insurance market because the premium collected before 1976 was nothing substantial. But after that year the situation improved because amount of premiums collected rose from ₦123 million in 1975 to about ₦714 million in 1986. From these figures, one can predict that with a stable socio-political climate and a healthy economy, gross premiums collected will hit the ₦1 billion mark in 1990 or even before then.

TABLE XII: GROSS PREMIUM INCOME OF INSURANCE COMPANIES IN NIGERIA BY CLASS OF BUSINESS 1969-1976 (%)

CATEGORY OF BUSINESS	1969	1970	1971	1972	1973	1974	1975	1976
NON-LIFE	60.1	66.1	59.0	67.8	68.4	65.0	79.2	81.7
LIFE	39.9	33.9	41.0	32.2	31.6	35.0	20.8	18.3

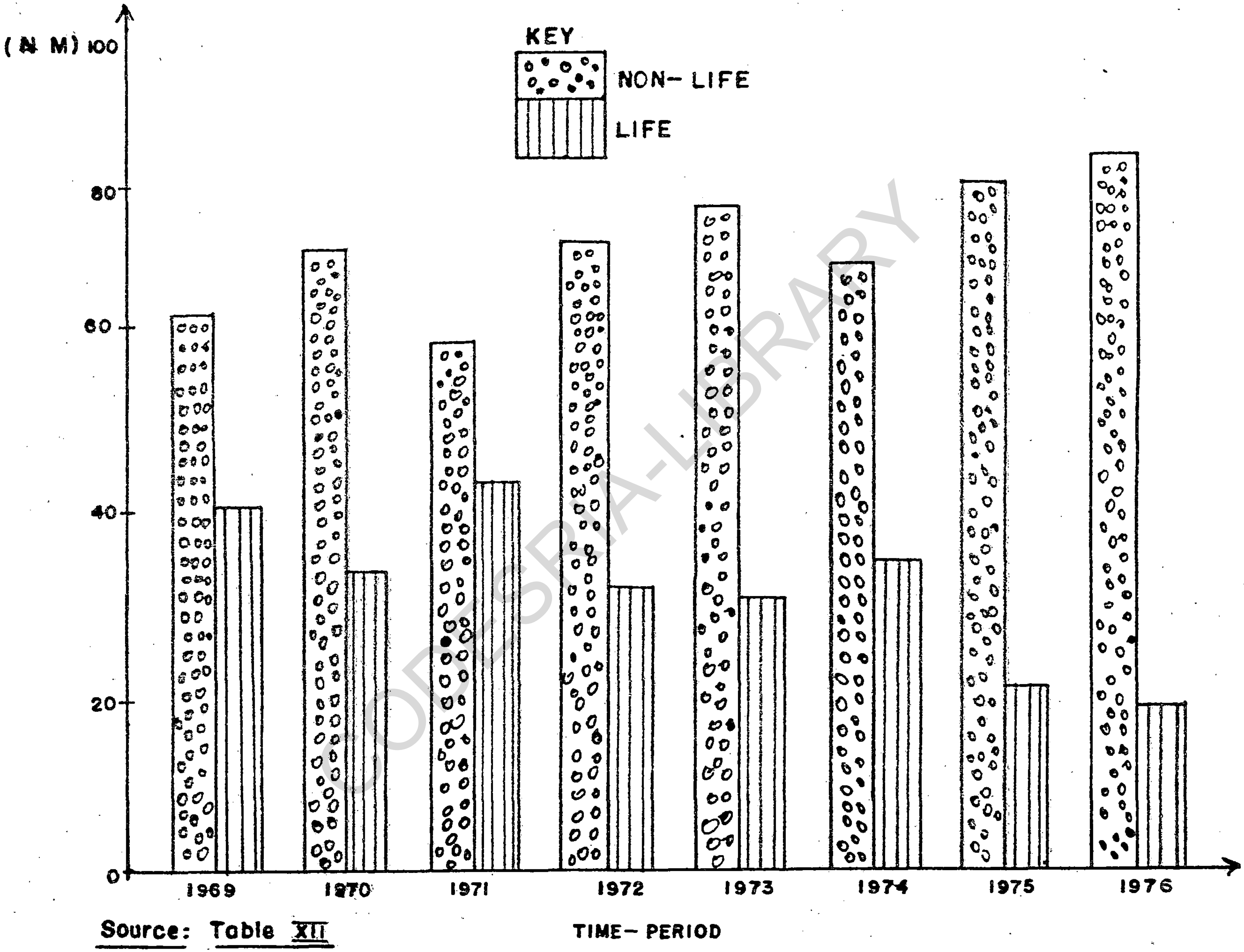
Source: (i) Insurance Department, Federal Ministry of Finance, Ikoyi, Lagos.

Notes: (i) The above figures represent premiums for direct business and reinsurances accepted.

(ii) Non-life premiums include those collected from fire, accident, motor vehicle, employers liability, marine, aviation and miscellaneous insurance businesses.

(iii) Figures converted into percentages by the present author.

DIAGRAM I: GPI OF INSURANCE COMPANIES IN NIGERIA 1969-1976



Source: Table XII

TABLE XIII: GROSS PREMIUM INCOME OF INSURANCE COMPANIES IN NIGERIA BY CLASS OF BUSINESS 1977–1986 (%)

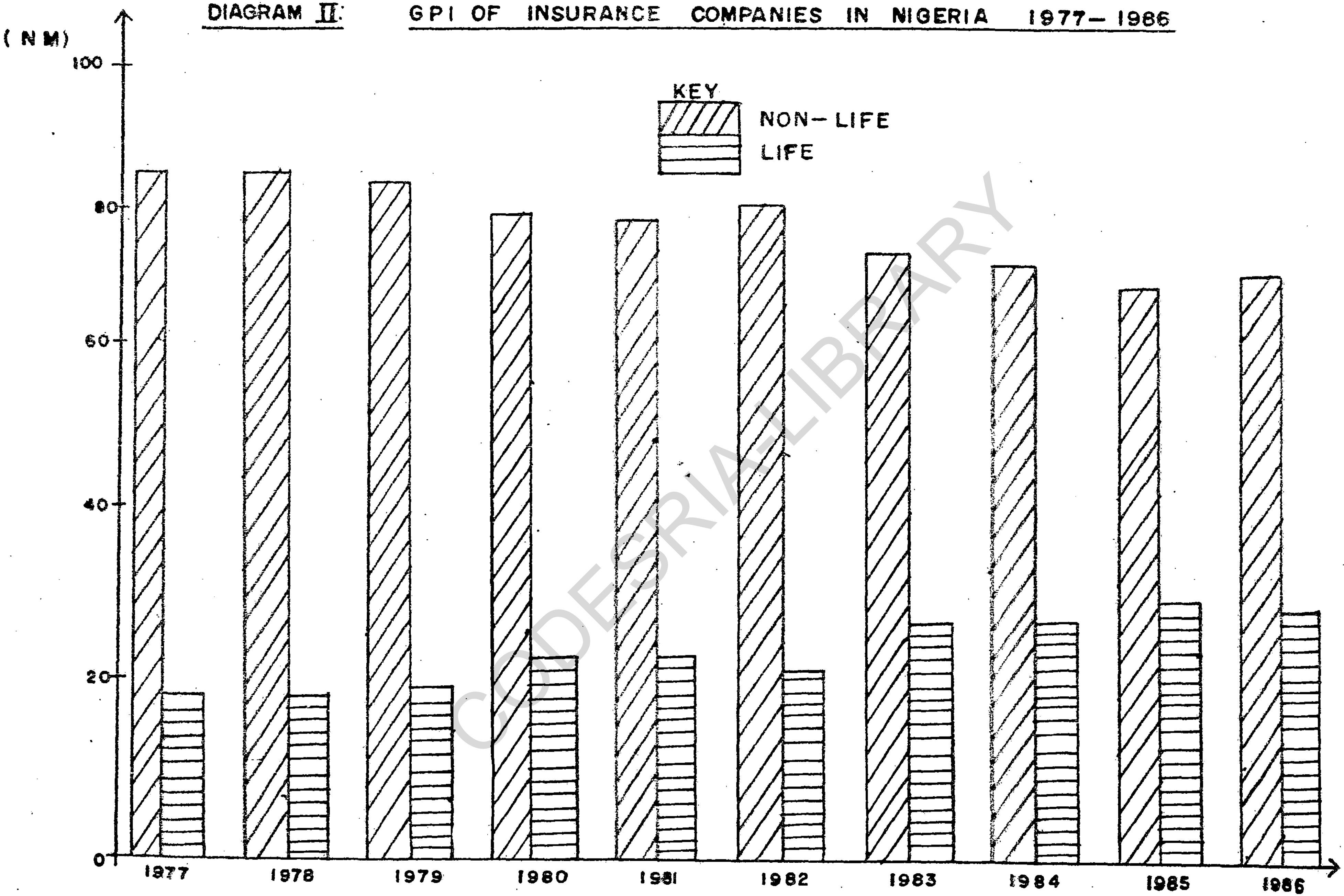
CATEGORY OF BUSINESS	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
NON-LIFE	82.5	82.4	81.3	79.0	78.8	79.9	75.6	74.1	72.7	73.2
LIFE	17.5	17.6	18.7	21.0	21.2	20.1	24.4	25.9	27.3	26.8

Source: (i) Insurance Department, Federal Ministry of Finance, Ikoyi, Lagos.

(ii) *Nigerian Insurance Year Book*, 1988.

Notes: (i) See table XII.

DIAGRAM II: GPI OF INSURANCE COMPANIES IN NIGERIA 1977–1986



Source: Table XIII

One notices that while non-life premiums rose from 60.1% in 1969 to 81.7% in 1976, premiums collected from life-business declined from 39.9% in 1969 to 18.3% in 1976. The continuous increase in the premiums from non-life business can be attributed to the booming economic and favourable business climate which Nigeria enjoyed during the period. Furthermore, due to the above reason, the economy witnessed a substantial inflow of foreign capital for investment purposes. The decline in life-business during this period can be attributed to the unpopularity of this class of insurance amongst Nigerians and the non-aggressive marketing posture adopted by the insurance companies. It suffices to say here that the various insurance companies were contented with concentrating more in the transactions of compulsory insurance business such as motor, employers' liability, marine and aviation, and other classes of business which by their nature a prudent businessman or investor must want to purchase.

From 1977, premiums collected from non-life business started declining. The reasons for this are not far-fetched. The Nigerian Enterprises Promotion Decree (1977) provided for the Nigerianization of many businesses, this led to the withdrawal and in some cases the stoppage of foreign capital into the Nigerian economy. Also, the economy started showing signs of low business and investment activities as a result of the global economic recession. The over-all effects of these developments on the insurance industry was the low business fortunes as was recorded in the transactions of non-life business.

However, from 1977 life-business started to pick up with a total premium collection of 17.5% in that year rising to 26.8% in 1986. Although, the increase is very marginal, yet it must be mentioned that it was due to a change in the marketing strategies of life insurers who realising that premiums from non-life business were on the decline, adopted a very aggressive policy of selling life policies and launching campaigns to educate the populace about the importance of life insurance policies. Perhaps, it should be mentioned here that the amount available for investment by insurance companies depends on the amount of premiums collected by them. (See tables XVIII and XIX).

In discussing the contributions of the insurance industry to the economic development of Nigeria, we shall first examine the applicability of Keynesian investment theory, and the legal framework governing the investment of insurance funds in Nigeria. It is important to point out at this stage that by investment we mean the creation of new assets that can generate or create income and employment such as the construction of a new factory and strictly speaking, it does not represent the purchase of existing assets such as paper securities i.e. bonds, debentures, equities[2] etc. The question now is what determines the investment behaviour of firms?

