EFFECT OF PROMPT CLAIMS SETTLEMENT ON THE PERFORMANCE OF NIGERIA INSURANCE INDUSTRY

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Abstract

The purpose of this research work has been to investigate and critically analyze the effect of claims settlement on the performance of Nigerian insurance companies with special reference to the selected insurance companies in Ilorin metropolis. Structured questionnaire was used to collect data from 5 selected insurance companies' staff, 4 insurance brokers, 15 sales agents and 21 public through purposive method totaling 45 respondents as sample for the study. Linear regression analysis was employed to analyze data collected with aid of Statistical Package for Social Science (SPSS). The result of the research carried out has confirmed that prompt claims settlements has positive significant effect on customer satisfaction and loyalty respectively. Moreover, the result indicated that prompt claims settlements has more influence on customer satisfaction than loyalty. The paper therefore recommended that insurance companies should discharge this responsibility in a professional way making sure that all genuine claims are settled and only fraudulent and ingenuine claims are repudiated.

Key words: Claims settlement, Customer Satisfaction, Customer Loyalty, and Insurance.

Introduction

The history of insurance industry in Nigeria according to Augustine and Bamidele (2013), could be traced to the British colonial trading companies that established agency offices in Nigeria, on behalf of insurance companies in UK. After the Nigerian political independence of 1960, indigenously owned insurance companies sprang up, which as a result of inadequacy of capital, were unable to pay claims at as when due. This inadequacy of capital coupled with lack of technical and managerial skill, poor insurance regulatory framework, brought confidence crisis and strong apathy to insurance purchase in Nigeria. Insurance industry has been recognized globally as a driver of economic growth and development by providing financial security to their policy holders, through the pooling and investment of premiums out of which those who suffer unexpected losses are indemnified. Harry (2012) confirmed that the rising intricacy of the world economic system in today's industrial age has increased the importance of insurance in the process of manufacturing and profit-making dealings. According to the author, the absence of insurance will constantly subject the individual/organization to the fear of a huge financial loss in the event of a tragedy and so will affect their decision making course of action in diverse ways.

A prompt claims settlement by insurance companies has been identified as a tool to enhance performance in terms of customer satisfaction and loyalty. Parsons (2005) confirmed that one of the principal functions of insurance is the settlement of claims. Claims settlement is the monetary compensation that is paid to the policyholder in the event of a loss. It used to be said that insurers would do anything possible to squirm out of paying claims. If a company does not effectively handle its claims service, it can tarnish its image and hence affect the sales and marketing of its insurance products. Insurance company's attitude to claims settlement has in the past provoked a lot of public criticism and even attracted the attention of governments (Harry, 2012).

Braers, (2004) and Onosede (2013) concluded that a company, which fails to settle claims to the satisfaction of customers, would definitely attract less business, as it is likely to discourage such clients to from continuing insure with the company. Such clients might even advise their friends, colleagues and relations not to patronize such a company.   According to the authors, prudent claims administration strategy promotes customer satisfaction and loyalty as it helps to develop a perception of membership or belonging within a particular group of customers, thereby providing the company with opportunities to retain existing customers while attracting new ones and profitable ones.

It is on this background that this study wishes to examine the effect of prompt claims settlements on customer satisfaction and loyalty, while the specific objectives are:

- To determine the relationship between prompt claims settlements and customer satisfaction.

- To examine the effect of prompts claims settlements on customer loyalty

Research Questions

- Is there any relationship between prompt claims settlements and customer satisfaction?

- What is the effect of prompt claims settlements on customer loyalty?

Theoretical Framework and Review of Literature

Concept of Insurance in Nigeria

Over the years, the Nigerian insurance industry has been regarded as the largest in African continent, and among the largest leading market in the third world countries. The Nigerian insurance industry is ninety - three years old by year 2014. It started from 1921 when the Royal Exchanged Assurance (Nigeria) Plc was established in Nigeria (Augustine and Bamidele, 2013). The administration and accounting of claims were the main operations of the industry. The re-insurance sector was established in Nigeria with three other private re-insurance companies between 1983 and 1987 to supplement the activities of the government owned Nigerian Re-insurance Corporation Plc. Insurance industry is a service industry which exists mainly to provide the insuring public with a system of protection against death and financial loss arising from accidental and unexpected events. Unlike bank, it operates under its own peculiar market system. The recapitalization of insurance sector was one of such strategies. Nigerian government recapitalization reform (Chukwulozie, 2008) in the insurance industry is aimed at restoring confidence of the public in the market and enhances international competitiveness of local operators. According to Chukwulozie (2008), the principal objective of the recapitalization of the insurance industry is to have the emergence of bigger and stronger players in the industry with enhanced capacity. It is believed that when the capital base of an organization is increased, the potentiality of achieving efficiency and growth could also be increased (Ore and Kumbhakar, 2004).