According to Keynes, private business investment is undertaken if only it is expected to yield a return to the investor. In other words, the rate of interest prevailing in the investment market has, and will continue, to determine the amount of funds to be invested by a business enterprise. Keynes argues further that anyone who has liquid resources available for investment will usually have one important alternative to investing his money in new capital equipment. It, therefore, follows that if private business investment is to be undertaken in an economy, not only must the investor expect to earn a money return from it, such return must itself be somewhat greater than the return the investor could obtain if he were to buy existing bonds. At the very least, the return must slightly exceed the rate of interest on fixed-interest securities.[3] Thus, in Keynesian theory, the inducement to invest depends on the return from assets - the marginal efficiency of capital,[4] on the one hand, and the rate of interest on the other. On the whole according to Keynes, it is undesirable to include expectations of profits as this is not certain and stable.[5] It is only suffice to state here that this theory in its pure form cannot be employed to study the investment behaviour of insurance companies in Nigeria because the theory implies that all investment responds to the same influences.

On the other hand, with little modification, the Keynesian theory can help us understand better, the investment behaviour of insurance companies in Nigeria. Since after the enunciation of the theory in the 1930s, economists have come to agree that there are two main elements in investments, namely the autonomous and induced investments. Autonomous investment is defined to include long range investment in houses, social infrastructures and projects that are intended to introduce major innovation. And induced investment is defined as investment in both fixed assets and in securities i.e. stocks, bonds, shares, etc. which are required to enable the economy to produce a bigger output as aggregate demand rises.[6]

At this point, the focus of our discussion will be shifted to examining the legal framework that governs the investment of insurance funds in Nigeria. During the colonial era, there was no legislation governing the investment of insurance funds in Nigeria, as the market was dominated by foreign insurance companies that were mainly interested in the repatriation of profits to their home countries for investment in their national economies and expansion of their home offices. But with the attainment of independence, the first indigenous insurance legislation was enacted in 1961. This Act made no provision for compulsory investment of monies collected by insurance companies in the country at that time, it merely obliged insurers to invest only 3% of their profits in Nigeria.[7] The 1964 Insurance (Miscellaneous Provisions) Act provided that all insurers transacting non-life business should own "Nigerian investments" not less than 40% of the total premiums collected on non-life local risks. Also, life insurers were required to invest the whole proportion of premium collected on local life risk on Nigerian investments. For both life and non-life insurers, they were required to invest at 25% of the funds on Government securities and not more than one-tenth of the value of the fund should be invested in property.[8]

These legislations were not implemented due to the non-existence of an enforcement organ. The situation was rescued when the Insurance Companies Regulation and the Insurance Companies Acts were passed in 1968 and 1976. Like the earlier Acts, these legislations made it mandatory for insurers operating in Nigeria to invest in Federal and State governments securities, mortgage loans on real estate, industrial debenture and unsecured loans, treasury bills and certificates and maintain their excess funds as cash on deposit.[9] Aside from the provisions of all the above legislations, the Federal Government has also been using two other policy instruments since 1969 to regulate the investment of insurance funds in Nigeria. These are the Portfolio-Ceiling Device and the Regulation of Interest Rate Structure. These policies are employed as part of long-run development strategy meant to "direct the flow of funds towards socially desirable goals or to lower the interest cost of loans to socially desirable borrowers, (and also) either to influence the pace or pattern of development, or to diversify the structure of the economy".[10]

The portfolio-ceiling device requires insurance companies to disburse specified proportion of their total investible funds on specified sectors and subsectors of the national economy. It also states the minimum and maximum percentage of funds investable on the "preferred" and "less-preferred"[11] sectors of the economy identified by the government for the purpose of sectoral credit allocation. The working pattern and prescribed percentages have already been discussed above.[12] On the other hand, the regulation of interest rate structure implies that the Government should determine the minimum and maximum rates of interest on lending by insurance companies. The Federal Government in 1977 had accepted the recommendations of the Financial System Review Committee,[13] and with effect from 1st April, 1978, insurance companies lending activities were brought under the control of the Central Bank of Nigeria which through its Monetary Policy Circulars On Credit Guidelines introduced discriminatory guidelines and rates of interest on loans to the preferred and and less-preferred sectors and subsectors of the economy. (See the table below).

TABLE XIV INTEREST RATE STRUCTURE FOR INSURANCE COMPANIES IN NIGERIA 1978-1986

Preferred Sector	1978	1979	1980	1981	1982	1985	1986
Manufacturing, mining, agricultural, marketing, building and construction	6%	7-9½%	7½-10½%	8½-10½%	10½-12½%	12%	15%
Most-favoured Sector:							
Residential Housing and Agricultural Production	6%	6%	6%	6%	6%	6%	n.a.
Less-Preferred Sector:							
General Commerce	8-11%	8-11½%	8½-12%	9½-14%	11½-14%	16%	n.a.

Source of Data: (i) Central Bank of Nigeria, Monetary Policy Circular, Nos. 10-15.

(ii) Annual Abstract of Statistics, Lagos, Federal Office of Statistics, 1987 Edition.

From the above table, it would be seen that the rate of interest chargeable for loans given in respect of items listed under the preferred sector rose from 6% in 1978 to 10½% in 1981 and 15% in 1986. This increase can be attributed to the government desire to ensure that insurance companies invest a sizeable proportion of their funds in sensitive sectors of the economy. Furthermore, items listed under the most-favoured sector of the interest rate structure have continued to attract low interest rate except in 1982 when the rate of interest charged rose to 8%. This section, again, can be said to be deliberate because in recent years the government have been using a combined strategy of direct participation cum soft loans to encourage accelerated agricultural production and building of houses. General commerce which is listed under the less-preferred sector for the purpose of credit allocation have continued to attract an interest of between 8-11% in 1978 and 16% in 1985.

Generally, one would have expected that a sizeable proportion of the loans disbursed will go to the less-preferred sector of the economy because of the high yield of returns which will accrue to the lender; but this is not the case as can be seen from the table below.

TABLE XV ACTUAL CREDIT DIRSTIBUTION IN NIGERIA 1982-1986

SECTOR	1982	1983	1984	1985	1986
Preferred and most-favoured Sectors	68.6	67.4	68.3	68.9	67.7
Less-Preferred Sector	31.4	33.6	31.7	31.1	32.3
TOTAL	100%	100%	100%	100%	100%

Source: Annual Abstract of Statistics, Lagos. Federal Office of Statistics, 1987 Edition.

While the preferred and most-favoured sectors of the economy got 68.6% in 1982 and 67.7% in 1986, the less-preferred sector only got an actual credit allocation of 31.4% in 1982 and 32.3% in 1986. From these facts, one observes that the government through the monitoring activities of the Central Bank of Nigeria has been operating a deliberate policy of ensuring that the manufacturing, mining, agricultural and housing sub-sectors of the economy are given priority when loans are being disbursed. This policy can be said to be a step in the right direction aimed at building a strong, reliable, and healthy economy because any economy that is solely dependent on the importation of her basic needs is bound to collapse sooner than expected.

LIFE INSURANCE, LONG TERM SAVINGS AND THE NATIONAL ECONOMYY

Although the protection and financial stability elements of a life policy have been discussed above, another major point is that life insurers are generally regarded as stimulators of long term savings within the economy. An increase in savings through the purchase of life insurance however does not indicate a reduction in savings elsewhere e.g. pension funds, National Provident Fund, etc., it merely indicates a reduction in the current consumption expenditure of the individual concerned. The table below shows the amount of contractual savings generated in Nigeria since 1969 through life insurance.

TABLE XVI

CONTRACTUAL SAVINGS THROUGH LIFE INSURANCE IN NIGERIA 1969-1986

YEAR	AMOUNT	%	YEAR	AMOUNT	%
1969	5,300	39.9	1978	65,250,502	17.6
1970	5,462	33.9	1979	69,102,609	18.7
1971	10,956	41.0	1980	95,886,721	21.0
1972	11,699	32.2	1981	121,869,852	21.2
1973	13,107	31.6	1982	122,768,908	20.1
1974	19,693	35.0	1983	145,023,725	24.4
1975	25,689,984	20.8	1984	157,871,183	25.9
1976	34,490,982	18.3	1985	167,297,030	27.3
1977	50,899,688	17.5	1986	191,262,558	26.8

GRAND TOTAL: - ₦1,247,479,595

Source: (i) Federal Ministry of Finance, Insurance Department, Ikoyi, Lagos.

(ii) Nigerian Insurance Year Book, 1988.

Notes: (i) All figures are given in Naira.

(ii) The Figures in percentage represents the proportion of life business to non-life business for each year.

The table also indicates that life insurers generate vast sums of money within the economy as long-term savings with the business alone accounting for 39.9% in 1969, 41.0% in 1971 and 26.8% in 1986. To appreciate fully the importance of life insurance to the economy, the following factors must be taken into consideration: the benefit of protection against premature death, the financial benefit of long-term saving for the policy-holder, and the macro-economic side-effects of such savings. On the first two factors, it is obvious that the policy holder will gain in welfare terms as already discussed above. The macro-economic side effects of long term savings depends very much on the state of the national economy. In Nigeria today where the economy is experiencing rapid inflation and high unemployment rates, long term savings becomes useful because it reduces consumer spending and hence moderates inflation, and on the other hand becomes undesirable because it further depresses the level of economic activity due to the fall in the purchasing power of the consumer. On the whole, the savings are investable and this helps to further stimulate economic activities. The table below shows the financial benefit which life policy holders or their dependents derive from the purchase and continued servicing of such policies.

TABLE XVII

FINANCIAL BENEFIT ACCRUED TO LIFE POLICY HOLDERS IN NIGERIA 1969-1986

YEAR	AMOUNT	%	YEAR	AMOUNT	%
1969	558	15.6	1978	4,342	7.3
1970	700	15.7	1979	7,123,485	15.4
1971	928	16.9	1980	9,708,690	19.4
1972	1,619	17.8	1981	14,628,162	24.4
1973	1,104	8.8	1982	18,591,015	26.7
1974	1,877	12.3	1983	25,016,194	31.9
1975	1,681	8.2	1984	24,754,020	32.3
1976	2,368	7.9	1985	31,142,664	38.9
1977	2,837	5.8	1986	38,111,602	41.1

GRAND TOTAL = ₦180,309,618

<u>Source</u>: (i) Insurance Department, Federal Ministry of Finance, Ikoyi, Lagos.

(ii) <u>Nigerian Insurance Year Book</u>, 1988.

<u>Notes</u>: (i) The above figures also represent net-claims paid by life insurers to policy holders or their beneficiaries from 1969 to 1986.

(ii) "Net-Claims" represent claims paid minus reinsurance recoveries.

(iii) All figures are given in Naira.

(iv) The total amount paid as life claims represents 14.46% of the total premium collected within the same period.

(v) The figures in percentage represents the proportion of life claims against non-life claims paid for each.

From tables XVI and XVII, it can clearly be seen that in 1969 the amount collected as premiums amount to just N5,300 while N558 was paid as claims. On the other hand, in 1976 life premiums collected accounted for 18.3% of total premiums collected for that year, while claim paid accounted for 7.9%. Furthermore, in 1986, a total sum of N191,262,558 was collected as premiums while N38,111,602 was paid as claims. These figures go a long way to demonstrate the importance of life insurers in their dual position as providers of financial stability against premature death, and custodians of vast sums of money which is made available for investment in the national economy.

INSURANCE INDUSTRY'S INVESTMENTS AND THE NATIONAL ECONOMY

Insurance industry's investments in the private sector can be explained from the following points of view. First, the insurance industry as an institutional investor ensures that the capital market acts as an efficient mechanism for huge capital mobilization. The capital market has been defined "as that market mechanism which distributes the resources of the many financial institutions ... and other private savings among those who will ultimately use them to finance additions to the stock of physical capital".[14] In other words, the capital market is composed of institutions who have money to lend and corporate bodies who want to borrow, thus, the market involves the trading of stocks, shares, debentures and long-term Federal and States government debts.

It is no longer a disputed fact that the existence of an efficient capital market is a powerful influence on industrial efficiency and hence on the welfare of the economy as a whole because the efficient management of available resources will help in the conservation of money by minimising the costs of production. Therefore, efficient management of the stock exchange "leads to higher share prices which makes it easier for it to raise money or expand by acquisition. Poor management, on the other hand, tends to lead to lower share prices, less ability to raise funds, and greater vulnerability to acquisition".[15] The insurance industry helps to establish an efficient capital market because they are custodians of large sums of money which makes it possible for them to undertake large investments in the capital market which otherwise would not have been possible. Also, because of their size, insurance companies' operations within the capital market help to stabilise it so that it is not so susceptible to the decisions of short-term speculators who also operate in the capital market.

Secondly the insurance industry makes major contributions to the development of the private sector in Nigeria through the provision of funds through the primary and the money markets. Bills of exchange and short-term government debts are traded in the money market, while new stocks, shares and bonds are traded in the new issue or primary market. Two main ways by which insurance companies contribute towards the purchase of stocks, shares and bonds in the primary market can be identified. First, the companies purchase new securities in blocks of convenient sizes thereby reducing the transaction cost in issuing such securities. Also insurance companies have been compelled by law to participate in government initiated economic schemes in order to facilitate an easier flow of funds between the lenders and the borrowers. Second, insurance companies also undertake to buy up any stock not fully subscribed to under a public offer; by this action, insurers ensure that the full amount needed by the borrowers is made available.

Third, the insurance industry contributes to the growth and development of the private sector in Nigeria by investing in industrial and commercial properties which go directly or indirectly to the manufacturing, construction or general commerce sectors of the economy. The point being made here is that "...the purchase by an insurer of an office block, or warehouse and the leasing of that property to an industrial or commercial company releases capital for employment in the business concerned".[16] Furthermore, "the construction by an insurer of new buildings for leasing to an industrial company similarly relieves that company of the necessity of finding the capital that would otherwise have had to be tied up in the property".[17] (Tables that follow illustrate the amount invested by life and non-life insurers in the private sector of the Nigerian economy from 1969 to 1986).

And fourth, insurance companies participate in the development of the private sector through the provision of funds through the secondary market i.e. the market for existing securities such as the Nigerian Stock Exchange. In this market shares, stocks and bonds are bought and resold depending on the financial performance of such securities.

TABLE XVIII: INSURANCE INDUSTRY'S CONTRIBUTION TO THE DEVELOPMENT OF THE PRIVATE SECTOR BY TYPE IN NIGERIA 1969-1978 (%)

AREA OF INVESTMENT	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
(1) Mortgages and Loans	19.95	19.16	14.70	17.36	15.03	16.77	15.11	17.45	16.76	16.39
(2) Cash and Bills Receivable	53.66	51.44	59.66	50.55	52.21	39.93	41.03	37.80	37.38	32.49
(3) Miscellaneous	3.19	5.56	7.32	14.43	17.24	28.05	30.81	30.77	35.14	39.10
(4) Stocks, Shares and Bonds	23.20	23.94	18.34	17.67	15.54	15.09	13.07	14.00	10.74	12.05

Source: Insurance Department, Federal Ministry of Finance, Ikoyi, Lagos.

Note: (i) The above figures were not approximated.

(ii) Figures were converted to percentages by the present researcher.

TABLE XIX: INSURANCE INDUSTRY'S CONTRIBUTION TO THE DEVELOPMENT OF THE PRIVATE SECTOR BY TYPE IN NIGERIA 1979-1986 (%)

AREA OF INVESTMENT	1979	1980	1981	1982	1983	1984	1985	1986
(1) Real Estate	14.60	12.60	13.84	12.42	14.50	14.96	19.27	14.54
(2) Mortgage Loans on Real Estate	25.04	11.76	11.37	11.48	9.96	9.15	7.71	7.89
(3) Loans to Policy Holders	7.40	3.31	4.36	5.32	3.70	5.22	4.46	4.67
(4) Other Loans	8.49	5.70	7.01	8.91	9.46	6.70	7.33	8.23
(5) Cash on Deposit Account	N/A	30.76	26.22	20.02	22.37	26.59	24.19	26.09
(6) Bills of Exchange	N/A	3.98	2.43	1.83	1.36	1.38	1.03	2.13
(7) Stocks, Shares and Bonds	44.49	31.97	35.81	40.07	38.69	36.00	36.04	36.48

Source: (i) Insurance Department, Federal Ministry of Finance, Ikoyi, Lagos.

(ii) Nigerian Insurance Year Book, 1988

Note: (i) The above figures were not approximated.

(ii) Figures were converted to percentages by the present researcher.

As indicated above, the public sector is another area where insurance companies invest a large proportion of their investable funds. Principally, the funds invested are used to finance a part of public sector borrowing requirement. The money realised is then allocated to major industrial and social projects which the Federal and States governments have embarked upon. In Nigeria, and as already explained above, insurance companies are compelled by law to invest in government securities. Thus, it becomes difficult to state categorically if insurance companies would have preferred to invest a greater proportion of their funds in the private or public sector of the economy. The tables below show insurance companies' investments in government securities from 1969-1978, and 1979-1986.

TABLE XX AND XXI:

INSURANCE INDUSTRY'S CONTRIBUTIONS TO THE DEVELOPMENT OF PUBLIC SECTOR ECONOMY IN NIGERIA 1969-1986 (NM)

Year	AMOUNT	YEAR	AMOUNT	YEAR	AMOUNT	YEAR	AMOUNT
1969	6,575	1974	19,660	1979	78,988,964	1984	177,347,635
1970	6,733	1975	29,105	1980	95,586,208	1985	457,519,768
1971	10,840	1976	22,438	1981	113,216,202	1986	817,493,987
1972	16,922	1977	61,422	1982	119,709,055	1987	-
1973	22,635	1978	78,092	1983	182,473,938	1988	-

Grand Total: ₦2,042,610,179

SOURCE: (i) Insurance Department, Federal Ministry of Finance, Ikoyi, Lagos.

NOTES: (a) The above figures are made up of life and non-life investments.

(b) The constituent Parts of the figures are: Federal and State Governments securities, and Securities of semi-governmental bodies.

At this juncture, it is necessary to note that unlike private securities, interest paid on government securities are fixed from the on-set and are less susceptible to changes; also, the availability of a variety of maturity terms for government securities is another advantage that is associated with such securities.

From the discussion thus far, it seems reasonable to conclude that insurance companies investments in Nigeria cannot be strictly confined to the pure Keynesian theory of investment rather, with some modifications the theory can be used to study the investment behaviour of insurance companies in Nigeria, and this is what this sub-section of this chapter has attempted to do. Again, from the above discussion, we have been able to show that after the observance of the mandatory investment percentages, insurance companies hold their excess cash as fixed deposits in the banks. This money is judiciously disbursed by the banks to needy customers who are venturing into new business projects.or are seeking loans to expand existing projects. By and large, one can state without fear of express contradiction that the insurance industry is a major force to be reckoned within terms of investments of funds and economic advancement of any nation.

INSURANCE INDUSTRY AND ECONOMIC STABILITY

The definition and various forms of risks have been fully discussed in chapter I of this work, thus, all we are going to do here is to briefly discuss the various methods of handling risks because it is one way by which the insurance industry contributes to the general economic stability and prosperity of Nigeria. Three main techniques of handling risks are risk identification, risk assessment and risk control.[18] At the corporate level, the risk manager having a fuller knowledge of the economic and social activities of the company, endeavours to identify the various forms of risks which his company is exposed to; by doing this, the risk manager has taken the first step of risk management and has also ensured the continued existence of his company. After the existence of such a risk has been identified, the company will embark on measures aimed at ensuring that the correct assessment or evaluation of the risk is obtained. This involves the compilation of very accurate records of past events in order to ensure that future decisions are arrived at and taken on the basis of sound statistics.[18] It has been argued that it is very important to carry out a careful evaluation of risks because it helps in ensuring that too much money is not spent on controlling a risk that is not likely to cost a great deal should it occur.[19]

A third way by which risk can be managed is through the physical and financial control of such risk. The physical control of risk involves mainly loss prevention and this in turn involves two major elements i.e. loss elimination and minimisation. Loss prevention and control efforts are directed towards reducing both frequency and severity of the occurrence of such risk and "the ultimate goal of loss prevention and control is the elimination of all losses or, failing that, reduction of losses to the minimum that is compatible with human activity".[20]

Again, loss minimisation efforts fall into two categories i.e. pre-loss minimisation and post-loss minimisation. The essence of pre-loss minimisation is that the effect of the loss is anticipated and steps taken to ensure that the frequency and severity are reduced to the minimum, while post-loss minimisation imagines that the loss has been experienced and anticipates ways and measures in which its effects can be minimised.[21]

Financial control of risk also involves two elements, i.e. retention and transfer. By financial retention, is meant the ability of some large firms and parastatals to establish and maintain a separate fund from which payment could be made whenever a loss is experienced. On the other hand, the financial transfer mechanism involves the transfer of the financial effect of such loss to some other person or company and this is where insurance industry plays a very important role because it remains the only means by which catastrophic risks will always be financed. Above all, the importance of loss prevention and control transcends the individual and the firm involved in the loss because the society and the national economy as a whole benefits from there being fewer losses in the long run.

At this juncture, our discussion will be focused on how the insurance industry has helped in promoting general economic activities in Nigeria. Many insurance companies operate various types of insurance policies amongst which are fire, motor, marine, aviation and other policies grouped under general accident business. Taking a cursory look at the afore-mentioned policies, one will discover that by their nature, they help in giving an enterpreneur a greater degree of confidence to invest his capital in new business ventures and in the expansion of existing projects. For example, a Fire Policy makes it possible for an insured to be compensated after the occurrence of the fire outbreak, this in turn makes it possible for the firm to resume operations within the shortest possible time thereby ensuring that continuity in the economic endeavours of an individual is guaranteed and realized when occasion demands for it. The tables below show the amount collected by non-life insurers and the amount released by them as indemnity from 1969 to 1986.

TABLE XXII: FINANCIAL TRANSFER OF RISK TO NON-LIFE INSURERS IN NIGERIA 1969-1986 (₦'M)

YEAR	AMOUNT	%	YEAR	AMOUNT	%	YEAR	AMOUNT	%
1969	7,982	60.1	1975	97,602,504	79.2	1981	453,306,065	78.8
1970	10,622	66.1	1976	154,179,552	81.7	1982	488,586,166	79.9
1971	15,742	59.0	1977	239,896,611	82.4	1984	450,996,233	74.1
1972	24,666	67.8	1978	306,061,698	82.5	1983	449,807,874	75.6
1973	28,417	68.4	1979	285,349,945	81.3	1985	445,296,097	72.7
1974	36,518	65.0	1980	361,332,305	79.0	1986	523,134,956	73.2

GRAND TOTAL: ₦4,265,673,953

Source: (i) Insurance Department, Federal Ministry of Finance, Ikoyi, Lagos.

(ii) Nigerian Insurance Year Book, 1988.