Oba (2003) asserted that, the performance of the insurance sub- sector is a function of a social economic and political environment in which it operates. In fact, the state of the insurance industry of a country is a reflection of its economy. Insurance remains one of the major indices for the level of development of a nation's wealth and plays very significant roles in the mobilization of investable resources of an economy. In developing economics of the world, where financial systems are not sufficient, insurance provides the necessary bridge between commerce and industry thereby making it possible for continued economic activities. In the same line, Oshinloye et al (2009), advocated that the importance of insurance to any Nations economy cannot be undermined. He said that no country can experience any meaningful development without the presence of formidable insurance industry, thereby making insurance business in any nation indispensable irrespective of its quota to the gross domestic product (GDP) or its level of awareness among the populace. According to Szablick (2009), Nigerian insurance is now the most undeveloped among Africa. The industry has underperformed its role in the financial sub- sector of the economy, when compared with other parts of the world. The total Nigerian insurance share of the world market is only 0.01% compared to South Africa with 0.86% several factor account for the under performance of the insurance industry, such as low capitalization and poor public perception of the importance of the insurance for business.

Concept of Claims Management

The word "claim" according to Kapoor (2008) cited in Yusuf and Abass (2013) emanated from the Latin word, "Clamare" which means to "call out". Gallagher (2012) asserted that claims management involves administration of claims arising from loss events. Marquis (2011) affirmed that insurance claims management consists of the departmental stipulation, corporate policies and industry practices that insurance firms use to validate policyholder payment or reimbursement requests. Barry (2011) defined insurance claims as all activities geared towards monitoring insured's compensation, restitution, repayment or any other remedy for loss or damage or in respect of doing their obligations. According to Williams (2009), claims are all about insurance and insurance is about taking up the liability or risk of the insured against a loss and when this is done, the insured would in return get a claim as compensation for the loss.

The main objectives of claims management, according to Redja (2008), are to verify that a covered loss has occurred for fair and prompt payment of claims and to provide personal assistance to the insured after a covered loss occurs. Krishnan (2010) cited in Yusuff and Abass (2013) stated that claims process is the most important issue. The author further defined claims process as the step by step process taken by the insured individual in making the demand from the insured's company and

sometimes through the broker or an agent for settlement of losses incurred from the covered risk. According to the author, the process can either be manual or web – based system. In manual based system, the client has no idea as to what stage of the claims process his or her policy is into while in the web-based system, deficiencies in the forms can be pointed in a faster manner.

Concept of Customer Satisfaction

Customer satisfaction is considered to be one of the most important outcomes of all marketing activities in a market-oriented firm and becomes the most important predictor of future behavioural intention (Huber and Herman 2001). Satisfaction remains as a strong predictor for behavioural outcomes (Cronin, Brady, and Hult 2000 and Andreas and Wolfgang, 2002). Satisfaction is an outcome of purchase and use resulting from the buyer's comparison of the rewards and cost of the purchase in relation to the anticipated consequences. It reflects how much the consumer likes or dislikes the service after experiencing it. When customers are able to have the opportunities to evaluate the quality of the delivered service, satisfaction is expected to have an effect on customer loyalty. Croin and Taylor (1992) proved that customer satisfaction exerts a stronger influence on future purchase intention. Customer satisfaction in insurance industry is posited to be a function of service quality i.e. customer service, corporate image, price, innovativeness and convenience, among others. Odindo and Delvin (2010) noted that increased customer satisfaction has the potential to enhance organizational performance and as a result managers should have customer satisfaction as a key target.