Notes: (a) The above figures represent premiums at gross value collected by non-life insurers.

(b) Non-life business includes: fire, motor, general accident, marine and aviation insurance businesses.

(c) The percentage represents the proportion of non-life business to life business for each year.

Although non-life insurers also generate a vast sum of money like their counterparts in the life insurance business, yet they are faced with one major constraint in investing the funds under their care, namely that their policies are normally yearly contracts. Therefore, in investing non-life insurance funds, these companies normally look out for short term securities with the highest profits in the capital market. Furthermore, the impact of non-life insurers is highly and positively felt in the economy through the enormous amount which they disburse as indemnity to the insured as illustrated in the table below:

TABLE XXIII: AMOUNT PAID AS INDEMNITY TO NON-LIFE POLICY HOLDERS IN NIGERIA 1969-1986 (₦'M)

YEAR	AMOUNT	%	YEAR	AMOUNT	%	YEAR	AMOUNT	%
1969	3,010	84.4	1975	18,800	91.8	1981	45,379,361	75.6
1970	3,760	84.3	1976	27,627	92.1	1982	51,082,399	73.3
1971	4,698	83.5	1977	45,993	92.2	1983	53,300,199	68.1
1972	7,467	82.2	1978	55,517	92.7	1984	51,830,197	67.7
1973	11,391	91.2	1979	39,162,778	84.6	1985	49,014,928	61.1
1974	13,329	87.7	1980	40,285,988	80.6	1986	54,582,388	58.9

GRAND TOTAL: ₦384,829,830

SOURCE: (i) Insurance Department, Federal Ministry of Finance, Lagos.

(ii) Nigerian Insurance Year Book, 1988.

NOTES: (a) The constituent parts of the above figures include fire, motor, marine, aviation, workmen compensations, contractor-all-risks and other business except life insurance business.

(b) The figures above represent net-claims paid during the period under review.

(c) The amount paid out as non-life claims represents only 9.03% of the total premiums collected from 1969 to 1986.

(d) The figures in percentage represent the proportion of non-life claims against life claims paid for each year.

Again, it can be seen from the above tables, that despite its shortcomings and varied problems the insurance industry in Nigeria has been striving hard to ensure that both individuals and corporate bodies continue to enjoy a stable socio-economic atmosphere. For example, in 1969 a total of ₦7,982 was collected as premiums while ₦3,010 was paid as claims, while in 1986, the amount collected as premiums stood at ₦523 million, and paid claims amounted to ₦55 million for the same year. Commenting on the industry's obligation towards its clients, Mr. B. Ajayi explains that the most important obligation which insurers must discharge is the prompt payment of genuine claims. He adds that it has been difficult for most insuers to discharge this obligation because of the fraudulent nature of most claims and this has led to the delay in the payment of claims in majority of the cases because a thorough investigation of all claims must be undertaken first to ascertain the genuiness of each claim.[22]

From the discussion thus far, we have been able to demonstrate with available facts and data the contributions of the insurance industry to the commercial and industrial development of Nigeria. We were able to discuss the dual role of insurance companies, first, as providers of protection and financial stability in the event of the occurrence of an insured peril and second, as stimulators and investors in both the private and public sectors of the Nigerian economy.

However, it can be argued that government inferference in the investment pattern of insurers may run counter to the interests of policy holders and may not be in the best interests of the national economy. This is because interest rates payable on government securities are deliberately fixed at a low level so that there is little prospect of capital appreciation for the insurance companies since they are compelled to invest a stated proportion of their funds in government securities. What is more, due to the poor profit yield of life policies when compared to what obtains in the banking industry as regards interest paid on savings, it till be discovered that the propensity by the individual to save through the insurance mechanism will always be low.

NOTES AND REFERENCES

1. The following are the basic types of life assurance: term assurance - under this type of policy payment is only made by the assurer if the life assured dies within the specified period; whole-life assurance - premiums may be payable throughout life, or cease at a given age; the sum assured is payable at death only; endowment assurances - this provides for sum assured to be paid either at death or after a fixed number of years, whichever comes first.

2. See Stonier, A.W. & Hague, D.C., A Textbook of Economic Theory (Fourth Edition) London, Longman Group Limited, 1972, p. 485. Also see Ulmer M. J., Economics: Theory and Practice (Second Edition) Bozton, Houghton: Theory Mifflin Company, 1965, p. 281. Also see, Chong-Yah L. et. al., Elements of Economic Theory (Revised Edition) Kuala Lumpur Oxford University Press, 1975, Chapters 15, and 19.

3. See Stonier, A.W. & Hague, D.C., op. cit., pp. 486-7.

4. Marginal efficiency of capital represents the expected rate of return on an additional unit of capital employed.

5. See Keynes, J.M., General Theory, London, 1936, pp. 149-150.

6. See Stonier, A. W. and Hague, D.C., op. cit., pp. 499-500.

7. See Nigeria, Federation of Federal Parliament Debates, Lagos, Federal Government Press, 28 July to 4 September, 1961, p. 32.

8. See Ogunshola, A.O., "Some Investment and Related Problems of Nigerian Insurance Companies" in Insurance Institute of Nigeria Educational Conference Papers Journal, Vols. V & VI (1976/77), p. 80. Also see Nigeria, Federal Republic of Report of the Committee on the Nigerian Financial System, Lagos, December, 1976, p. 144.

9. See Nigeria, Federal Republic of Laws of the Federal Republic of Nigeria, 1968, p.B33 and 1976 p. A271.

10. Falegan, J.I., "Investment of Insurance Funds in Nigeria: An Examination of the Regulatory Framework" in Journal of the Insurance Institute of Nigeria, December (1982), pp. 22-27.

11. See Central Bank of Nigeria Monetary Policy Circular, Nos. 10 to 15.

12. See section 18, Insurance Act of 1976 and also see section 1, Insurance (Miscellaneous Provisions) Act, 1964. The comprehensive list of securities which insurance companies can invest is given in these legislations.

13. See Nigeria, Federation of Federal Military Government's Views on the Report of the Committee on the Nigerian Financial System; Lagos, Federal Ministry of Information, 1977.

14. Diacon, S. R., Economics, London, Chartered Insurance Institute Tuition Service, 1981, chp. 8, p. 8.

15. Ibid., chp. 8, p. 8.

16. Ibid.

17. Ibid., chp. 8, p. 9.

18. Gordon, C.A., et. al., Introduction to Insurance, London; The Chartered Insurance Institute Tuition Service; 1981; chp. 2, p. 2. Also see Williams, C.A. and Heins, R.M., Risk Management and Insurance: New York McGraw Hill, 1976.

19. Gordon, C.A., et. al., op. cit., chp. 2, p. 3.

20. James, L.A., Risk and Insurance (Second Edition) New York, Meredith Corporation; 1969, p. 19.

21. For a detailed discussion of this method, See Gordon, C.A. et. al., op. cit., chp. 2. Also see Haller Matthias, G., The Aim of Risk Management, New Yofk, Foresight 1976.

22. Interview with Mr. B. A. Ajayi on the 11th of November, 1989.

CHAPTER SIX

INSURANCE INDUSTRY AND THE CONTEMPORARY ECONOMY

Aside from the industrial and commercial sectors, the insurance industry in Nigeria have also played a significant role in the labour and agricultural sectors of the Nigerian economy. Furthermore, the various reinsurance companies have also been contributing their own quota to the growth and development of the national economy.

REINSURANCE AND THE NATIONAL ECONOMY

The growth and functions of reinsurance business in Nigeria has been discussed in chapter four of this work, thus, all we shall do here is to discuss with the aid of necessary statistical data the contribution of the reinsurance market to the growth and development of the Nigerian economy. It is necessary to mention here that it is only the trading results of the Nigeria Reinsurance Corporation that will be discussed in accomplishing our task. This is due to the fact that the other reinsurance companies operating in the country commenced business just recently.[1]

Since 1977 when the Nigeria Reinsurance Corporation commenced business, it has played a major role in the provision of reinsurance covers locally which has had the effect of minimizing the amount that was hitherto repatriated abroad for reinsurance purposes. This means that a sizeable proportion of the funds that would have been transferred abroad are now available for local investment. (See table below for the Gross Premium Income of the Nigerian Reinsurance Corporation from 1978-1986).

TABLE XXIV: GROSS PREMIUM INCOME OF NIGERIA REINSURANCE CORPORATION 1978-1986 (₦M)

YEAR	AMOUNT	YEAR	AMOUNT
1977	NIL	1982	95,990,744
1978	21,996,649	1983	113,212,714
1979	65,256,951	1984	108,789,170
1980	64,559,309	1985	123,294,517
1981	94,291,435	1986	115,326,000
GRAND TOTAL:		₦802,717,479	

Source: 10 years of Professional Reinsurance in Nigeria, Lagos, Nigerian Reinsurance Corporation, 1988, p. 54.

Notes: (i) The above figures include reinsurance accepted in the following classes of business: fire, motor, general accident, marine cargo and hull.

The table, shows that a positive increase was recorded in the Gross Premium Income. For the purpose of clarity, the above figures are represented in the diagram below. Thus, using the 1978 figure as our base year, an increase of slightly over 561 per cent was recorded in 1985, while in 1986, the percentage increase fell to 524.3 per cent. This has been attributed to the effect of the Structural Adjustment Programme (SAP) that was introduced in that year. It should be stated here that the Corporation also purchased retrocession covers for business accepted locally from foreign reinsurers. This is one way by which the practice of reinsurance in Nigeria has been contributing to the growth and development of the Nigerian economy, because by ensuring that local risks are spread internationally, a greater degree of protection and indemnity is assured in the event of the occurrence of a catastrophic accident.

Funds generated by reinsurance companies are investable. In line with this philosophy, the Nigerian Reinsurance Corporation has invested in almost every sector of the economy, more precisely, the Corporation has invested in the banking, hotel, manufacturing, and housing sectors of the economy. It has also invested in government securities and by this action, "...the corporation has achieved one of its primary objectives, as funds which would normally have gone out in the form of reinsurance premium in its absence is thus injected into the national systems to help stimulate growth of the economy.[2] (See table below showing investment figures from 1978 to 1986).

TABLE XXV: PUBLIC AND PRIVATE SECTORS INVESTMENTS BY THE NIGERIAN REINSURANCE CORPORATION 1978-1986 (₦'M)

YEAR	AMOUNT	YEAR	AMOUNT
1977	NIL	1982	73,325,519
1978	19,694,469	1983	67,083,000
1979	51,820,418	1984	79,286,000
1980	46,344,329	1985	71,792,000
1981	66,840,003	1986	75,930,000
GRAND TOTAL:	₦452,115,738		

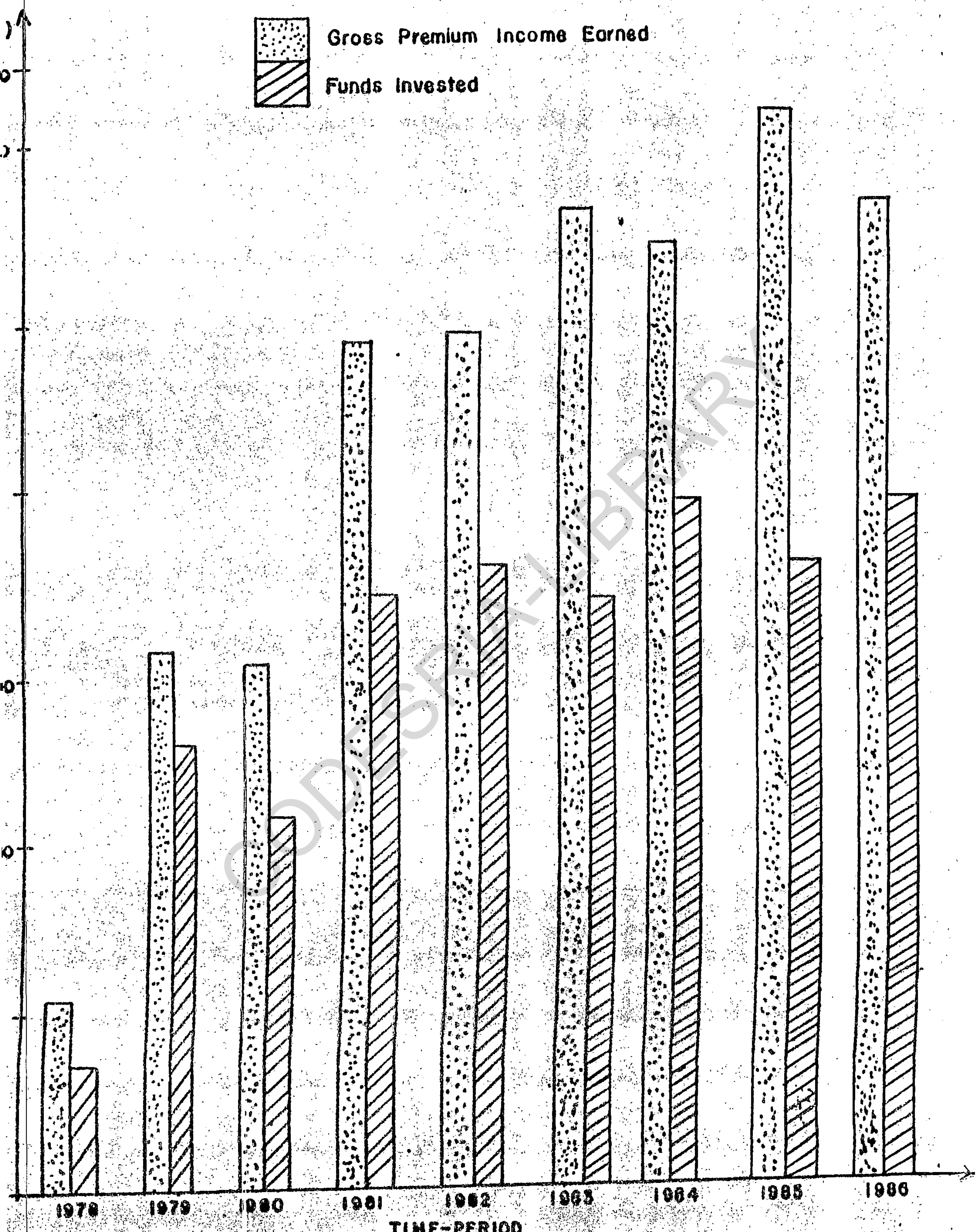
Source: 10 Years of Professional Reinsurance in Nigeria, Lagos, Nigeria Reinsurance Corporation, 1988, p. 54.

The total investments represent 56.3 per cent of the total Gross Premium earned from 1978 to 1986. Again, using the figures for 1978 as our base year, a percentage increase of slightly over 403.0 per cent was recorded in 1984 which declined to 385.6 per cent in 1986, again as a result of the implementation of SAP in 1986.

For the purpose of clarity and better comparison of Gross Premium earned and funds invested, the above tables are represented in the following bar chart.

In addition, the international operations of the Nigeria Reinsurance Corporation have been of immense benefit to the national economy. The Corporation generated a substantial amount of premium income in hard currency and this has had a positive effect on the balance of payment position of the country.[3] As at 1988, the Corporation had transacted reinsurance business with over 300 companies all over the world.[4] As explained in chapter one of this work, not all risks are insurable, but with the existence of a technically sound and financially strong reinsurance market, some risks which hitherto were grouped or referred to as uninsurable risks can be insured by special arrangements. In this wise, The Nigeria Reinsurance Corporation introduced and manages the "....substantial Life Pool which has created a facility whereby some lives which otherwise may not have been insurable as far as the Nigerian market is concerned can now be accommodated, thereby minimising the drain on our foreign exchange.[5]"

DIAGRAM III : GPI AND FUNDS INVESTED BY NIG. RE. 1978–1986



Source: Tables XXIV & XXV Above

From the explanations made thus far, it can be seen that the practice of reinsurance in Nigeria has had a positive effect on the growth of the insurance market in Nigeria and the Nigerian economy on the whole.

INSURANCE, EMPLOYMENT AND MANPOWER DEVELOPMENT:

A major socio-economic problem which Nigeria is facing today is unemployment whose rate has reached an unacceptable level in the society. It is in view of this development that the contribution of the insurance industry over the past years to providing gainful employment is going to be examined. An examination of the structure and composition of the Nigerian insurance market, shows that it is one of the greatest employers of labour within the labour sector of the Nigerian economy. In essence, like some insurance markets in the advanced economies, the Nigerian market is also labour intensive.

Due to the structure and labour intensive orientation of the industry, ample opportunities exist for persons who desire to be self-employed or to be in paid employment. As at December 31, 1987, it was estimated that insurance companies in Nigeria had a total of 13,288 persons in their employment, while reinsurance companies had a total of 662 persons.[6] Again, the number of persons employed by insurance brokers and loss adjusters was estimated at 1,975, while full time and part-time agents were estimated to be 2,500. On the whole, it was estimated that a total number of 18,432 persons were directly or indirectly employed in the insurance industry. It is envisaged that the number of people employed in the insurance industry will continue to be on the increase, because as the economy is becoming more complex and sophisticated the need to insure against risks becomes more pronounced and insurance companies will need more hands to be able to cope with the expected changes satisfactorily.

However, when it comes to the question of manpower development, the industry has not been able to cope with the challenges. Both the practitioners and the government have not taken seriously the issue of manpower development for the industry and allied sectors of the economy. As earlier discussed in Chapter Three of this work, Nigerians and indeed Africans only manned junior clerical and non-managerial position in all the insurance establishments that were operating in the continent during the colonial period, because when foreign insurance companies established Underwriting Agencies in the country, they were not given the power to handle technical matters like underwriting, reinsurance and claims settlement. This has resulted in a lack of technically experienced Africans which is still being felt up till date.

However, shortly before the attainment of political independence in 1960, steps were taken by some Nigerians to lay a concrete foundation for the development of manpower needed by the industry and other sectors of the economy. The efforts of these Nigerians culminated in the establishment of the Insurance Institute of Nigeria in 1959.[7] This body was charged with the responsibility of providing insurance education for Nigerians but it is sad to report that as at 1986 the Federal Government has not passed the enabling law that will give the Institute official recognition. Aside from this, the Institute has not been able to conduct local professional examinations and this has made the Chartered Insurance Institute of London the alpha and omega of professional insurance education for Nigerians. The afore-mentioned handicaps notwithstanding, the Insurance Institute of Nigeria has been playing an important role in hosting annual educational conferences, seminars and lectures which focus special attention on problems confronting the national economy and the insurance industry.

Realizing that training and development is an essential ingredient for an enviable growth of any vocation, the Federal Government incorporated specific provisions for the organisation of training programmes in the 1969 and 1977 legislations that established the National Insurance Corporation of Nigeria and the Nigeria Reinsurance Corporation. Also, some Nigerian universities and polytechnics provide academic programmes in insurance and actuarial science, thus ensuring the availability of competent manpower for the industry. Nonetheless, the number of graduates that has been produced is rather small compared with the demand. And in addition, these higher educational institutions have not addressed the issue of mounting post-graduate education in the industry. As a result, some practitioners[8] have advocated for such training programmes abroad.

Furthermore, the Insurance Training Centre at Ogere in Ogun State, established recently also provides certificate courses in insurance. Professional training is also provided at the West Africa Insurance Institute[9] established in Monrovia in 1982 by Nigeria, Ghana, Sierra-Leone, Gambia and Liberia with technical and financial assistance from UNCTAD. Thus far, many people working within and outside the insurance industry in Nigeria have benefitted from these training programmes.

On the balance, it will not be wrong to conclude that the acquisition of basic insurance education is no longer a major problem in Nigeria, all that is needed now is the provision of advanced research facilities and more government participation in the area of manpower training and development.

INSURANCE AND AGRICULTURAL DEVELOPMENT IN NIGERIA

The importance and impact of the agricultural sector in the continued survival of any nation cannot be over-emphasized. In Nigeria, and most African countries, agriculture is the mainstay of the economy providing employment for eighty-per cent[10] of the total workforce in the country. Aside from the provision of food for the ever increasing population of the country, the agricultural sector also serves as a major source for the supply of raw materials and as a major foreign exchange earner for many African countries.

Statistics have shown that in the ten-year period spanning 1960 to 1969, earnings from the agricultural sector accounted for an average of 50.4%[11] of the total revenue from exports. This figure dropped to 7.8% in the twelve year period 1970 to 1981, worst still, a drastic drop in agricultural activities in the country was the abandonment of farmlands in preference for white-collar jobs in the country. Realizing the imminent danger ahead, successive governments have been making efforts to reverse the trend by introducing policies aimed at making the country self-sufficient in agricultural production. Thus, it was not surprising that the Federal Military Government under the leadership of General Yakubu Gowon introduced the National Accelerated Food Production Programme in 1972. In 1976, the Obasanjo regime introduced Operation Feed the Nation while the civilian regime under Shehu Shagari introduced the Green Revolution in 1980.

Along with these agricultural programmes, various incentives were introduced to encourage farmers and attract more people and corporate bodies into the agricultural sector of the economy. For example, agricultural loans were granted at low interest rates through the commercial banks, the Bank for Agricultural and Co-operatives and the Agricultural Credit Guaranttee Scheme Fund. Also, guaranteed minimum prices for food and cash crops, the provision of subsidised fertilizers and hybreed seeds, the creation of River Basin Development

Authorities, and Agricultural Research Institutes, and the restructuring of the ministries responsible for agriculture and water resources all formed parts of efforts made to improve the agricultural sector of the Nigerian economy.

Whether the various programmes and incentives enumerated above have actually achieved the desired results is not within the scope of this work. All that can be said here is that they represented a remarkable step towards the attainment of self-sufficiency in the agricultural sector of the economy. Taking a cursory look at the above measures, one will discover a missing element in the various policies, and this is the non-provision for agricultural insurance that would have served as a mechanism of indemnifying agricultural producers against losses caused by vagaries in weather conditions or other unexpected and uncontrollable hazards. It is against this background that we shall examine the role of the insurance industry in the agricultural development of Nigeria.

Agricultural insurance started as crop hail insurance in Europe more than a century ago,[13] but in Nigeria the history of this class of insurance dates back to 1980 when the National Cooperative Insurance Society of Nigeria(NCISN) was established with its headquarters in Kano.[14] The company was licensed to underwrite life and non-life business and agricultural insurance on a limited basis. In 1981, the company provided cover for the agricultural tractors distributed to farmers under the Green Revolution Programme in some Northern states of the Federation. In 1982, an agricultural insurance department was established by the National Insurance Corporation of Nigeria to underwrite this class of business with a pilot scheme on crop and livestock insurance.[15] It must be mentioned that at the initial stage only risks emanating from corporate agricultural bodies such as the Nigerian Beverages Production Company, Nigerian Sugar Company, and Sunti Sugar Company etc.; were accepted by the agricultural department of NICON. These efforts aimed at underwriting agricultural risks were beset with various problems. For instance, there was low level of business in this class of insurance, followed by a lack of qualified and experienced personnel; uncertainty as to what to place as reservo. All these problems contributed to the apathy among other insurance companies towards the successful underwriting of agricultural insurance risks in Nigeria.