Concept of Consumer Loyalty

Jacopy and Kyner, (1973) described loyalty as the biased behavioural response expressed over time, by some decision making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological processes. Dick and Basu (1994) argued that loyalty is determined by the strength of the relationship between relative attitude and repeat patronage, and that it has both attitudinal and behavioral elements. Oliver (1997) defines loyalty as "A deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior". Mascarenhas et al. (2006) as cited in Shanka and Chin (2011) added a third dimension to total customer experience which is value besides the physical and emotional aspects. The contention is that by blending all three aspects of physical, emotional and value elements toward target customers and achieving positive total customer experience will build lasting customer loyalty. "We submit that when marketers offer products and services that consistently have strong physical attributes-based satisfaction, provide high emotional experience and high perceived value summing to a high total customer experience they will

automatically generate high and lasting customer loyalty" Mascarenhas et al. (2006). Based on the three major total customer experience variables of value differentiation, provider-interaction and engaging experiences, Mascarenhas et al. (2006) developed a multidimensional loyalty ladder and suggested that this ladder of customer loyalty is a function of customer experience. **Speed of settlement process and transparency are keys contributors to customer loyalty.**

 Relationship between Prompt Claims Settlements, Customer Satisfaction and Loyalty

Many studies affirmed that prompt claims settlement contributed to organization performance, while some disagreed with the assertion that claims payment contribute to the insurance companies' performance. For instance, Butler and Francis (2010) discovered that prompt claims settlements has positive and significant relationship with insurance performance in terms of customer satisfaction and loyalty. Harrington and Niehaus (2006) asserted that insurers need to take their claim handling function more seriously because if a claim is handled well, it results to higher customer retention but if handled poorly, policyholders will lose confidence in the insurer and this may damage its most cherished reputation.

Omar (2005) assessed consumers' attitudes towards life insurance patronage in Nigeria and found out that there is lack of trust and confidence in the insurance companies due to slow or lack of claims settlements. Another major reason for this attitude is lack of knowledge about life insurance product. These findings mean that even if the share capital of insurance is increased in multiples, the performance of the industry could still be limited by the attitudes of Nigerians. In the same line, Yusuf, Gbodamasi and Hamadu (2009) conducted an empirical study on the attitudes of Nigerians towards insurance services. The study was conducted among 392 members of the public (insuring and non-insuring) to gauge their awareness level and general attitudes towards insurance companies and their operations. The findings presented different demographical factors and attitudes towards insurance companies and their services.

Albert cited in The Punch (2010) noted that one of the reasons for low penetration of insurance business in the country is due to insurers' delay in settling claims. Insurance business is based on trust but is fraught with fraud as perpetrated by the various actors in this sector in Nigeria. Daniel (2013) also discovered that failure to settle claims and delay claims settlement are the causes of insurance failure in Nigeria. According to Okunlola (2000), claim is an important aspect of insurance business in that poor claim settlement records of an insurance company may spell doom for such a company while a good reputation for good claim settlement records on the other hand may mean prosperity with respect to acquisition of more business." Insurance industry in Nigerian will experience growth and development

as long as they are prepared and ready to settle all genuine claims on time. In the same vein, Asenuga (2008), "asserted that the image problem suffered till today by insurance companies in Nigeria is mainly because of what is seen as the insurance companies' posture of "smile to collect premium and frown to pay claim." The insuring publics do not even trust the insurers because they believe that they would always look for a way out at time of payment even when the claims are genuine. Hewitt (2006) also found that prompt claims settlement by insurance companies influence customer loyalty in advance countries.

However, findings of Bates and Atkins (2007) and Ndubuisi (2008) conflicted with previous studies. They discovered that claims payment could be very costly as claims constitute the largest cost of an insurer and this has contributed to poor performance of insurance companies. Based on the empirical review, it is therefore hypothesized that:

H0I.   Prompt claims settlements has no significant effect on Customer Satisfaction

H0II.   Prompt claims settlements has no significant effect on Customer Royalty

Model Specification

Model is on the effect of prompt claims settlements on the operations of the insurance companies. It relates to the prompt claims settlements (PCS) to some variables believed to measure the performance of the insurance companies such as customer satisfaction (CSF) and customer loyalty (CLT). This model seeks to capture the effect that prompt claims settlements will have on insurance companies operations. It is being represented thus: (Xi) = f(PCS, μ) This can further be expressed as: (Xi) = λ0 + λkPCS + μ Where; Xi : vector of the dependent variables i.e Customer satisfaction (CSF) and customer loyalty (CLT). λ0 is constant while λk(K=1,2) shows the variations in dependent variables with respect to independent variable. The aprori is given as λk> 0.