Meanwhile, the Federal Government in 1981/82 appointed a Committee headed by the Director of Federal Department of Agriculture and Co-operatives to carry out feasibility studies in the agricultural sector of the economy with a view to:

(i) nominating crops for the proposed government-sponsored pilot insurance scheme;

(ii) Undertake studies and determine the categories of farmers that would be interested in buying comprehensive agricultural policies;

(iii) recommend the type of insurance cover suitable for the pilot scheme;

(iv) collate and analyse statistics illustrating the financial effect of the proposed scheme.

When eventually the committee submitted its report, it also recommended for the setting-up of a Task Force on Agricultural Insurance Scheme in Nigeria. This recommendation was accepted by the Government which inaugurated the Task Force in 1983 with the following as its terms of reference:

(i) to review the existing agricultural insurance activities in Nigeria and to recommend the agencies that should execute the proposed scheme;

(ii) to identify the various subsectors of agriculture and recommend specific projects and agricultural products that should benefit from the proposed Agricultural Insurance Scheme;

(iii) to determine the risks involved and the level of compensation on them;

(iv) to determine the institutional framework and manpower requirement for operating the scheme;

(v) to estimate the magnitude of investment and suggest sources of finance for executing the scheme.[17]

To accomplish its assignment, the Task Force evaluated the conditions necessary for embarking on an agricultural insurance scheme by critically studying the types of schemes and experience of some developing and developed economies such as Japan, Sweden, Mauritius, Canada, Mexico, USSR and USA. It then made the following recommendations that:

(i) the proposed scheme should be handled by a parastatal established by law for the purpose of administrative, technical and logistics convenience. To facilitate a quick take-off of the programme, the scheme should be administered by NICON.

(ii) the proposed scheme should cover all the sub-sectors of agricultural production i.e. crop, livestock, fisheries, and forestry, and the policies should be a 'comprehensive all-risks' type. Thus, in respect of crop insurance, compensation should be paid to the victim in respect of losses incurred from all natural disasters and damage caused by wild animals, insects, plant diseases, excessive rain, and hurricane inclusive. As for livestock including poultry insurance, cover was to be provided against mortality resulting from diseases such as rinderpest, contagious bovine pleuropneumonia (CBP), anthrax, foot and mouth disease, haemorpagic, scepticaemia, marek and rabbies. On the other hand, fish stock insurance provided cover against pollution, drought, flood, deoxygenation due to vegitation, micro-biological activity or high water temperature. While cover is to be provided against fire, drought, flood, and other plant idiseases affecting tree seedlings, timber plantations and wild life in respect of forest products.[18]

Other recommendations made by the Task Force included

(iii) the introduction of subsidized premiums payable at the beginning of production activities;

(iv) the establishment of a strong working relationship between the new scheme, commercial banks and the Federal Government;

(v) indemnity should be aimed at encouraging the victim to remain in the agriculture business as well as discouraging laziness, negligence, and unreceptiveness to technological advancement and adaptation;

(vi) individual, large-scale, and corporate farmers, River Basin Development Authorities, World Bank assisted Agricultural Development Projects, Producer (farmers) Cooperatives, Accelerated Agricultural Development Programmes and other government owned or assisted projects were all identified as potential beneficiaries of the proposed scheme.[19] On the question of finance, contributions were made towards the initial capital of the fund by the Federal Government, and the private sector.[20]

After some years of experimentation, the Federal Military Government under the leadership of General Ibrahim Babangida formally launched the agricultural insurance scheme in Nigeria on the 15th day of December, 1987[21] at the Murtala Mohammed Square, Kano. There is no gainsaying that the official launching of the scheme represented a major landmark in the history of the Nigerian insurance industry in particular and the national economy as a whole. Like other countries have done, it is expected that Nigeria will benefit from the existence and operation of agricultural insurance.

First, and as already mentioned, agricultural insurance indemnifies farmers in the event of an agricultural loss, and this helps in stabilizing returns on investments and income.

In view of this, the farmer stands to benefit socially and economically from the proper running of the scheme.

Second, since agricultural insurance policies serves as securities for bank loans, it is now relatively easier for farmers to obtain credit facilities because the banks are sure of recovering their money in the event of the occurrence of a loss.

Third, the government will also benefit from the proper execution of the scheme because it will assist the government in executing its set policy objectives as regards agriculture. Furthermore, while it is envisaged that the scheme will lead to a fuller realization of complete mechanisation of the agricultural sector of the economy, this will in turn create unemployment in the economy as those displaced by the introduction of machines may not find employment in the urban centres.

It is expected, however, that increased and greater agricultural output in all its facets will finally lead to self sufficiency. The surplus food production will be exported to earn more capital to finance further industrial development that will skim off the excess labour in the market and reduce unemployment drastically. The agricultural insurance scheme, therefore, if well managed will attract foreign investors into agriculture.

Although it is yet premature to assess fully the impact of the agricultural insurance scheme on the performance of

Nigerian agriculture, yet a combination of government policies has led to an improved performance since 1981 as shown in the table below.

TABLE XXVI AGRICULTURAL SECTOR'S CONTRIBUTION TO THE GROSS DOMESTIC PRODUCT AT CURRENT FACTOR COST 1981-1986

1981	1982	1983	1984	1985	1986
25.52%	28.12%	31.71%	35.74%	35.07%	36.32%

SOURCE: (i) Annual Abstract of Statistics (1987 edition) Federal Office of Statistics, Lagos.

(ii) Economic and Social Statistics, Bulletin (1988 edition) Federal Office of Statistics, Lagos.

For an effective implementation of the agricultural insurance scheme, efforts must be intensified to reach and educate farmers on its existence and advantages. Furthermore, the Nigerian Agricultural Insurance Corporation has to have branches in all the states of the federation and more importantly ensure the prompt payment of claims and employ reliable insurance experts and brokers as its agents.

From the discussion thus far, we have been able to highlight the contributions of the various reinsurance companies to the economic development and social stability of Nigeria. Also, the role of the insurance industry in the provision of trained manpower for the insurance and allied sectors of the economy was comprehensively discussed, and it was discovered that for Nigeria to attain the level of self-sufficiency in the area of qualified manpower for the industry, it is necessary for the government to encourage and finance the establishment of specialised institutions. Various higher institutions of learning should also be encouraged to introduce graduate courses in insurance. Conclusively, the government must make a radical departure from the past by seeing to the success of the newly introduced agricultural insurance scheme because it is only by doing so that solutions can be provided to the natural disasters that impede the agricultural development of the nation.

NOTES AND REFERENCES

1. Aside from the Nigeria Reinsurance Corporation that commenced business in 1977, others commenced business in 1985, 1987, 1983 and 1978 respectively. These companies are Continental Reinsurance Company Limited, Globe Reinsurance Company Ltd., Universe Reinsurance Company Ltd., and African Reinsurance Corporation owned by 36 O.A.U. member states and the African Development Bank.

2. Ojinna, B.C., "The Birth and Growth of Nigeria, Reinsurance Corporation" in <u>10 Years of Professional Reinsurance in Nigeria</u>, Lagos, Nigeria Reinsurance Corporation, p. 57.

3. The amount realized as premium in hard currency cannot be obtained but the naira equivalent stands at N15.1 million as at 1986.

4. See <u>Basic Facts</u>. A publication of the Nigerian Reinsurance Corporation, 1988, p. 4.

5. Ojinna, B.C., <u>op. cit.</u>, p. 58.

6. These figures were computed from the <u>Nigerian Insurance Year Book</u> (1988), Lagos, Nigeria Reinsurance Corporation, and it represents employees of eighty-seven insurance companies in Nigeria. These are ninety-eight [illegible] insurance companies in Nigeria as at 1987.

7. See Irukwu, J.O. (ed.), <u>Nigerian Insurance Year Book</u> 1988; Lagos, Nigeria Reinsurance Corporation.

8. See Lijadu, O., "Manpower Development and Professionalism in the Nigerian Insurance Industry". (Unpublished private paper 1988). Also see, Nwokolo, F.C., "Manpower Development and Professionalism in the Nigerian Insurance Industry". (Unpublished private paper, 1987). See also Ogunlana, F.O., "Ensuring Responsiveness of Nigeria's Insurance Industry to National Economic Needs through Manpower Development" in <u>Journal of The Insurance Institute of Nigeria</u> (December 1985).

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CHAPTER SEVEN

EPILOGUE AND CONCLUSION

The need to develop and sustain a strong, virile, and dependable insurance industry is a task that cannot be accomplished within a specific time period. Against this background, our discussion on the insurance industry and the Nigerian economy cannot be finalized at this or any other stage; this again, has helped in emphasizing the point that the insurance industry and the national economy are dynamic elements in the life of any nation and are intertwined.

STRUCTURAL ADJUSTMENT PROGRAMME AND ITS EFFECTS ON INSURANCE INDUSTRY

Like any other sub-sector of the economy, the problems facing the insurance industry in Nigeria are multifarious and interwoven. First, it is a general concensus that the introduction of the Structural Adjustment Programme (SAP) into the Nigerian economy in 1986 is the most recent and prominent problem that the Nigerian insurance industry has had to face. As an economic expert once asserted, the main objectives of the SAP in Nigeria "... are to gradually reduce the degree of our currency over-valuation, to correct systematically the structural distortions in the domestic economy, to discourage the high import dependence, (and) to efficiently ration the increasingly scarce foreign exchange amongst national uses ..."[1] Essentially therefore, the two major elements of SAP that is affecting the conduct of insurance business mostly are: the attempt to find a realistic exchange rate for the Naira, and the allocation of scarce foreign exchange for the various competing sectors of the economy through biddings at the foreign exchange market (FEM).

Perhaps, one might want to know how a change in the value of a nation's currency will affect the general economic climate of such a country. Since most of our industries depend on the importation of raw materials for their products, it invariably follows that a change either upwards or downwards in the value of the Naira will affect investments and production costs. In our case, we have experienced a constant devaluation in our currency and this is adversely affecting investments and production costs, without much dispute this leads to an astronomical increase in the cost of the finished products which the consumer is unable to purchase due to a fall in his purchasing power. A direct effect of this situation is that installed capacity utilization of the various factories will be greatly reduced, and in the short-run it may lead to partial closure of such factories and in the long-run a total collapse of such factories may follow.

As far as the insurance industry is concerned, the above situation is likely to affect the transaction of business in almost every class. For instance, in the sphere of property insurance the contract is normally a contract of indemnity. It therefore follows that with devaluation of the currency and the astronomical rise in prices of building materials, the value of property would equally rise. This will make it necessary for the sum insured to be increased, representing an increase of the level of business for property insurers. But in reality this is not the case as what we now have is stagflation because people are finding it difficult to pay the increased premium due to a non-increase in the income of the policyholder. Thus, what is experienced in majority of the cases now is under-insurance, non-insurance, and low rates that have adversely affected the profit margins of the insurers.[2]

In the case of motor vehicle insurance, many insured and prospective policy-holders now prefer to take the third-party (liability) only policy as against the most favoured comprehensive policy and this can be attributed to the fact that the purchasing power of many consumers has fallen. What is more, many motor insurance offices have been experiencing a period of drastic reduction in premium income and a rise in the amount paid as claims due to rising cost of spare-parts and theft. To check this situation, it has been suggested that a thorough restructure of the rating method for motor insurance be under-taken.[3] Notwithstanding, it can be argued that the behavioural pattern of policy-holders depends on which income group he belongs to, whether high, middle, or low. All other classes of insurance i.e. fire, marine, life, etc, are also affected by the devaluation of the currency, and it has been discovered that the Nigerian experience is not quite different from that of other African and third world countries.[4] Perhaps the only difference is in the level of gravity that each country has had to contend with.

The effect of the SAP on the claims experience of Nigerian insurers also demands some attention. A possible effect aside from the bad claims experience already discussed above, is that since an increase in the value of assets is being recorded, it follows that the value of claims may increase in absolute terms. Also, a noticeable effect of the SAP on Nigerians and their properties is that more care and caution is being employed in the day-to-day use of such properties and old ones are being maintained adequately. Thus, SAP has led to the cultivation of a strong maintenance culture in Nigeria which has led to a reduction in the number of accidents recorded on our roads and in factories. The overall effect of this on the claims experience of most companies is a decline in the number of genuine actual claims recorded.

Due to the increase in the value of risks as a result of inflation and devaluation, insurers and reinsurers are thus faced with the problem of inadequate capacity. In essence, both insurers and reinsurers will have to undertake a review of their existing capacities in order to be able to cope with the galloping sums insured in almost all classes of business. For the direct insurers, it becomes imperative on them to review upwards their reinsurance facilities, but the snag here is that the reinsurers are responding to this challenging situation with a luke-warm attitude, rather the reinsurers are urging the direct insurers to effect a corresponding increase in their retention limits before their reinsurance facilities can be expanded. It must be mentioned that this problem has resulted in the denial of insurance covers to prospective buyers with huge sums to be insured.

As mentioned earlier, a major element of SAP is the allocation of scarce foreign exchange to the various competing sectors of the economy. In this regard, the insurance sub-sector also had to contend with the problem of inadequate foreign exchange allocation for settling insurance and reinsurance premiums abroad. It is necessary to point out that this problem was more pronounced and has been existing before the introduction of SAP in 1986. As a result, it has been suggested that local insurance companies should now look inwards for their reinsurance facilities and "... reduce their outward cessions as far as possible without unduly bringing about a situation where risks will be concentrated locally with unsavoury experience during the time of claims."[5]

However, since the introduction of the Foreign Exchange Market (FEM), it has become relatively easier to purchase hard currency for the settlement of premium to overseas reinsurers. This in turn has lead to an improved relationship between the ceding companies and their overseas counterparts. From the above discussion, one point that has clearly emerged is that for the insurance and reinsurers companies to function properly and stand the test of time, the industry needs more funds through a substantial increase in the capital base of all the companies, which in turn will lead to an effective and stronger industry that will be able to underwrite small and huge risks without much recourse to foreign companies for assistance.

PROBLEMS AND RECOMMENDATIONS

If we look at the evolution of the modern insurance in Nigeria over the years, one might be tempted to reach the conclusion that it has been a success story, but with an honest and objective appraisal of its past and contemporary state, one would not be wrong to assert that its image is decidedly tarnished. The roots of this problem can be traced back to the source from which the ideas of modern insurance were imported into Nigeria i.e. Britain. Before the enactment of the 1870 Insurable Interest Bill by Parliament in Britain companies published financial results that were aimed at misleading the public rather than informing them of their true state of accounts.[6] It was no surprise that this unprofessional and diabolical act was imported into Nigeria by British insurers who first came here to establish agency offices and ever since, this problem has remained with the insurance market in Nigeria.

Another reason why the insurance industry in Nigeria has been suffering from the stigma of bad reputation is that its products i.e. insurance policies, are not tailored to suit the interests of the insured. This situation does not augur well for both parties i.e. the insurers and the insured, because not only will the insurers find it difficult to penetrate the market for fuller utilization, they will find it difficult to convince the public of the desirability of their products and services. On the part of the populace, the desire for better insurance covers will not be attained, thus leaving majority of the insurable public uninsured. Again the present system whereby the insurance market serves a limited section of the potential market should be discouraged and discontinued. At present, the business and industrial communities share a major percentage of the market, this is a direct result of the shortcoming discussed above. It is expected tand believed that if the industry can develop policies that are designed to fit the diversified risk situation in the country, and also penetrate the rural areas, it will lead to a greater participation of the citizenry in the market and people outside the business and industrial communities will readily find policies that suit their individual needs as is the case in some advanced economies like U.S.A. and Britain.

The nature and composition[7] of the insurance market in Nigeria is also contributing to the poor public image which the industry has been experiencing. The insurers and the various intermediaries that transact business on their behalf have created a very complex sales and claims procedure within the industry, and brokers and agents have capitalized on the ignorance of most members of the public to defraud them of their hard-earned money. To curb this malpractice and unprofessional conduct, it is suggested that insurers should do away with the services of non-corporate part-time agents; furthermore, it is recommended that the insurance companies should overhaul their brokerage and agency list by undertaking a major and intensive review of the performance of each broker and agent. If the conduct of any broker or agent is found to be below the required standard, such a broker or agent should be blacklisted immediately by the insurer and recommend same to the Insurance Department of the Federal Ministry of Finance. It is hoped that if this recommendations are accepted and experimented, the image of the industry in Nigeria will greatly improve.

On the issue of delayed payment of genuine claims and outright denial of claims by insurers, both the insured, agent and insurer are all at fault. In majority of the cases, insurers hide under the cover of complex worded policies which are not normally explained fully to the insured at the inception of the contract by the intermediaries and the risk-bearer and the continued existence of these policies in the market has made it possible for them to continue to play on the ignorance of the prospective policy-buyer to repudiate their liability. Furthermore, many of the intermediaries especially the brokers normally do not remit the premiums they collected on behalf of the insurance companies to them on time, and in worst cases, premiums are not remitted until a claim situation arises. On the otherhand, it is no longer a secret that some insured normally present false and exaggerated claims to their insurers. A possible way of taking care of this problem is by formulating and adopting simple worded insurance policies that will be easy for any prospective policy-buyer to understand. Again, the insurance companies should introduce rigid credit guidelines which will lead to prompt payment of premiums collected by the brokers. Finally the communication gap that presently exist within the industry should be taken care of by delegating more powers to zonal and branch managers of the various insurance companies that are scattered all over the country.

Other problems that the industry has to contend with is illiteracy and religious fanaticism. These are commonly found in all African countries, and as such it has become very difficult for many insurance companies to reach their sales target. While some people claim that it is against their religious beliefs to buy insurance policies, others are simply ignorant of the existence of such facilities. Here again, the question of educating the public on the importance of the insurance industry to the social and economic development of the country is re-echoed, and this duty is the responsibility of every company and their staff members. It is no surprise that due to the problems of ignorance and illiteracy, in our society, only the compulsory classes of business i.e. motor and motor vehicle policies are well-known outside the towns and cities. Thus, and as earlier mentioned in this chapter, it is now a matter of necessity for the industry to expand its sales network and make its presence felt in every local government area of the country. It is expected that the sales team will be a dynamic one that will be able to combine speed and efficiency with the duty of public enlightenment. If this feat is achieved, public awareness of the need for a virile and strong insurance industry and the role of the industry in the social and economic life of the individual and the country would be created not only in the towns and cities but also in the villages where a greater majority of the population reside. Furthermore, this will lead to the creation of more employment opportunities for young school leavers in the villages and, gradually, the rural-urban migration will be halted.

Closely associated with the above problem is that of inadequate training facilities for the production of a highly education and technical personnel to man the industry. This, no doubt has affected the performance of staff and the level of professionalism displayed in the discharge of their daily duties. Another problem that cannot be divorced from the above is that of inadequate research into the various aspects of insurance. It should be mentioned here that a hidden component of this problem is the evident lack, and in some cases non-existence of useful statistical information from the insurers. In order to reduce the intensity of these problems, it is necessary for the companies to establish and maintain reputable training centres as well as coming together to establish training institutes of international repute. Also, the government should release fund to the universities that have been selected to offer graduate studies in insurance. If these suggestions are experimented and adopted, the insurance industry in Nigeria will find itself enjoying the benefits of conscientious staff who would introduce new marketing and underwriting techniques, which will eventually shift the emphasis from product orientation to a more practical purpose of conducting market research to determine consumer preferences.

Yet again, it can be argued that the frequent government intervention in the operations of the market has become excessive thereby distorting the structure of the market. This will not allow for a competitive and effective market. However, it can also be argued that if government withdraws totally from regulating and supervising the activities of insurance companies at this crucial stage of the industry's development, it is likely that the problems that were experienced before government corrective measures were introduced and enforced will resurface, the direct result of this situation will be the non-attainment of the desired level of maturity for the industry.

The discussion above has highlighted some of the major problems currently facing the Nigerian insurance industry, which have constituted a bottle-neck in the growth process of the industry. The recommendations preferred if experimented and finally adopted, it is believed, will enable the industry to cope adequately well with the challenges of the ninetys, and the 21st century. As the economy continues to grow, so will the level of risks, public and private liabilities continue to be on the upward turn.

SUMMARY OF CONCLUSIONS

This study has revealed that the concept of risk and the ideas of insurance have been existing in pre-industrial Africa and all over the world. In Nigeria, before the importation of Western ideas and culture, our people had ways of taking care and providing adequately for the occurrence of unexpected events. Also, in Europe during the medieval period, the slate clubs, the popular English guilds and other forms of contracts served as a means of guarding against the occurrence of the unexpected. Thus, it can be seen that at different stages of development in Africa and Europe the people had their own systems of providing for unexpected events. These systems were peculiar to each society.

It is necessary to mention here, that the existence of the systems is a representation of man's ability to provide for himself and future generations a stable and peaceful society, socially and economically. However, with the importation of modern insurance ideas into the country from the western world, and the development of modern trade and commerce in the big cities and coastal areas, Nigerians gradually imbibed the new ideas, but it is to their credit that the pre-colonial systems of insurance still exist in present-day Nigeria serving the purpose for which they have been serving from the pre-colonial past.

Due to the poor level of economic development in Nigeria, the British firms completely dominated the early insurance scene in Nigeria until about 1959 when some few Africans took up the challenge of venturing into the insurance business. But here again, these crop of African entreprenueurs were confronted with numerous problems such as inadequate experience and lack of trained clerical personnel at the junior, middle, and senior managerial levels. We have also seen from our study that the colonial economic policy in some sectors of the Nigerian economy was that of laissez-faire and as such Britain gained much in terms of economic and financial returns from Nigeria to the detriment of the speedy development of the Nigerian colonial economy. The overall of effect of this situation was that the modern insurance industry in Nigeria only served as an appendage of that in Britain thereby failing to make any meaningful contribution to the economic development of the country during the colonial era.

With the attainment of independence, the Nigerian Government took steps to restructure and lay the foundation for a strong, virile and dependable local insurance industry.
It is however sad to report that the good intentions of the Federal Government were thwarted by the actors in the insurance market most of whom were foreigners. Various legisla-

tions were initiated to check the activities of insurers between 1961 and 1986 but the most effective of these laws was the insurance Decree of 1976 that flushed out cheaters and dubious men who paraded themselves and their organisations either as insurers or insurance intermediaries. To back-up this law, the Enterprises Promotion Decree was passed in 1977 and the provisions of this legislation sent home majority of the expatriates who under normal circumstances in their own country cannot practice the insurance profession. This development led to the acquisition of majority of the equity shares of healthy insurance companies by the Federal Government of Nigeria.