Methodology

Research design and Sources of Data

The survey research design was used in this study. It involved the use of a self-designed structured questionnaire in collecting data from 5 selected insurance companies' staff, 4 insurance brokers, 15 sales agents and 21 public memebers through purposive method totaling 45 respondents as sample for the study in Ilorin metropolis, Kwara State, Nigeria. The instrument used in this study was a close-ended questionnaire designed by the researcher. The response format was in likert form with indications ranging from strongly agree (5) to strongly disagree (1). In order to establish the reliability of the research instrument, a test - retest method was used. The result of the reliability test was 0.79 showing that the instrument is reliable. In confirming the facts and contents validities of the instrument,

it was given to experts for verification. Data collected were analyzed using Regression analysis with the aid of Statistical Package for Social Sciences (SPSS) software version 20.

Presentation of Data Analysis and Result Interpretation

Table 1: Result of Regression Analysis Showing Effect of Prompt claims Settlements on Customer Satisfaction.

Model	R	R^2		Adjusted R^2	Std error of the estimate	
1	0.675	0.426		0.423	10.392	
Explanatory variable		**B**	**Std error**	**t – value**	**p- value**	**Remarks**
Constant		21.099	2.756	12.998	0.000	
Prompt Claims Settlements		1.544	1.041	11.476***	0.000	S

 S= significant; ***= Significant at 1% level

Source: Data analysis, 2014

Result in Table 1 revealed that prompt claims settlements (β = 1.544, t = 11.476***, P<.01) significantly influenced customer satisfaction. The relationship was said to be positive, which implies that prompt claims settlements is an important impetus to customer satisfaction. The result also revealed that prompt claims settlements has 42.6% decisive influence on customer satisfaction. This implies that prompt claims settlements is a vital determinant of customer satisfaction. The result is consistent with Butler and Francis (2010) that prompt claims settlements has positive and significant relationship with insurance performance in terms of customer satisfaction. And also to Harrington and Niehaus (2006) who asserted that insurers need to take their claim handling function more seriously because if a claim is handled well, it results to higher customer retention but if handled poorly, policyholders will lose confidence in the insurer and this may damage its most cherished reputation.

Therefore, null hypothesis which says prompt claims settlements has no significant effect on customer satisfaction is rejected, while the alternative hypothesis is accepted.

Table 2: Result of Regression Analysis Showing Effect of Prompt claims Settlements on Customer Loyalty.

Model	R	R^2		Adjusted R^2	Std error of the estimate	
1	0.552	0.357		0.323	9.456	
Explanatory variable	**B**	**Std error**	**t – value**	**p- value**	**Remarks**	
Constant	11.234	1.984	8.009	0.000		
Prompt Claims Settlements	0.898	0.902	7.924***	0.000	S	

  S= significant; *= Significant at 1% level**

Source: Data analysis, 2014

Result of analysis in Table 2 revealed that prompt claims settlements (β = 0.898, t = 7.924***, P<.01) significantly influenced customer loyalty. The relationship was said to be positive, which implies that prompt claims settlements is important tool to customer loyalty. The result also revealed that prompt claims settlements has 35.7% decisive influence on customer loyalty. This implies that prompt claims settlements is also a vital determinant of customer loyalty. The result is in agreement with the study of Hewitt (2006) that prompt claims settlement by insurance companies influence customer loyalty in advance countries.

Therefore, null hypothesis which says prompt claims settlements has no significant effect on customer loyalty is rejected, while the alternative hypothesis is accepted.

Conclusion and Recommendation

The purpose of this research work has been to investigate and critically analyze the effect of claims settlement on the performance of Nigeria insurance companies with special reference to the selected insurance companies in Ilorin metropolis. The research carried out has confirmed that prompt claims settlements has positive significant effect on customer satisfaction and loyalty respectively. Moreover, the result indicated that prompt claims settlements has more influence on customer satisfaction than loyalty. It can be concluded that prompt claims settlements is tool for insurance survival in Nigeria.

Paper therefore recommended that insurance companies should discharge this responsibility in a professional way making sure that all genuine claims are settled and only fraudulent and ingenuine claims are repudiated.

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