However, a remarkable feature of government regulation of the Nigerian Insurance Market was the decision by government to participate directly in the transaction of insurance business, which led to the opening of the biggest insurance companies in Nigeria today in 1969 and 1977 respectively when the NICON and the Nigeria Reinsurance Corporation were established. On the whole, government regulation of the activities of the insurance industry has paid-off because the various measures have succeeded in building a strong, solid and enviable insurance market for Nigeria which currently controls about one-third of the African market. This has made an insurance practitioner to remark that -

> Nowadays Nigeria does not lag far behind the most advanced countries in its range of insurance business written, where we do not at present bear comparison is in the quantity of business written, and the general ignorance by the public as a whole of the insurance services available to them.[8]

Since after the attainment of independence and the consequent Federal Government initiatives towards uplifting the standard of the practice of insurance profession in Nigeria, the industry has been making meaningful contributions towards the over-all economic growth of the country. Our study has revealed that insurance funds that were hitherto repatriated abroad are now retained locally to enhance the commercial and insutrial development of Nigeria. Through its activities as a custodian of large funds, the industry has helped in the sustenance of an efficient capital market in the country because its investments run into millions of naira in form of stock-holding bonds and construction of real estates and other viable commercial ventures.

The various reinsurance companies have also been playing a vital and purposeful role in the quest for a sound insurance market in Nigeria. Not only have they helped in providing the necessary reinsurance facilities for the local insurance companies, they have also succeeded in retaining a substantial amount that would have been repatriated abroad for the purchase of reinsurance covers which would have been a source of enormous capital flight from the country. From all indications, both the insurance and reinsurance companies in Nigeria have made remarkable contributions towards the social and economic development of our country.

TABLE XXVII: CONTRIBUTIONS OF FINANCE AND INSURANCE TO THE GROSS DOMESTIC PRODUCTION AT CURRENT FACTOR COST

(N'M)

YEAR	VALUE	YEAR	VALUE
1950	0.98	1980	662
1951	0.98	1981	1,603
1952	1.46	1982	1,933
1953	1.54	1983	1,970
1954	1.96	1984	2,366
1955	2.52	1985	2,642
1956	2.80	1986	2,856

SOURCE: (i) Annual Abstract of Statistics; (1951 to 1957) Editions), Lagos, Federal Office of Statistics.

(ii) Ibid, (1981 to 1987) Editions)

NOTE: (i) The values for 1950 to 1956 were given in the old Nigerian pound but converted to Naira at the rate of £13.00 to £1.

The figures above speak clearly for themselves. As already mentioned, the colonial period, witnessed unrestricted repatriation of funds, while the post-independence period was that of trade and economic boom, and the consequent increase in the volume of business underwritten by insurers, thus the visible difference in the contribution of the sector during the colonial and post-colonial era.

The industry provides employment opportunities for persons wishing to develop a career in insurance, and by the investments in the various sectors of the economy, they have helped in ensuring the provision for gigantic projects such as the fertilizer and petro-chemical projects being undertaken by the Federal Government. There is no gainsaying the advantages associated with such projects. What is more, our study has also revealed that aside from commercial and industrial sectors of the economy, the agricultural sector is now also enjoying the services of the insurance industry.

This is likely to have multiplier effects on the overall development of the Nigerian economy, because with the existence of agricultural insurance policies, more people and capital both local and foreign, will be attracted into the agricultural sector. This means the production of more food for the country and the opening-up of new employment opportunities in the agricultural, insurance, banking, manufacturing and export sub-sectors of the economy.

The sum total of our discussion thus far is that it is now an established fact that the insurance industry is a sensitive industry and its importance to the economy cannot be underestimated. It has become clearly evident however that there is a need to computerise the operations of the insurance industry in Nigeria. The introduction and use of computers in the day-to-day transactions of business will definitely lead to greater output and higher efficiency as it is experienced in most insurance markets operating in developed economies today.

Although the magnitude of the challenges of the future is daunting, yet, it is believed that with some reformatory measures the industry would be able to cope adequately well with any situation. Towards this end, there would be a need for the broker to derive his income from two sources. First, the client could be charged a small consultancy fee for professional advice and secondly, the insurer could reimburse the broker according to a scale which would reflect the administrative costs incurred in preparing and processing the policy . What is more, the present rate of unemployment in Nigeria, the services of unlettered and half-educated agents should be done away with. In their place young graduates should be recruited and gradually we shall be able to attain the desired level of maturity.

Unlike, the British insurance market, the Nigerian insurers have not made any meaningful contribution to the provision of fire stations and road safety campaigns. It is hereby suggested that the government should compel the insurance companies to invest at least five percent of their after-tax profit on the procurement of fire fighting equipments and the establishment of fire stations. Also, the insurers should get themselves more involved in organising road safety campaigns as this will invariably lead to a reduction in road accidents and claims arising from such accidents.

The criticisms highlighted in this final chapter should not mislead us into an unjustifiable condemnation of the industry's performance and its contributions towards the socio-economic development of the nation. Above all, through its reputation for adapting quickly to changes, its numerical strength, and the volume of business underwritten, it has established for itself a unique position in the insurance markets of Africa. Thus, all hands must be on deck for the industry to maintain this position so as to be able to enhance its activities within the nation's economy.

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5. Okongwu Chu, S.P. op.cit., p.88.

6. See Chapter Two of this work. See also, Olasegha, J.B., "The Licensing and control of Insurance Companies in West Africa" (A paper presented at the 14th WAICA Annual General Meeting and Educational Conference held in Banjul, Republic of Gambia December 1987). pp. 2 - 16.

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APPENDIX I

ROYAL EXCHANGE ASSURANCE,
31 MARINA,
LAGOS.

4th December, 1967

CHIEF OBAFEMI AWOLOWO,
COMMISSIONER FOR FINANCE & VICE CHAIRMAN,
FEDERAL EXECUTIVE COUNCIL,
LAGOS.

Dear Sir,

FORMATION OF NATIONAL RE-INSURANCE CORPORATION

Insurance is an invisible export and while it enriches the purse of the UNITED KINGDOM'S GOVERNMENT it drains our own purse.

There are four classes of Insurance Policies in Nigeria:

1. MARINE INSURANCE: All Exports or Import goods must be insured. Before Bank can grant any loan to any trader, an Insurance Policy covering such goods must be produced. About 90% of the premium paid is sent to London under the pretext of Re-Insuring 9/10 of the Risk with the Head Office in U.K. Therefore, if a premium of one million pounds is collected in Nigeria on Marine, already, £900,000 will remain with the Head Office in U.K. Any claim arising out of the various policies, will be met from the remaining £100,000. If a claim of £10,000 is paid, the Insurance Companies concerned will keep an outstanding estimate of £80,000, and cleverly declares a profit of £10,000 to our (Nigerian) Government. Finally, tax is evaded on the remaining actual profit of £980,000. I emphatically and authoritatively declare that no Insurer in Nigeria pays more than 10% of the actual tax dues. That is, if the Government realises total tax of £1 million pounds from Insurance Companies, the Government as well loses every year Nine Million pounds Tax to the Insurers.

2. LIFE ASSURANCE: Life Insurance is another lucrative branch of the Insurance Market. My employer, Royal Exchange Assurance Corporation came to this country in 1921 and up till now, every life policy is underwritten at our Head Office in London. No wonder, our Million Pounds Office building was purported to have been built by REAINVESTMENT AND PROPERTY COMPANY LIMITED, under the cover of Rent and Interest of loan.

3. FIRE INSURANCE: Every mortgage is covered by Fire Insurance Policy. This type of Insurance always bring thousands of profit to my employer The Royal Exchange Corporation every year.

4. ACCIDENT INSURANCE: Accident Insurance covers a very wide field. The most important is the Act of Parliament on Compulsory motor insurance. The Insurance Companies cheat Nigeria in two ways (i) Insurance Premiums are collected from the poor citizens and (ii) Our Ministry of Finance compensates Government drivers that are negligent. For example, the Finance Ministry paid a l[illegible] of money to Royal Exchange Assurance as Compensation for the Lumumba Riot of February, 1961. The majority of the Expatriates in Nigeria insures with us (Royal Exchange Assurance) and the riot affected them most. When I was the Office Claims Inspector in 1964 I handled the whole transaction; It was unfortunate that such a revelation like this could not be made then because of the corrupt government we had which our Military men are clearing now with the help of you honest and experienced politicians.

The Establishment of National Re-Insurance Corporation will let our Government be in possession of statistics relating to Insurance market in Nigeria. At a glance, the Ministry of Finance will be able to know the type of profits that the Insurance Corporation make every year. At the moment, an Insurance Department may be opened with a skeleton staff at the Ministry of Finance. A decree must be passed that all Insurance Companies must re-insure 10% of every policy with the Government, and the Government will be prepared to meet 10% of every loss. This is known as "Quota Share Re-Insurance". If this type of reinsurance had been in operation during the Lumumba Riot, the money paid to the Insurance Companies must have been taken from the 10% premium collected from them.

Dear Sir, I have acquired sufficient experience to give you further details on this matter because I have worked in both the Underwriting and Claims Departments of Royal Exchange Assurance. I handled Claims experience of various policies and know how to get loss Ratio of a policy. I am still a member of the staff of Royal Exchange Assurance, 31 Marina and my telephone No. is 26431. I am prepared to appear before you anytime you call on me. If this venture is tried, I promise you that in less than ten years, it will bring more profits to our government than any other project.

For your further information, more companies still pay their various Insurance Premiums to our Head Office in London by their Head Office in London and collect free policies in Nigeria, while every claim arising from such policies are met from the premiums collected from the poor citizens.

I long to hear from you Sir,

Yours faithfully,

E. A. OKE
Secretary, Nigerian Union of
Bank Insurance and Allied Workers,
Royal Exchange Assurance Branch.

APPENDIX II

ENTERPRISES IN WHICH 100% OF EQUITY HELD BY THE FEDERAL MILITARY GOVERNMENT SHALL BE FULLY PRIVATISED

1. American International Insurance Company Limited.
2. Guinea Insurance Company Limited.
3. Sun Insurance Company Limited.
4. United Nigeria Insurance Company Limited.
5. United Nigeria Life Insurance Limited.
6. Niger Insurance Company Limited.
7. Mercury Assurance Company Limited.
8. Crusader Insurance Company Limited.
9. Royal Exchange Company Limited.
10. NEM Insurance Company Limited.
11. Law Union and Rock Insurance Company Limited.
12. Prestige Assurance Company Limited.
13. British American Insurance Company Limited.
14. West African Insurance Provicial Company Limited.

APPENDIX III

ENTERPRISES TO BE FULLY COMMERCIALISED

1. National Insurance Corporation of Nigeria (NICON).
2. Nigeria Reinsurance Corporation (Nigeria Re).
3. African Reinsurance Corporation.

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F. INTERVIEWS

1. Chief O.O. Omoroga, 83 years, 30th August, 1990. Head of Omoroga Village near Ojokoro Village, Lagos State.

2. Chief F. I. Ikanoba, 81 years, 2nd September, 1990. He resides in Fugar in the Estakor Local Government Area of Bendel State.

3. Pa Alfred Odior, 76 years, 6th September, 1990. He resides in Lagos.

4. Mr. B. A. Ajayi, 43 years, of Lead Incorporated, Kaduna, 11th November, 1989.

5. Mr. Debo Otufale, 33 years, of Accident Department of NICON, 4th October, 1990.

6. Mr. Tunde Adeniran, 32 years, of Marine & General Assurance Company Limited, 19th August, 1989.

7. Mr. Tunde Alabi 32 years, of Fidelity Bond, Ikeja, 2nd November, 1989.

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Letter dated 4th December, 1967, from Mr. E. A. Oke to Chief Obafemi Awolowo - Commissioner for Finance and Vice Chairman, Federal Executive Council of Nigeria.

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